

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
2011 and 2010 Financial Statements,
Supplementary Information and
Independent Auditors' Reports

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, 2011

Board of Directors

Robert Cordova	Chairman
Danita Agar	Vice-Chairman
Loretta Lopez	Secretary/Treasurer
Tim Dodge	Member
Kalpesh Bhakta	Member

Principal Employee

Christina Campos	Administrator
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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 years ended June 30, 2011 and 2010, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the budget comparison schedules for the years ended June 30, 2011 and 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 financial position of the business-type activities of the Hospital as of June 30, 2011 and 2010, and the changes in its financial position and cash flows, 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 budgetary comparison of the Hospital for the years ended June 30, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2011, 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.

REDWLLC

October 25, 2011

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, 2011

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, 2011. Please read it in conjunction with the Hospital's basic financial statements, which follow this section.

Financial Highlights

- ◆ In 2011, cash and cash equivalents decreased by \$2,228,000, while investments decreased by \$1,381,000 due to the use of such funds to pay for the construction of the new hospital.
- ◆ The Hospital's net assets decreased by \$2,021,000 in 2011 (35.2% decrease) and decreased by \$382,000 in 2010 (6.2% decrease). However, the excess of revenues over expenses before hospital construction contributions in 2011 was \$3,927,000, compared to \$3,533,000 in 2010.
- ◆ The Hospital reported an operating loss in 2011 of \$599,000 compared to the operating loss reported in 2010 of \$515,000.
- ◆ Net nonoperating revenues increased by \$478,000 in 2011, compared to an increase of \$746,000 in 2010. 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.

Guadalupe County Hospital
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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 2011 by \$2,021,000 or 35.2%, and decreased in 2010 by \$382,000 or 6.2%, as shown in the following table:

ASSETS, LIABILITIES AND NET ASSETS

	2011	2010	2009
Current assets	\$ 3,443,041	\$ 6,409,974	\$ 2,822,992
Noncurrent assets	623,084	490,710	3,785,148
Total assets	\$ 4,066,125	\$ 6,900,684	\$ 6,608,140
Current liabilities	\$ 289,832	\$ 1,085,603	\$ 477,782
Long-term debt	48,979	66,386	-
Total liabilities	338,811	1,151,989	477,782
Net assets			
Invested in capital assets, net of related debt	556,699	167,549	511,275
Unrestricted	3,170,615	5,581,146	5,619,083
Total net assets	3,727,314	5,748,695	6,130,358
Total liabilities and net assets	\$ 4,066,125	\$ 6,900,684	\$ 6,608,140

Guadalupe County Hospital
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The 2011 and 2010 decreases in net assets of \$2,021,000 and \$382,000, respectively, were due primarily to contributions to Guadalupe County for hospital construction.

Operating Results and Changes in the Hospital's Net Assets

The Hospital's operating loss in 2011 was \$599,000, compared to operating losses of \$515,000 and \$380,000 in 2010 and 2009, respectively.

OPERATING RESULTS AND CHANGE IN NET ASSETS

	<u>2011</u>	2010	2009
Total operating revenues	\$ 3,613,685	\$ 3,328,662	\$ 3,283,551
Total operating expenses	<u>4,212,926</u>	<u>3,843,743</u>	<u>3,663,807</u>
Operating loss	(599,241)	(515,081)	(380,256)
Nonoperating revenues	4,526,082	4,048,399	3,302,497
Contributions to Guadalupe County for hospital construction	<u>(5,948,222)</u>	<u>(3,914,981)</u>	<u>-</u>
Change in net assets	(2,021,381)	(381,663)	2,922,241
Beginning net assets	<u>5,748,695</u>	<u>6,130,358</u>	<u>3,208,117</u>
Total net assets, end of year	<u>\$ 3,727,314</u>	<u>\$ 5,748,695</u>	<u>\$ 6,130,358</u>

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 2011 are as follows:

- ◆ There was an increase in net patient service revenue of \$285,000 (8.6%) due to an increase in inpatient volume.
- ◆ Increases in salaries and benefits of \$144,000, an increase of 15%, compared to the prior year due to an increase in full-time equivalent employees and a 2.5% across the board wage increase.

