Guadalupe County Hospital

(A Component Unit of Guadalupe County)

2010 Financial Statements,
Supplementary Information and
Independent Auditors' Reports

REDW

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
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Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Board of Trustees and Principal Employee
June 30, 2010

Board of Trustees

Robert Cordova	President
Danita Agar	Vice-President
Loretta Lopez	Secretary/Treasurer
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Principal Employee

Christina Campos	Administrator

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of Guadalupe County Hospital (the "Hospital"), a component unit of Guadalupe County, as of and for the year ended June 30, 2010, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the budget comparison schedule for the year ended June 30, 2010, presented as supplementary information in the schedules of revenues, expenses and changes in net assets–budget and actual as listed in the table of contents. These financial statements and schedules are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit. The financial statements of the Hospital as of June 30, 2009, were audited by other auditors whose report dated October 2, 2009, 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 the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 financial position of the business-type activities of the Hospital as of June 30, 2010, and the changes in its financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the supplementary schedule referred to above presents fairly, in all material respects, the respective budgetary comparison of the Hospital for the year ended June 30, 2010, in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards,* we have also issued our report dated October 11, 2010, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis 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 consist principally 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 made for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements and on the supplementary budgetary schedule listed in the table of contents. The accompanying information identified in the table of contents as New Mexico State Auditor's Supplementary Information is presented for purposes of additional analysis and to meet the requirements of the New Mexico Office of the State Auditor, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

REDW LLC

October 11, 2010

Required Supplementary Information
Management's Discussion and Analysis

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Introduction

This section of the financial report presents management's discussion and analysis of Guadalupe County Hospital's (the "Hospital") financial performance during the fiscal year that ended June 30, 2010. Please read it in conjunction with the Hospital's basic financial statements, which follow this section.

Financial Highlights

- In 2010, cash and cash equivalents increased by $1,193,000, while investments decreased by $1,654,000.
- The Hospital's net assets decreased by $382,000 in 2010 (6.2% decrease) and increased by $2,922,000 in 2009 (91.1% increase). However, the excess of revenues over expenses before hospital construction contributions in 2010 was $3,533,000, compared to $2,922,000 in 2009.
- The Hospital reported an operating loss in 2010 of $515,000 compared to the operating loss reported in 2009 of $380,000.
- Net nonoperating revenues increased by $746,000 in 2010, compared to an increase of $2,500,000 in 2009. This is due mainly to Sole Community Provider revenue increases each year.

Using This Annual Report

The Hospital's financial statements consist of three statements: balance sheets; statements of revenues, expenses and changes in net assets; and statements of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any hospital's finances is, "Is the hospital as a whole better or worse off as a result of the year's activities?" The balance sheets and the statements of revenues, expenses and changes in net assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets, the difference between assets and liabilities, is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net assets decreased in 2010 by $381,663 or 6.2%, and increased in 2009 by $2,922,241 or 91.1%, as shown in the following table:

ASSETS, LIABILITIES AND NET ASSETS

	2010	2009	2008
Current assets	**$ 6,409,974**	$ 2,822,992	$ 3,372,649
Noncurrent assets	**490,710**	3,785,148	82,522
Total assets	**$ 6,900,684**	$ 6,608,140	$ 3,455,171
Current liabilities	**1,085,603**	477,782	247,054
Long-term debt	**66,386**	-	-
Total liabilities	**1,151,989**	477,782	247,054
Net assets			
Invested in capital assets, net of related debt	**167,549**	511,275	82,522
Unrestricted	**5,581,146**	5,619,083	3,125,595
Total net assets	**5,748,695**	6,130,358	3,208,117
Total liabilities and net assets	**$ 6,900,684**	$ 6,608,140	$ 3,455,171

In 2010, the decrease in net assets of $381,663 was due primarily to contributions to Guadalupe County for hospital construction. In 2009, the increase in net assets of $2,922,241 was due primarily to an increase in Sole Community Provider funds.

Operating Results and Changes in the Hospital's Net Assets

The Hospital's operating loss in 2010 was $515,081, compared to operating losses of $380,256 and $177,497 in 2009 and 2008, respectively.

OPERATING RESULTS AND CHANGE IN NET ASSETS

	2010	2009	2008
Total operating revenues	**$ 3,328,662**	$ 3,283,551	$ 3,383,201
Total operating expenses	**3,843,743**	3,663,807	3,560,698
Operating loss	**(515,081)**	(380,256)	(177,497)
Nonoperating revenues	**4,048,399**	3,302,497	776,023
Contributions to Guadalupe County for hospital construction	**(3,914,981)**	-	-
Change in net assets	**(381,663)**	2,922,241	598,526
Beginning net assets	**6,130,358**	3,208,117	2,609,591
Total net assets, end of year	**$ 5,748,695**	$ 6,130,358	$ 3,208,117

Operating Income (Loss)

The first component of the overall change in the Hospital's net assets is its operating income or loss – the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The primary components of the operating results in 2010 are as follows:

- There was an increase in net patient service revenue of $43,042 (1.3%) due to a price increase implemented in September 2009, offset by inpatient volume decreases.
- Increases in salaries and benefits of $61,291, an increase of 4.7%, compared to the prior year due to an increase in full-time equivalent employees and a 2.5% across the board wage increase.