Guadalupe County Hospital
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Management's Discussion and Analysis
For the Year Ended June 30, 2011

- ◆ An increase in medical fees of \$94,000, or 8.6%, in 2011 compared to an increase in 2010 of \$86,000, or 8.6%. The 2011 increase was primarily due to an increase of \$86,000 for the implementation of a new accounting and medical billing system.

Nonoperating Revenue

Nonoperating revenue consisting primarily of noncapital grants, interest income, Mill Levy property tax allocations, and Sole Community Provider revenue increased in 2011 by \$478,000 and increased in 2010 by \$746,000. The 2011 increase was due to additional funds received as part of the Sole Community Provider Super Supplemental match in the amount of \$688,000, partially offset by decreases in investment and grant income.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2011, 2010 and 2009 discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the Hospital had \$623,000 invested in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. In 2011, the Hospital invested approximately \$497,000 to upgrade the accounting and medical billing systems.

Debt Administration

During 2010, the Hospital entered into a capital lease for lab equipment for approximately \$90,000. The balance of the capital lease obligation at June 30, 2011, was approximately \$66,000.

Budgetary Highlights

There was one significant budget modification during fiscal year 2011 due the unanticipated increase in Sole Community Provider funds. Total operating revenue was over the final budget by \$541,000, due to higher than anticipated patient revenue. Operating expenses were under budget by \$184,000 due primarily to the expectation that the new facility would be open prior to year-end and therefore higher expectations for depreciation, as well as less repairs and maintenance expense than anticipated.

Guadalupe County Hospital
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Management's Discussion and Analysis
For the Year Ended June 30, 2011

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 November 1, 2011. Patient census is expected to increase with the move to the new hospital. 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). There will be additional expenses attributed to the move to the new hospital. There will be additional costs due to the implementation of the new accounting and billing system. There will be an increase in payroll expenses due to a 2.5% wage increase effective July 1, 2011, and to nursing department promotions (more RN licenses). There will be a decrease in administrative fees to the County and management fees to New Mexicare, Inc. as a result of changes in the hospital management agreement that became effective January 1, 2011.

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
117 Camino de Vida Suite 100
Santa Rosa, NM 88435
(505) 472-3417

Basic Financial Statements

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

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 636,274	\$ 2,864,086
Certificates of deposit held at County	500,000	500,000
Investments in certificates of deposit	238,995	1,379,605
Receivables		
Patient accounts receivable, net of allowance for uncollectible accounts: 2011 - \$342,000; 2010 - \$221,000	776,868	470,401
Sole community provider	1,097,499	986,636
Estimated third party payor settlements	23,590	-
Interest	2,146	10,018
Other	7,500	20,379
Supplies inventory and other current assets	160,169	178,849
Total current assets	3,443,041	6,409,974
Investments in certificates of deposit	-	240,175
Capital assets, net	623,084	250,535
Total assets	\$ 4,066,125	\$ 6,900,684
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 128,778	\$ 942,226
Accrued payroll and related liabilities	96,217	74,159
Accrued compensated absences	47,431	35,908
Current maturities of capital lease obligation	17,406	16,600
Estimated third party payor settlements	-	16,710
Total current liabilities	289,832	1,085,603
Capital lease obligation, less current maturities	48,979	66,386
Total liabilities	338,811	1,151,989
Net assets		
Invested in capital assets, net of related debt	556,699	167,549
Unrestricted	3,170,615	5,581,146
Total net assets	3,727,314	5,748,695
Total liabilities and net assets	\$ 4,066,125	\$ 6,900,684

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,

	<u>2011</u>	<u>2010</u>
Operating Revenue		
Net patient service revenue	\$ 3,607,537	\$ 3,322,845
Other revenue	<u>6,148</u>	<u>5,817</u>
Total operating revenue	<u>3,613,685</u>	<u>3,328,662</u>
Operating Expense		
Salaries and wages	1,484,472	1,362,718
Medical fees	1,185,199	1,091,250
Supplies and other	516,531	518,378
Employee benefits	388,307	366,128
Management fees	232,912	242,053
Depreciation	124,614	33,247
Repairs and maintenance	82,718	67,001
Insurance	61,784	60,919
Other	57,861	35,952
Utilities	55,855	52,561
Rents and leases	<u>22,673</u>	<u>13,536</u>
Total operating expenses	<u>4,212,926</u>	<u>3,843,743</u>
Operating loss	<u>(599,241)</u>	<u>(515,081)</u>
Nonoperating Revenue		
Sole community provider	4,032,662	3,455,717
Mill levy (property taxes)	440,339	434,453
Investment income	34,605	124,232
Grant income	17,389	29,093
Other nonoperating revenue	<u>1,087</u>	<u>4,904</u>
Total nonoperating revenue	<u>4,526,082</u>	<u>4,048,399</u>
Excess of revenue over expenses before hospital construction contributions	3,926,841	3,533,318
Contributions to Guadalupe County for hospital construction	<u>(5,948,222)</u>	<u>(3,914,981)</u>
Change in net assets	(2,021,381)	(381,663)
Net assets, beginning of year	<u>5,748,695</u>	<u>6,130,358</u>
Net assets, end of year	<u><u>\$ 3,727,314</u></u>	<u><u>\$ 5,748,695</u></u>

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,

	2011	2010
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 3,266,918	\$ 3,212,524
Cash paid to suppliers	(3,349,070)	(1,439,333)
Cash paid to employees	(1,484,472)	(1,362,718)
Net cash provided by (used in) operating activities	(1,566,624)	410,473
Cash flows from noncapital financing activities		
Grant receipts	17,389	50,719
Other noncapital financing activities	1,087	4,904
Mill levy (property taxes)	437,261	433,858
Sole community provider	3,921,799	2,545,199
Net cash provided by noncapital financing activities	4,377,536	3,034,680
Cash flows from capital and related financing activities		
Principal paid on capital lease obligation	(16,601)	(6,688)
Building construction expenses contributed to County	(5,948,222)	(3,914,981)
Purchase of capital assets	(497,163)	(132,679)
Net cash used in capital and related financing activities	(6,461,986)	(4,054,348)
Cash flows from investing activities		
Net sale (purchase) of investments	1,380,785	1,654,093
Investment income	42,477	147,682
Net cash provided by investing activities	1,423,262	1,801,775
Net increase (decrease) in cash and cash equivalents	(2,227,812)	1,192,580
Cash and cash equivalents, beginning of year	2,864,086	1,671,506
Cash and cash equivalents, end of year	\$ 636,274	\$ 2,864,086

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,

	2011	2010
Reconciliation of operating loss to net cash provided by (used in) operating activities		
Operating loss	\$ (599,241)	\$ (515,081)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation	124,614	33,247
Provision for uncollectible accounts and contractual allowances	571,920	606,940
Transfers of construction in progress to County	-	449,846
Changes in operating assets and liabilities		
Patient accounts receivable	(878,387)	(729,149)
Other receivables	15,957	(15,455)
Supplies inventory and other current assets	18,680	(11,096)
Accounts payable	(813,448)	573,158
Accrued payroll and related liabilities	22,058	11,264
Accrued compensated absences	11,523	728
Estimated third-party payor settlements	(40,300)	6,071
Net cash provided by (used in) operating activities	\$ (1,566,624)	\$ 410,473
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, 2011 and 2010

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. The management agreement in effect through December 31, 2010 stipulated a monthly fee to be paid to New Mexicare based on 4% of generated monthly gross revenues, excluding certain revenues. It also stipulated a monthly fee to be paid to the County based on 1% of generated monthly gross revenues, excluding certain revenues. The agreement was amended on December 21, 2010 to restructure the fee schedule to a flat monthly rate. According to the amended agreement, the Hospital pays New Mexicare a flat monthly fee of \$12,000 for management and pays the County \$8,000 per month for administrative services. The amended agreement was effective January 1, 2011, for the period of January 1, 2011 through December 31, 2016.