- An increase of $16,145 in supplies and other expenses was due to increases in prices. Supply costs as a percentage of total operating revenues increased from 15.3% in 2009 to 15.9% in 2010.
- An increase in medical fees of $86,382, or 8.6%, in 2010 compared to a decrease in 2009 of $5,433, or 0.5%. The 2010 increase was due to an increase of $64,000 for the implementation of an electronic medical records system, $12,000 for the implementation of a peer review program with the New Mexico Medical Review Association, and a $10,000 increase in medical records due to 3-M coding program costs.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consisting primarily of noncapital grants, interest income, Mill Levy property tax allocations, and Sole Community Provider revenues increased in 2010 by $745,902 and increased in 2009 by $2,526,474. The 2010 increase was due to a Sole Community Provider Supplemental funds overmatch in the amount of $1,000,000 which netted the hospital the additional funds.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2010, 2009 and 2008 discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2010, the Hospital had $250,535 invested in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. In 2010, the Hospital invested approximately $222,000 to upgrade the laboratory equipment and radiology equipment.

Debt Administration

During 2010, the Hospital entered into a capital lease for lab equipment for $89,674. The balance of the capital lease obligation at June 30, 2009, was $82,986.

Budgetary Highlights

There was one budget modification during fiscal year 2010 due the unanticipated increase in Sole Community Provider funds. Total operating revenue was over the final budget by $350,884, due to higher than anticipated patient revenue. Operating expenses were under budget by $37,028 due to across the board expense savings.

Other Economic Factors

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

- Revenue: There will be cuts in Medicaid reimbursement rates for outpatient services effective Nov. 1, 2010. Patient census is expected to increase slightly after moving to the new hospital (approximately April 2011). There will be additional revenue from rental spaces (primary care clinic and pharmacy). There may be an increase in revenue due to Medicare and Medicaid stimulus incentive payments for implementation of the electronic medical records system.
- Expenses: Expenses will increase due to increases in building overhead costs (utilities, housekeeping, and maintenance). One FTE will be added to the maintenance staff. There will be additional expenses attributed to the move to the new hospital. There will be additional costs due to the implementation of the electronic medical records system (full year) and to a new billing system. There will be an increase in payroll expenses due to a 2.5% wage increase effective July 1, 2010, and to nursing department promotions (more RN licenses). There may be a decrease in administrative fees to the County and management fees to New Mexicare, Inc. as a result of proposed changes in the hospital management agreement currently under negotiation.

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
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Basic Financial Statements

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Balance Sheets
June 30,

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	**$ 2,864,086**	$ 1,671,506
Certificates of deposit held at County	**500,000**	500,000
Investments	**1,379,605**	1,553,473
Receivables		
Patient accounts receivable, net of allowance for uncollectible accounts: 2010 - $221,000; 2009 - $186,000	**470,401**	348,192
Sole community provider	**986,636**	76,118
Grant	**-**	21,626
Interest	**10,018**	33,468
Other	**20,379**	4,329
Supplies inventory and other current assets	**178,849**	167,753
Total current assets	**6,409,974**	4,376,465
Investments	**240,175**	1,720,400
Capital assets, net	**250,535**	511,275
Total assets	**$ 6,900,684**	$ 6,608,140
Liabilities and Net Assets		
Current liabilities		
Accounts payable	**$ 942,226**	$ 369,068
Accrued payroll and related liabilities	**74,159**	62,895
Accrued compensated absences	**35,908**	35,180
Current maturities of capital lease obligation	**16,600**	-
Estimated third party payor settlements	**16,710**	10,639
Total current liabilities	**1,085,603**	477,782
Capital lease obligation, less current maturities	**66,386**	-
Total liabilities	**1,151,989**	477,782
Net assets		
Invested in capital assets, net of related debt	**167,549**	511,275
Unrestricted	**5,581,146**	5,619,083
Total net assets	**5,748,695**	6,130,358
Total liabilities and net assets	**$ 6,900,684**	$ 6,608,140

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

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30,

	2010	2009
Operating Revenue		
Net patient service revenue	**$ 3,322,845**	$ 3,279,803
Other revenue	**5,817**	3,748
Total operating revenue	**3,328,662**	3,283,551
Operating Expense		
Salaries and wages	**1,362,718**	1,301,427
Medical fees	**1,091,250**	1,004,868
Supplies and other	**518,378**	502,233
Employee benefits	**366,128**	318,756
Management fees	**242,053**	232,481
Repairs and maintenance	**67,001**	94,703
Insurance	**60,919**	58,745
Utilities	**52,561**	46,619
Other	**35,952**	61,449
Depreciation	**33,247**	21,093
Rents and leases	**13,536**	21,433
Total operating expenses	**3,843,743**	3,663,807
Operating loss	**(515,081)**	(380,256)
Nonoperating Revenue		
Sole community provider	**3,455,717**	2,712,250
Mill levy (property taxes)	**434,453**	399,776
Investment income	**124,232**	145,558
Grant income	**29,093**	41,498
Other nonoperating revenue	**4,904**	3,415
Total nonoperating revenue	**4,048,399**	3,302,497
Excess of revenue over expenses before hospital construction contributions	**3,533,318**	2,922,241
Contributions to Guadalupe County for hospital construction	**(3,914,981)**	-
Change in net assets	**(381,663)**	2,922,241
Net assets, beginning of year	**6,130,358**	3,208,117
Net assets, end of year	**$ 5,748,695**	$ 6,130,358

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

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Statements of Cash Flows
For the Years Ended June 30,

	2010	2009
Cash flows from operating activities		
Cash received from patients and third-party payors	**$ 3,212,524**	$ 3,324,107
Cash paid to suppliers	**(1,439,333)**	(2,036,666)
Cash paid to employees	**(1,362,718)**	(1,613,019)
Net cash provided by (used in) operating activities	**410,473**	(325,578)
Cash flows from noncapital financing activities		
Grant receipts	**50,719**	19,872
Other noncapital financing activities	**4,904**	3,415
Mill levy (property taxes)	**433,858**	399,776
Sole community provider	**2,545,199**	2,636,132
Net cash provided by noncapital financing activities	**3,034,680**	3,059,195
Cash flows from capital and related financing activities		
Principal paid on capital lease obligation	**(6,688)**	-
Building construction expenses contributed to County	**(3,914,981)**	-
Purchase of capital assets	**(132,679)**	(209,852)
Net cash used in capital and related financing activities	**(4,054,348)**	(209,852)
Cash flows from investing activities		
Net sale (purchase) of investments	**1,654,093**	(3,773,873)
Investment income	**147,682**	112,090
Net cash provided by (used in) investing activities	**1,801,775**	(3,661,783)
Net increase in cash and cash equivalents	**1,192,580**	(1,138,018)
Cash and cash equivalents, beginning of year	**1,671,506**	2,809,524
Cash and cash equivalents, end of year	**$ 2,864,086**	$ 1,671,506

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

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Statements of Cash Flows — continued
For the Years Ended June 30,

	2010	2009
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	**$ (515,081)**	$ (380,256)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	**33,247**	21,093
Provision for uncollectible accounts and contractual allowances	**606,940**	535,994
Transfers of construction in progress to County	**449,846**	-
Changes in operating assets and liabilities		
Patient accounts receivable	**(729,149)**	(471,363)
Other receivables	**(15,455)**	3,433
Supplies inventory and other current assets	**(11,096)**	(25,213)
Accounts payable	**573,158**	11,078
Accrued payroll and related liabilities	**11,264**	7,164
Accrued compensated absences	**728**	-
Estimated third-party payor settlements	**6,071**	(27,508)
Net cash provided by (used in) operating activities	**$ 410,473**	$ (325,578)
Noncash capital and related financing activities		
Equipment acquired through capital lease	**$ 89,674**	$ -

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

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

1) Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Guadalupe County Hospital (the "Hospital") is a 10-bed county-owned acute care hospital located in Santa Rosa, New Mexico. The Hospital provides inpatient and outpatient medical care services for residents of Guadalupe County (the "County"). The Hospital is a component unit of the County. The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in the Guadalupe County area. There are no component units of the Hospital.

The Hospital has a management agreement with New Mexicare, Inc. (New Mexicare), a nonprofit healthcare management company, to supervise and direct the Hospital's daily operations. According to the agreement, the Hospital is to maintain a $500,000 cash reserve 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 stipulates a monthly fee to be paid to New Mexicare based on 4% of generated monthly gross revenues, excluding certain revenues. It 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 days written notice to New Mexicare; New Mexicare may terminate the agreement, with or without cause, upon ninety days written notice to the County.

Basis of Accounting and Presentation

The Hospital follows proprietary fund accounting. Proprietary funds are accounted for on the flow of economic measurement focus and the full accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the Hospital. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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.

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents.

Patient Accounts Receivable and Allowances
The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients, and others. Contractual allowances represent the amounts which reduce patient accounts receivable to amounts that are considered to be collectible from third-party payors based on existing contracts the Hospital has with these payors.

The allowance for doubtful patient accounts receivable is that amount which, in management's judgment, is adequate to reduce patient accounts receivable to an amount that is considered to be ultimately collectible. The Hospital calculates both the contractual allowance and allowance for doubtful accounts based on percentages of accounts receivable aging categories that consider historical contractual adjustments and write-offs by major payor categories over the past several years. Allowances are deducted from gross patient accounts receivable on the balance sheets.

Management believes that the allowances for doubtful accounts and contractual allowances 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 and contractual allowances will change by a material amount in the near term.

Additionally, the Hospital evaluates patient accounts receivable balances older than one year to determine collectability. 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.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as more information is available to improve estimates or final settlements are determined.

Inventories

Supplies inventories consist of medical and pharmacy supplies used in operations. Supplies inventories are stated at the lower of cost, determined using the first-in, first-out (FIFO) method, or market.

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.

Capital assets are recorded at cost at the date of acquisition. The Hospital's policy is to expense items with costs less than $5,000, in accordance with Section 12-6-10 NMSA 1978. Costs incurred for repair and maintenance that do not improve or extend the lives of property and equipment are charged to expense as incurred.