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). As permitted by GASB, the Hospital has elected to apply all relevant Financial

Guadalupe County Hospital
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Notes to Basic Financial Statements
June 30, 2011 and 2010

Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that do not conflict with or contradict 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.

Guadalupe County Hospital
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Notes to Basic Financial Statements
June 30, 2011 and 2010

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 value.

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 owned by the Hospital consists of equipment which is 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 three to ten years.

Compensated Absences

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

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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 \$49,000 and \$37,000 in 2011 and 2010, 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.

Subsequent Events

Subsequent events through November 1, 2011, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2011, financial statements.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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

	June 30, 2011 Amount	June 30, 2011 Status	June 30, 2010 Amount
Medicare			
2008	\$ (1,710)	Tentative Settlement	\$ (1,710)
2009	(10,000)	Tentative Settlement	(10,000)
2010	42,046	Tentative Settlement	(5,000)
2011	<u>(6,746)</u>	Not filed	<u>-</u>
	<u>23,590</u>		<u>(16,710)</u>
Medicaid			
2010	-	Filed	-
2011	<u>-</u>	Not filed	<u>-</u>
	<u>-</u>		<u>-</u>
Estimated third-party payor settlements	<u>\$ 23,590</u>		<u>\$ (16,710)</u>

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 an increase to net patient service revenue of approximately \$23,000 and \$19,000 for the years ended June 30, 2011 and 2010, respectively.

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 charges and prospectively determined daily rates.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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

	2011	2010
Gross charges	\$ 5,202,172	\$ 4,820,508
Third-party contractual allowances and cost report settlements	(973,312)	(853,998)
Bad debts and changes in allowance for contractual accounts, net of recoveries	(571,920)	(606,940)
Charity care	(49,403)	(36,725)
Net patient service revenue	<u>\$ 3,607,537</u>	<u>\$ 3,322,845</u>

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, 2011, the Hospital had deposits with a bank balance of \$1,176,379, of which the entire balance was fully insured or 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.

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.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

As of June 30, 2011 and 2010, the Hospital's investments mature as follows:

June 30, 2011					
Maturities in Years					
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Negotiable CD's	<u>\$ 238,995</u>	<u>\$ 238,995</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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, 2011 and 2010, was as follows (based on most recently published public information for the date of the balance sheet):

June 30, 2011			
Investment Type	Rating	Rating Agency	Amount
Negotiable CD's	AAA	Standard & Poor's	<u>\$ 238,995</u>

June 30, 2010			
Investment Type	Rating	Rating Agency	Amount
Negotiable CD's	AAA	Standard & Poor's	<u>\$ 1,619,780</u>

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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:

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	\$ 1,136,274	\$ 3,364,086
Investments	<u>238,995</u>	<u>1,619,780</u>
	<u>\$ 1,375,269</u>	<u>\$ 4,983,866</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 636,274	\$ 2,864,086
Certificates of deposit held at County	500,000	500,000
Investments, current	238,995	1,379,605
Investments, noncurrent	<u>-</u>	<u>240,175</u>
	<u>\$ 1,375,269</u>	<u>\$ 4,983,866</u>

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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:

	<u>2011</u>	<u>2010</u>
Medicare	25%	32%
Medicaid	18%	11%
Other third-party payors	31%	35%
Self-pay	<u>26%</u>	<u>22%</u>
	<u>100%</u>	<u>100%</u>

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

	<u>2011</u>	<u>2010</u>
Medicare	\$ 350,711	\$ 332,026
Medicaid	243,529	113,783
Other third-party payors	429,124	365,692
Self-pay	<u>365,494</u>	<u>230,499</u>
	1,388,858	1,042,000
Less allowance for contractual adjustments	<u>(270,231)</u>	<u>(350,386)</u>
	1,118,627	691,614
Less allowance for uncollectible accounts	<u>(341,759)</u>	<u>(221,213)</u>
	<u>\$ 776,868</u>	<u>\$ 470,401</u>

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

5) Capital Assets

Capital asset activity of the Hospital for the years ended June 30, 2011 and 2010, was as follows:

	June 30, 2011			
	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets being depreciated				
Equipment	\$ 707,528	\$ 497,163	\$ -	\$ 1,204,691
Less accumulated depreciation for equipment	<u>(456,993)</u>	<u>(124,614)</u>	<u>-</u>	<u>(581,607)</u>
Total capital assets, net	<u>\$ 250,535</u>	<u>372,549</u>	<u>-</u>	<u>\$ 623,084</u>
	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	<u>(423,746)</u>	<u>(33,247)</u>	<u>-</u>	<u>(456,993)</u>
Total depreciated, net	<u>61,429</u>	<u>189,106</u>	<u>-</u>	<u>250,535</u>
Total capital assets, net	<u>\$ 511,275</u>	<u>\$ 189,106</u>	<u>\$ (449,846)</u>	<u>\$ 250,535</u>

During 2010, it was determined that the new hospital would belong to the County and be recorded on their financial statements; therefore, the construction in progress was contributed to the County in 2010 resulting in the retirement of \$449,846. See Note 12 for further information.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

6) Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2011 and 2010:

	June 30, 2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Capital lease obligation	\$ 82,986	\$ -	\$ 16,601	\$ 66,385	\$ 17,406
Other long-term liabilities					
Accrued compensated absences	35,908	47,431	35,908	47,431	47,431
Total long-term obligations	\$ 118,894	\$ 47,431	\$ 52,509	\$ 113,816	\$ 64,837
	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

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 leased equipment totaled \$19,216 and \$6,405 at June 30, 2011 and 2010, respectively.

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, 2011:

Year Ending June 30,	
2012	\$ 20,184
2013	20,184
2014	20,184
2015	11,774
Total minimum lease payments	72,326
Less amount representing interest	5,941
Present value of future minimum lease payments	\$ 66,385

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

7) Retirement Plan

The Hospital established a defined contribution retirement plan effective April 2001, entitled “Guadalupe County Hospital 403(b) Plan,” which as of December 1, 2010 was rolled into a Section 457(b) plan entitled “Guadalupe County Hospital 457 Governmental Deferred Compensation Plan.” The plan is administered by the Hospital. Although it has 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 transition to the new plan required no probationary period for employees enrolled in the 403(b) plan at December 1, 2010. The plan allows eligible employees to defer a portion of their annual compensation pursuant to Section 457(b) of the Internal Revenue Code.

The Hospital also established an employer contribution match of up to 3% of the employee’s base wage. This match is still in effect with the transition to a 401(a) plan entitled “Guadalupe County Hospital 401(a) Plan.” Employer contributions to the plan are discretionary and are fully vested once the employee is eligible to participate in the 401(a) plan. Employee and employer contributions to these plans for the year ended June 30, 2011, were \$47,324 and \$24,094, respectively. Employee and employer contributions to the plan for the year ended June 30, 2010, were \$37,258 and \$17,322, 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.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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 ordinary course of business, claims alleging malpractice and other matters may be filed against the Hospital. Claims may also be filed for incidents that have occurred, including some of which the Hospital is not presently aware. It is not possible to estimate the likelihood and amount of such potential claims. Accordingly, no accrual has been made for these potential claims.

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 \$440,339 and \$434,453 in 2011 and 2010, respectively, all of which were used to support operations. The current mill levy expires December 2016.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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 83% and 17%, 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 2011 were \$4.0 million, net of \$1,063,000 of matching funds contributed to the County. Total revenues for this program in 2010 were \$3.5 million, net of \$819,000 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, 2011:

- ◆ 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 2011 and 2010 for these services was \$698,516 and \$678,948, 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 amounts paid to the Clinic during fiscal years 2011 and 2010 for the lease were \$11,487 and \$8,410, respectively.
- ◆ The Hospital paid the lodging expenses of the Techtme Software Associates that helped install the new accounting and billing system. The amount paid to Super 8 Motel owned by one of the Hospital's board members during fiscal year 2011 for these expenses, was \$9,896.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