Depreciation is computed using the straight-line method over the estimated useful life of equipment, which ranges from five to ten years.

Compensated Absences

The liability for compensated absences consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, whereby leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Employees with accumulated sick leave in excess of 600 hours may elect to be paid 50% of such excess on an annual basis up to 120 hours (net 60 hours can be paid).

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation, and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital maintains records to identify and monitor the level of charity care provided. Those records include the amount of charges foregone for services and supplies furnished under the Hospital's charity care policy and aggregated approximately $37,000 and $29,000 in 2010 and 2009, respectively. Bad debts are often indistinguishable from charity services and could also be considered a component of uncompensated care.

Income Taxes

As a political subdivision of the County, the Hospital is exempt from federal and state income tax.

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 received during the month.

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.

Reclassifications
Certain reclassifications have been made to the 2009 financial statement amounts to conform to the 2010 presentation. The reclassifications had no effect on net assets.

Subsequent Events
Subsequent events through October 22, 2010, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2010, financial statements.

2) Net Patient Service Revenue

A summary of payment arrangements with major third-party payors 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 costs reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid—The State of New Mexico (the "State") administers its Medicaid program through contracts with several Managed Care Organizations (MCOs). Medicaid beneficiaries are required to enroll with one of the MCOs. The State pays each MCO a per member, per month rate based on their current enrollment. These amounts are allocated by each MCO to separate pools for the hospital, physicians, and ancillary providers. As a result, the MCOs assume the financial risk of providing health care to its members.

Through the Hospital's contracts with MCOs, inpatient acute care services and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge and discounted fee schedules. These rates vary accordingly to a patient classification system that is based on clinical, diagnostic, and other factors.

Behavioral and home health services rendered to Medicaid program beneficiaries are paid using 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 Medicaid fiscal intermediary.

Medicare and Medicaid cost report receivables (liabilities) are as follows:

	June 30, 2010 Amount	June 30, 2010 Status	June 30, 2009 Amount
Medicare			
2006	**$ -**	Final Settlement	$ (15,518)
2007	**-**	Final Settlement	-
2008	**1,710**	Tentative Settlement	-
2009	**10,000**	Tentative Settlement	10,000
2010	**5,000**	Not filed	-
	16,710		(5,518)
Medicaid			
2006	**-**	Final Settlement	(2,439)
2007	**-**	Final Settlement	6,000
2008	**-**	Final Settlement	2,500
2009	**-**	Filed	10,096
2010	**-**	Not filed	-
	-		16,157
Estimated third-party payor settlements	**$ 16,710**		$ 10,639

Management believes that these estimates 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 or more information is available to improve estimates, differences are reflected in current operations.

Settlements of prior-year cost reports and changes in estimates resulted in a decrease to net patient service revenue of approximately $19,000 for the year ended June 30, 2010.

Other Third-Party Payors—The Hospital has also entered into payment 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 changes and prospectively determined daily rates.

The following summary details the components of net patient service revenue for the years ended June 30:

	2010	2009
Gross charges	**$ 4,820,508**	$ 4,569,340
Third-party contractual allowances and cost report settlements	**(853,998)**	(724,356)
Bad debts and changes in allowance for contractual accounts, net of recoveries	**(606,940)**	(535,994)
Charity care	**(36,725)**	(29,187)
Net patient service revenue	**$ 3,322,845**	$ 3,279,803

3) Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. In accordance with Section 6-10-17, NMSA, 1978 compilation, the Hospital is required to obtain collateral in an amount equal to one-half of the deposited public money in excess of $250,000. The Hospital's policy is to require that at least one-half of the deposited public money in excess of $250,000 be collateralized. As of June 30, 2010, the Hospital had deposits with a bank balance of $3,333,552, of which $1,467,600 were uninsured and uncollateralized, and therefore subject to custodial credit risk. As of June 30, 2009, the Hospital had deposits with a bank balance of $2,202,709, of which $1,612,550 were uninsured and uncollateralized, and therefore subject to custodial credit risk.

Investments

The Hospital does not have a formal investment policy with respect to credit risk, custodial credit risk, concentration of credit risk, interest rate risk, or foreign currency risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

As of June 30, 2010, the Hospital's investments mature as follows:

	June 30, 2010				
		Maturities in Years			
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Negotiable CD's	$ 1,619,780	$ 1,379,605	$ 240,175	$ -	$ -

	June 30, 2009				
		Maturities in Years			
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Negotiable CD's	$ 3,273,873	$ 1,553,473	$ 1,720,400	$ -	$ -

Disclosures Relating to Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Hospital will not be able to recover the value of its investment in the possession of another party. The Hospital's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments.

Disclosures Relating to General Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (S&P).

The credit quality of the Hospital's investments as of June 30, 2010 and 2009, was as follows (based on most recently published public information for the date of the balance sheet):

June 30, 2010

Investment Type	Rating	Rating Agency	Amount
Negotiable CD's	AAA	Standard & Poor's	$ 1,619,780

June 30, 2009

Investment Type	Rating	Rating Agency	Amount
Negotiable CD's	AAA	Standard & Poor's	$ 3,273,873

Disclosures Relating to Concentration of Credit Risk
The Hospital places no limit on the amount that may be invested in any one issuer. The Hospital does not have investments in any one issuer that represent 5% or more of total Hospital investments.

Disclosures Relating to Currency Risk
Currency risk is risk that changes in the value of the U.S. dollar against other foreign currencies will adversely affect the fair value of investments in foreign securities. The Hospital's investment policy does not require foreign securities to be hedged against currency risk. The Hospital does not have any investments in foreign securities.

Reconciliation to Balance Sheets
The carrying values of deposits and investments are included in the balance sheets as follows:

	2010	2009
Carrying value		
Deposits	**$ 3,364,086**	$ 2,171,506
Investments	**1,619,780**	3,273,873
	$ 4,983,866	$ 5,445,379
Included in the following balance sheets captions		
Cash and cash equivalents	**$ 2,864,086**	$ 1,671,506
Certificates of deposit held at County	**500,000**	500,000
Investments, current	**1,379,605**	1,553,473
Investments, noncurrent	**240,175**	1,720,400
	$ 4,983,866	$ 5,445,379

4) Patient Accounts Receivables

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements.

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:

	2010	2009
Medicare	**32%**	26%
Medicaid	**11%**	13%
Other third-party payors	**35%**	41%
Self-pay	**22%**	20%
	100%	100%

Patient accounts receivable at June 30 consisted of the items shown below:

	2010	2009
Medicare	**$ 332,026**	$ 278,628
Medicaid	**113,783**	133,920
Other third-party payors	**365,692**	434,408
Self-pay	**230,499**	216,317
	1,042,000	1,063,273
Less allowance for contractual adjustments	**(350,386)**	(529,175)
	691,614	534,098
Less allowance for uncollectible accounts	**(221,213)**	(185,906)
	$ 470,401	$ 348,192

5) Capital Assets

Capital asset activity of the Hospital for the years ended June 30, 2010 and 2009, was as follows:

	June 30, 2010			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets, not being depreciated				
Construction in progress	$ 449,846	$ -	$ (449,846)	$ -
Capital assets being depreciated				
Equipment	485,175	222,353	-	707,528
Less accumulated depreciation for equipment	(423,746)	(33,247)	-	(456,993)
Total depreciated, net	61,429	189,106	-	250,535
Total capital assets, net	$ 511,275	$ 189,106	$ (449,846)	$ 250,535

	June 30, 2009			
	Beginning Balance	Additions	Transfers	Ending Balance
Capital assets, not being depreciated				
Construction in progress	$ -	$ 449,846	$ -	$ 449,846
Capital assets being depreciated				
Equipment	489,175	-	(4,000)	485,175
Less accumulated depreciation for equipment	(406,653)	(21,093)	4,000	(423,746)
Total depreciated, net	82,522	(21,093)	-	61,429
Total capital assets, net	$ 82,522	$ 428,753	$ -	$ 511,275

Construction in progress at June 30, 2009 represented design costs for the new hospital building. In 2010, it was determined that the new hospital building would belong to the County and be recorded on their financial statements; therefore, the construction in progress was contributed to the County in 2010. See Note 12 for further information.

6) Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2010 and 2009:

	June 30, 2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Capital lease obligation	$ -	$ 89,674	$ 6,688	$ 82,986	$ 16,600
Other long-term liabilities					
Accrued compensated absences	35,180	35,908	35,180	35,908	35,908
Total long-term obligations	$ 35,180	$ 125,582	$ 41,868	$ 118,894	$ 52,508

	June 30, 2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Other long-term liabilities					
Accrued compensated absences	$ 33,815	$ 35,180	$ 33,815	$ 35,180	$ 35,180
Total long-term obligations	$ 33,815	$ 35,180	$ 33,815	$ 35,180	$ 35,180

Capital Lease—During fiscal year 2010, the Hospital entered into a capital lease agreement for lab equipment. The present value at the beginning of the lease term of the minimum lease payments equals 90 percent of the fair market value, which qualifies it as a capital lease. Capital assets, acquired by lease, have been capitalized in the amount of $89,674 and a capital lease obligation recorded. Accumulated depreciation on the equipment totaled $6,405 at June 30, 2010.

The following schedule presents the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2010:

Year Ending June 30,	
2011	$ 20,185
2012	20,184
2013	20,184
2014	20,184
2015	11,774
Total minimum lease payments	92,511
Less: amount representing interest	9,525
Present value of future minimum lease payments	$ 82,986

7) 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, 2010, were $37,258 and $17,322, respectively. Employee and employer contributions to the plan for the year ended June 30, 2009, were $37,730 and $18,517, respectively.

8) Commitments and 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 (HIPAA) 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. Under the Health Information Technology for Economic and Clinical Health (HITECH) Act, several of the HIPAA security and privacy requirements have been expanded, including business associates being subject to civil and criminal penalties and enforcement proceedings for violations of HIPAA. Management believes that the Hospital is in compliance with all applicable provisions of HIPAA and HITECH.

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.