12) New Hospital Building Construction

The Hospital moved into a new building on July 1, 2011. The building belongs to the County; therefore, the related asset resides on the County's financial statements, and all construction costs funded by the Hospital have been accounted for as contributions to Guadalupe County in the year incurred. The building construction costs were 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, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenue				
Net patient service revenue	\$ 3,072,287	\$ 3,072,287	\$ 3,607,537	\$ 535,250
Other revenue	4,708	302	6,148	5,846
Total operating revenue	<u>3,076,995</u>	<u>3,072,589</u>	<u>3,613,685</u>	<u>541,096</u>
Operating Expenses				
Medical fees	1,415,411	1,237,743	1,185,199	52,544
Salaries and wages	1,395,743	1,441,411	1,484,472	(43,061)
Supplies and other	553,284	564,134	516,531	47,603
Employee benefits	349,312	349,312	388,307	(38,995)
Management fees	239,428	239,428	232,912	6,516
Repairs and maintenance	139,352	139,352	124,614	14,738
Depreciation	135,428	246,428	55,855	190,573
Insurance	76,436	76,436	82,718	(6,282)
Utilities	54,125	54,125	61,784	(7,659)
Other	35,602	35,602	57,861	(22,259)
Rents and leases	12,893	12,893	22,673	(9,780)
Total operating expenses	<u>4,407,014</u>	<u>4,396,864</u>	<u>4,212,926</u>	<u>183,938</u>
Operating loss	<u>(1,330,019)</u>	<u>(1,324,275)</u>	<u>(599,241)</u>	<u>725,034</u>
Nonoperating Revenue				
Sole community provider	3,493,301	4,199,122	4,032,662	(166,460)
Mill levy (property taxes)	409,987	409,987	440,339	30,352
Investment income	46,828	31,769	34,605	2,836
Grant income	8,242	9,572	17,389	7,817
Other nonoperating revenue	24,321	6,598	1,087	(5,511)
Total nonoperating revenue	<u>3,982,679</u>	<u>4,657,048</u>	<u>4,526,082</u>	<u>(130,966)</u>
Excess of revenues over expenses before hospital construction contributions	2,652,660	3,332,773	3,926,841	594,068
Contributions to Guadalupe County for hospital construction	<u>(5,160,068)</u>	<u>(5,600,000)</u>	<u>(5,948,222)</u>	<u>(348,222)</u>
Change in net assets	<u>\$ (2,507,408)</u>	<u>\$ (2,267,227)</u>	<u>(2,021,381)</u>	<u>\$ 245,846</u>
Net assets, beginning of year			<u>5,748,695</u>	
Net assets, end of year			<u>\$ 3,727,314</u>	

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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
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	<u>3,320,299</u>	<u>2,977,778</u>	<u>3,328,662</u>	<u>350,884</u>
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	<u>3,840,005</u>	<u>3,880,771</u>	<u>3,843,743</u>	<u>37,028</u>
Operating loss	<u>(519,706)</u>	<u>(902,993)</u>	<u>(515,081)</u>	<u>387,912</u>
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	<u>3,180,185</u>	<u>4,057,885</u>	<u>4,048,399</u>	<u>(9,486)</u>
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	<u>\$ 2,660,479</u>	<u>\$ 3,154,892</u>	(381,663)	<u>\$ (3,536,555)</u>
Net assets, beginning of year			6,130,358	
Net assets, end of year			<u>\$ 5,748,695</u>	

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, 2011

	Wells Fargo	Community 1st Bank	1st National Bank
Deposits at June 30, 2011	\$ 897,882	\$ 276,615	\$ 1,882
Less: CD's held by Guadalupe County and fully collateralized	(500,000)	-	-
Less: FDIC coverage	<u>(250,000)</u>	<u>(250,000)</u>	<u>(1,882)</u>
Uninsured public funds	147,882	26,615	-
Pledged collateral held by the pledging bank's trust department or agent but not in the Hospital's name	<u>236,076</u>	<u>2,447,417</u>	<u>-</u>
Total uninsured and uncollateralized public funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
50% pledged collateral requirement per statute	\$ 73,941	\$ 13,308	\$ -
Total pledged collateral	<u>236,076</u>	<u>2,447,417</u>	<u>-</u>
Pledged collateral over the requirement	<u>\$ (162,135)</u>	<u>\$ (2,434,109)</u>	<u>\$ -</u>