Medical Malpractice Claims—The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Litigation—In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Hospital's future financial position or results of operations. However, events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Operating Leases— The Hospital leases equipment under operating leases expiring in various years through 2015. Total rent expense for all operating leases for the year was approximately $150,000. Future minimum lease payments for noncancelable operating leases with lease terms exceeding one year at June 30, 2010, are as follows:

2011	$ 106,585
2012	106,585
2013	106,585
2014	15,505
2015	4,816
Future minimum lease payments	$ 340,076

9) 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 $434,453 and $399,776 in 2010 and 2009, respectively, all of which were used to support operations. The current mill levy expires December 2016.

10) Sole Community Provider

The Hospital, due to its isolated location and service to indigent patients, participates in a sole community provider indigent care program that is administered by the State of New Mexico. The program is funded by Guadalupe County which pays the County share amount to the State that is required to draw down federal monies. New Mexico's federal and state shares are approximately 71% and 29%, respectively. The program consists of two components, the regular quarterly payments and a supplemental payment. The supplemental payments are based on service to indigent and Medicaid patients as well as consideration of the Hospital's Medicaid contractual write-offs. Total revenues for this program in 2010 were $3.5 million, net of $819,000 of matching funds contributed to the County. Total revenues for this program in 2009 were $2.7 million, net of $1.1 million of matching funds contributed to the County.

11) Related Party Transactions

The Hospital entered into the following related party transactions during the year ended June 30, 2010:

- 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 2010 and 2009 for these services was $678,948 and $674,460, respectively.

- The Hospital leases a Siemens Ultrasound machine from the Santa Rosa Medical Clinic (the "Clinic"). The Clinic's medical director is also the Hospital's Chief of Staff. The amount paid to the Clinic during fiscal year 2010 for the lease was $8,410, or $1,682 per month. The amount paid to the Clinic during fiscal year 2009 for the lease was $4,080, or $340 per month.

12) New Hospital Building Construction

A new hospital building is currently under construction. It is the Hospital's intent to move into the new building during the spring of 2011. The cost of the new building is estimated to be approximately $11 million. Expenses incurred by the Hospital in relation to the construction in 2010 were approximately $3.9 million. The building will belong to the County upon completion; therefore, the related asset resides on the County's financial statements, and all expenses incurred by the Hospital are recorded as a contribution expense in the year incurred. The remaining costs will be funded through a combination of loan proceeds from a County loan and cash reserves of the Hospital.

Supplementary Information (Audited)

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Revenues, Expenses and Changes in Net Assets—Budget and Actual
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget - Favorable
	Original	Final	**Actual**	(Unfavorable)
Operating Revenue				
Net patient service revenue	$ 3,315,550	$ 2,971,460	**$ 3,322,845**	$ 351,385
Other revenue	4,749	6,318	**5,817**	(501)
Total operating revenue	3,320,299	2,977,778	**3,328,662**	350,884
Operating Expenses				
Salaries and wages	1,359,753	1,377,515	**1,362,718**	14,797
Medical fees	1,018,681	1,088,439	**1,091,250**	(2,811)
Supplies and other	565,145	540,749	**518,378**	22,371
Employee benefits	377,168	363,333	**366,128**	(2,795)
Management fees	234,234	225,642	**242,053**	(16,411)
Repairs and maintenance	89,561	87,725	**67,001**	20,724
Insurance	59,557	57,372	**60,919**	(3,547)
Utilities	51,778	51,647	**52,561**	(914)
Other	42,824	42,096	**35,952**	6,144
Depreciation	21,612	27,000	**33,247**	(6,247)
Rents and leases	19,692	19,253	**13,536**	5,717
Total operating expenses	3,840,005	3,880,771	**3,843,743**	37,028
Operating loss	(519,706)	(902,993)	**(515,081)**	387,912
Nonoperating Revenue				
Sole community provider	2,712,250	3,546,551	**3,455,717**	(90,834)
Mill levy (property taxes)	390,702	449,739	**434,453**	(15,286)
Investment income	52,772	49,718	**124,232**	74,514
Grant income	20,866	6,102	**29,093**	22,991
Other nonoperating revenue	3,595	5,775	**4,904**	(871)
Total nonoperating revenue	3,180,185	4,057,885	**4,048,399**	(9,486)
Excess of revenues over expenses before hospital construction contributions	2,660,479	3,154,892	**3,533,318**	378,426
Contributions to Guadalupe County for hospital construction	-	-	**(3,914,981)**	(3,914,981)
Change in net assets	$ 2,660,479	$ 3,154,892	**(381,663)**	$ (3,536,555)
Net assets, beginning of year			**6,130,358**	
Net assets, end of year			**$ 5,748,695**	

Note to Schedule

Annual budgets are adopted as required by New Mexico statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Revenues, Expenses and Changes in Net Assets—Budget and Actual
For the Year Ended June 30, 2009

	Budgeted Amounts			Variance with Final Budget - Favorable
	Original	Final	**Actual**	(Unfavorable)
Operating Revenue				
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 revenue	3,667,805	3,667,805	**3,283,551**	(384,254)
Operating Expenses				
Salaries and wages	1,257,432	1,257,432	**1,301,427**	(43,995)
Medical fees	1,047,021	1,047,021	**1,004,868**	42,153
Supplies and other	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
Other	48,019	48,019	**61,449**	(13,430)
Depreciation	20,999	20,999	**21,093**	(94)
Rents and leases	41,541	41,541	**21,433**	20,108
Total operating expenses	3,766,103	3,766,103	**3,663,807**	102,296
Operating loss	(98,298)	(98,298)	**(380,256)**	(281,958)
Nonoperating Revenue (Expenses)				
Sole community provider	227,583	2,661,649	**2,712,250**	50,601
Mill levy (property taxes)	366,226	366,226	**399,776**	33,550
Investment income	98,856	98,856	**145,558**	46,702
Grant income	25,585	25,585	**41,498**	15,913
Other nonoperating revenue	5,012	5,012	**3,415**	(1,597)
Other nonoperating expenses	(4,944)	(4,944)	**-**	4,944
Total nonoperating revenue (expenses)	718,318	3,152,384	**3,302,497**	150,113
Change in net assets	$ 620,020	$ 3,054,086	**2,922,241**	$ (131,845)
Net assets, beginning of year			**3,208,117**	
Net assets, end of year			**$ 6,130,358**	

Note to Schedule

Annual budgets are adopted as required by New Mexico statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America. The legal level of budgetary control is at the fund level.

New Mexico State Auditor's Supplementary Information

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Pledged Collateral
For the Year Ended June 30, 2010

	Wells Fargo	Community 1st Bank	1st National Bank
Deposits at June 30, 2010	$ 697,785	$ 2,626,976	$ 8,791
Less: CD's held by Guadalupe County and fully collateralized	(500,000)	-	-
Less: FDIC coverage	(197,785)	(250,000)	(8,791)
Uninsured public funds	-	2,376,976	-
Pledged collateral held by the pledging bank's trust department or agent but not in the Hospital's name	-	909,376	-
Total uninsured and uncollateralized public funds	$ -	$ 1,467,600	$ -
50% pledged collateral requirement per statute	$ -	$ 1,188,488	$ -
Total pledged collateral	-	909,376	-
Pledged collateral under the requirement	$ -	$ 279,112	$ -

Pledged collateral at June 30, 2010, consists of the following:

Security	CUSIP	Maturity	Market Value
FannieMae Series 2003-34 Mortgage Backed Security	31393CDJ9	5/25/2033	$ 909,376

The custodian of the pledged securities is Community First Bank of New Mexico.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Individual Deposit and Investment Accounts
June 30, 2010

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Reconciling Items	Book Balance
Deposit Accounts							
Wells Fargo	GCH Operating Account	Checking	$ 83,133	$ -	$ 6,328	$ 36,762	$ 113,567
Wells Fargo	GCH Savings Account	Savings	110,228	-	-	-	110,228
Wells Fargo	GCH Investment Account	Money Market	4,424	-	-	-	4,424
1st National Bank	GCH Savings Account	Savings	8,791	-	-	-	8,791
Community First	GCH Savings Account	Savings	2,626,976	-	-	-	2,626,976
			$ 2,833,552	$ -	$ 6,328	$ 36,762	$ 2,863,986
Cash on hand		Petty Cash					100
							$ 2,864,086
Certificates of Deposit							
Wells Fargo	Certificate of Deposit	CD's	500,000	-	-	-	500,000
Investments							
Wells Fargo	GCH Investment Account	Negotiable CD's	1,619,780	-	-	-	1,619,780
Total deposits and investments			$ 4,953,332				$ 4,983,866

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the accompanying financial statements of the business-type activities of Guadalupe County Hospital (the "Hospital") as of and for the year ended June 30, 2010, which collectively comprise the Hospital's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2010, presented as supplementary information, and have issued our report thereon dated October 11, 2010. 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. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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. We noted three matters that are required to be reported under *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and responses as items SA 10-1 through SA 10-3.

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 trustees, management, others within the Hospital, the New Mexico Legislature, and the New Mexico Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified users.

REDW LLC

October 11, 2010

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Findings and Responses
For the Year Ended June 30, 2010

The following findings are reported in accordance with the New Mexico State Audit Rule 2 NMAC 2.2., *Requirements for Contracting and Conducting Audits of Agencies*.

SA 10-1 — Purchase Order Procedures

Criteria or Specific Requirement: Adequate procedures regarding cash disbursements are important to ensure that the facility is only paying for approved items. According to the Guadalupe County Hospital Accounting Procedures Manual, *"The Administrator or Department Head must follow the following procedures in approving and processing purchase requisitions:*

i. The quantity, description, unit cost, and extended cost are detailed for each expenditure item.

ii. The Department Heads route the form to the Administrator for review and signature."

Also

"The Accounting Manager…for all other invoices matches the invoices with the purchase order and purchase requisition…"

Condition: There is often no reconciliation of the invoice(s) paid to the related Purchase Order (PO) to ensure that only items approved for purchase are actually being received and paid for.

Cause: Vendors often send items individually or in multiple shipments for orders placed by the Hospital. It is difficult for the Accounting Manager to keep track of open PO's if they take longer than one payment period to receive all goods and invoices; therefore, a reconciliation typically does not occur.