Pledged collateral at June 30, 2011, consists of the following:

Security	CUSIP	Maturity	Market Value
FannieMae Series 2003-34 Mortgage Backed Security	31393CDJ9	5/25/2033	\$ 2,447,417
FN 889579 6.0000% 05/01/2038	31410KJY1	5/1/2038	73,510
FN 984845 6.0000% 07/01/2038	31415PBN7	7/1/2038	3,063
FN 985011 6.0000% 08/01/2038	31415PGU6	8/1/2038	14,861
FN AA0888 5.0000% 12/01/2038	31416H7A7	12/1/2038	42,945
FN AD3841 4.5000% 04/01/2040	31418RHT1	4/1/2040	<u>101,697</u>
Total pledged collateral			<u>2,683,493</u>
Amount over collateralized for 50% requirement			<u>\$ 2,596,244</u>

The custodians of the pledged securities is Community First Bank of New Mexico and Wells Fargo.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Individual Deposit and Investment Accounts
June 30, 2011

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	\$ 375,927	\$ 30	\$ 79,263	\$ 39,028	\$ 335,722
Wells Fargo	GCH Savings Account	Savings	17,530	-	-	-	17,530
Wells Fargo	GCH Investment Account	Money Market	4,425	-	-	-	4,425
1st National Bank	GCH Savings Account	Savings	1,882	-	-	-	1,882
Community First	GCH Savings Account	Savings	<u>276,615</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>276,615</u>
			676,379	30	79,263	39,028	636,174
Cash on hand		Petty Cash	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>
			<u>676,379</u>	<u>30</u>	<u>79,263</u>	<u>39,028</u>	<u>636,274</u>
Certificates of Deposit							
Wells Fargo	Certificate of Deposit	CD's	500,000	-	-	-	500,000
Investments							
Wells Fargo	GCH Investment Account	Negotiable CD's	<u>238,995</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>238,995</u>
Total deposits and investments			<u>\$ 1,415,374</u>	<u>\$ 30</u>	<u>\$ 79,263</u>	<u>\$ 39,028</u>	<u>\$ 1,375,269</u>

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

Board of Directors and 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, 2011, which collectively comprise the Hospital's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2011, presented as supplementary information, and have issued our report thereon dated October 25, 2011. 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.

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 a matter that is required to be reported under *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5 NMSA 1978, which is described in the accompanying schedule of findings and responses as item SA 11-1.

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the board of directors, 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.

REDWLLC

October 25, 2011

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Findings and Responses
For the Year Ended June 30, 2011

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

SA 11-1 — Purchase Order Procedures – Other

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, 2011

SA 11-1 — Purchase Order Procedures – Other — continued

Management's Response: Guadalupe County Hospital has implemented a new process for reconciling purchase orders with packing slips and invoices before payment is made.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Current Status Schedule of Prior Audit Findings
For the Year Ended June 30, 2011

Prior-Year Number	Description	Current-Year Status/Number
SA 10-1	Purchase Order Procedures	Unresolved/ SA 11-1
SA 10-2	Unsupported Claims	Resolved
SA 10-3	Cash Collateralization	Resolved

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Other Disclosures
For the Year Ended June 30, 2011

Exit Conference

A closed meeting exit conference was held with the Hospital on October 27, 2011. The following individuals attended:

Representing Guadalupe County Hospital

Christina Campos	Administrator
Robert Cordova	Chairman
Danita Agar	Vice-Chairman
Loretta Lopez	Secretary-Treasurer
Kalpesh Bhakta	Member
Tim Dodge	Member
Bret Goebel	CFO
Trish Garduno	Facilitator

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.