Effect: There is a possibility that vendors would ship more and bill for more items than the Hospital actually ordered. In addition, given that the Department Heads complete the PO, place the order, and receive the goods, the main control in place to ensure that items are not ordered and stolen is that PO's have to be completed and approved by the Administrator. If the matching of PO's to invoices does not always occur, goods could be ordered, stolen, payment would be disbursed, and the fraudulent activity would never be noted.

Auditors' Recommendations: To achieve the necessary accountability for goods received and to prevent payment for goods not approved for purchase, we recommend that all invoices be reconciled to the related approved purchase order. This can be performed by keeping an open PO file in which the invoices and payments that make up each PO are kept until it is complete and closed.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Findings and Responses
For the Year Ended June 30, 2010

SA 10-1 — Purchase Order Procedures — continued

Management's Response: Guadalupe County Hospital will establish a process for keeping PO files open until all related invoices are in and the PO is reconciled, complete and closed. The proposed new electronic billing and accounting system will improve the Purchase Order process.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Findings and Responses
For the Year Ended June 30, 2010

SA 10-2 — Unsupported Claims

Criteria or Specific Requirement: All Hospital claims must be supported by documentation indicating the procedures performed were authorized and appropriate based on the expertise and professional judgment of a residing physician or their equivalent.

Condition: During our accounts receivable test of controls, we noted one patient claim out of 28 tested with charges of $195 for Cardiac Panel (CK, CKMB, & Troponin) procedures that were unsupported by the Nurse Practitioner's authorization of order for the procedures to be performed.

Cause: The Nurse Practitioner forgot to document the authorization, and the Billing Technicians did not match the procedures from the approval form to procedures on the charge sheet.

Effect: Patients or third party payors could be charged more for procedures that are not documented or authorized. Lack of proper documentation could result in healthcare regulation violations.

Auditors' Recommendations: Establish formal procedures to match the authorized medical procedures to the charge sheets completed by the nurse, ensuring that all procedures billed are adequately approved and supported by documentation stating the procedures performed and who approved them.

Management's Response: According to the Bylaws of the Medical Staff of Guadalupe County Hospital, Article A.9, *All orders shall be in writing. An order shall be considered to be in writing if dictated to a registered professional nurse (RN), licensed practical nurse (LPN), Certified Respiratory Therapist, Registered Physical Therapist, Pharmacist, and Paramedics. Orders dictated over the telephone shall be signed by the attending practitioner within 24 hours.* In this instance, the practitioner failed to sign the order after the fact, in violation of our policy. Our practice is to flag unsigned orders immediately to ensure compliance. This may or may not have been done. Guadalupe County Hospital is in the process of implementing an electronic medical records system that will not allow charges to be processed unless a chart is complete, including signatures by providers. In the meantime, Guadalupe County Hospital will establish a formal procedure to not allow billing for unsigned orders.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Findings and Responses
For the Year Ended June 30, 2010

SA 10-3 — Cash Collateralization

Criteria or Specific Requirement: 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.

Condition: At June 30, 2010, the Hospital had uninsured bank deposits of $2,376,976 at one financial institution. State law requires that $1,188,488 be collateralized. The Hospital had collateral in place with this bank in the amount of $909,376, which falls short of the required amount by $279,112.

Cause: The Hospital's bank did not maintain adequate collateral over the Hospital's deposits.

Effect: The deposits were not collateralized appropriately, and the Hospital was not in compliance with the cash collateralization requirements.

Auditors' Recommendations: Consider either obtaining collateralization for bank deposits in excess of $250,000 or moving the deposits to multiple banks with less than $250,000 in each.

Management's Response: Upon establishing the Money Market Demand Account at Community First, Guadalupe County Hospital stipulated to the bank that the funds were to be 100% collateralized. This did not materialize. However, the pledge documents are now being processed with the Federal Reserve and Community First Bank. The Hospital will therefore be in compliance with the state cash collateralization requirements and will remain so in the future. Guadalupe County Hospital will develop and implement a process to verify collateralization with the banks on at least a quarterly basis to avoid such lapses.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Current Status Schedule of Prior Audit Findings
For the Year Ended June 30, 2010

Prior-Year Number	Description	Current-Year Status/Number
Resolved Findings		
FS 09-01	Contracting for Audit Services	Resolved
FS 09-02	Late Audit Report	Resolved
FS 08-01	Travel and Per Diem	Resolved
FS 08-05	Business Office Billing and Collection Procedures	Resolved

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Other Disclosures
For the Year Ended June 30, 2010

Exit Conference

A closed meeting exit conference was held with the Hospital on October 21, 2010. The following individuals attended:

Representing Guadalupe County Hospital

Christina Campos	Administrator
Robert Cordova	Chairman, Director
Loretta Lopez	Secretary, Director
Kalpesh Bhakta	Member, Director

Representing REDW LLC

Chris Tyhurst, CPA	Principal
Halie Garcia, CPA	Manager

Financial Statement Preparation

The Hospital's independent public accountants prepared the accompanying financial statements; however, the Hospital is responsible for the financial statement and disclosure content.