
Guadalupe County Hospital

(A Component Unit of Guadalupe County)

*Financial Statements,
Supplementary Information and
Independent Auditors' Reports
June 30, 2012 and 2011*

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, 2012

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, 2012 and 2011, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the schedule of revenues, expenses and changes in net assets – budget and actual presented as supplementary information for the years ended June 30, 2012 and 2011. 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, 2012 and 2011, 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, 2012 and 2011, 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 November 1, 2012, 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.

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

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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

REDWLLC

Albuquerque, New Mexico
November 1, 2012

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, 2012

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, 2012. Please read it in conjunction with the Hospital's basic financial statements, which follow this section.

Financial Highlights

- ◆ In 2012, cash and cash equivalents increased by \$1,218,000, while investments decreased by \$239,000. Investments were liquidated during 2012 to pay for the final hospital facility construction costs. There were very few additional construction costs incurred during 2012, resulting in a decrease in the outflow of cash and cash equivalents.
- ◆ The Hospital's net assets increased by \$12,777,000 in 2012 (342.8% increase) and decreased by \$2,021,000 in 2011 (35.2% decrease). The 2012 increase was due mainly to the contribution of the hospital facility from Guadalupe County to the Hospital. The excess of revenues over expenses before capital contributions to/from Guadalupe County in 2012 was \$2,558,000, compared to \$3,927,000 in 2011.
- ◆ The Hospital reported an operating loss in 2012 of \$1,821,000 compared to an operating loss reported in 2011 of \$599,000.
- ◆ Net nonoperating revenues decreased by \$147,000 in 2012, compared to an increase of \$478,000 in 2011. This is mainly due to a net decrease in Sole Community Provider revenues provided in 2012 versus 2011.

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

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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 increased in 2012 by \$12,777,000 or 342.8%, and decreased in 2011 by \$2,021,000 or 35.2%, as shown in the following table:

ASSETS, LIABILITIES AND NET ASSETS

	<u>2012</u>	2011	2010
Current assets	\$ 4,341,007	\$ 3,443,041	\$ 6,409,974
Noncurrent assets	<u>13,887,848</u>	<u>623,084</u>	<u>490,710</u>
Total assets	<u>\$ 18,228,855</u>	<u>\$ 4,066,125</u>	<u>\$ 6,900,684</u>
Current liabilities	\$ 343,986	\$ 289,832	\$ 1,085,603
Long-term debt	<u>1,380,752</u>	<u>48,979</u>	<u>66,386</u>
Total liabilities	<u>1,724,738</u>	<u>338,811</u>	<u>1,151,989</u>
Net assets			
Invested in capital assets, net of related debt	12,474,246	556,699	167,549
Unrestricted	<u>4,029,871</u>	<u>3,170,615</u>	<u>5,581,146</u>
Total net assets	<u>16,504,117</u>	<u>3,727,314</u>	<u>5,748,695</u>
Total liabilities and net assets	<u>\$ 18,228,855</u>	<u>\$ 4,066,125</u>	<u>\$ 6,900,684</u>

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The 2012 increase in net assets of \$12,777,000 was primarily due to the capital contribution of the new hospital facility from Guadalupe County net of the Hospital's transfer of cash to the County to fund construction. The 2011 decrease in net assets of \$2,021,000 was primarily due to contributions to Guadalupe County for hospital construction.

Operating Results and Changes in the Hospital's Net Assets

The Hospital's operating loss in 2012 was \$1,821,000, compared to operating losses of \$599,000 and \$515,000 in 2011 and 2010, respectively.

OPERATING RESULTS AND CHANGE IN NET ASSETS

	<u>2012</u>	2011	2010
Total operating revenues	\$ 3,576,244	\$ 3,613,685	\$ 3,328,662
Total operating expenses	<u>5,397,425</u>	<u>4,212,926</u>	<u>3,843,743</u>
Operating loss	(1,821,181)	(599,241)	(515,081)
Nonoperating revenues	4,379,137	4,526,082	4,048,399
Contributions (to) from Guadalupe County for hospital facility	<u>10,218,847</u>	<u>(5,948,222)</u>	<u>(3,914,981)</u>
Change in net assets	12,776,803	(2,021,381)	(381,663)
Beginning net assets	<u>3,727,314</u>	<u>5,748,695</u>	<u>6,130,358</u>
Total net assets, end of year	<u>\$ 16,504,117</u>	<u>\$ 3,727,314</u>	<u>\$ 5,748,695</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 2012 are as follows:

- ◆ There was a decrease in net patient service revenue of \$38,000 (1.1%) due to a slight decrease in inpatient volume.
- ◆ Depreciation expense increased by \$491,000 due to the addition of the new hospital facility.
- ◆ Medical fees increased by \$463,000, an increase of 39%, compared to prior year due to an increase in the fees for contracted physician services.
- ◆ Other expenses increased \$148,000, or 255.2%, in 2012 compared to 2011. The increase was primarily due to an increase in interest expense associated with the revenue bonds payable of \$99,000.

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(A Component Unit of Guadalupe County)
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Nonoperating Revenue

Nonoperating revenue consisting primarily of noncapital grants, interest income, Mill Levy property tax allocations, and Sole Community Provider revenue decreased in 2012 by \$147,000 and increased in 2011 by \$478,000. The 2012 decrease was due to a \$323,000 decrease in net Sole Community Provider revenues, partially offset by increases in Mill Levy property tax allocations, grant income and other nonoperating income.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2012, 2011 and 2010, discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the Hospital had \$13,887,848 invested in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. In 2012, the Hospital received approximately \$13,828,000 in new hospital facility assets from Guadalupe County.

Debt Administration

The Hospital has a capital lease for lab equipment. The balance at June 30, 2012, was \$48,978. The Hospital took over a revenue bond payable from the County in 2012 related to the hospital facility. The principal balance at June 30, 2012, was \$1,364,624.

Budgetary Highlights

There was one significant budget modification during fiscal year 2012 due to the unanticipated increase in Sole Community Provider funds. Total operating revenue was under the final budget by \$56,000, due to lower than anticipated patient revenue. Operating expenses were under budget by \$1,613,000 due primarily to anticipated donation expenses to Guadalupe County that did not occur.

Other Economic Factors

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

- ◆ Revenue: The Hospital expects increasing activity by both Medicare and Medicaid Recovery Audit Contactors (RAC) resulting in more retractions of previously paid claims. When the RAC disagrees with the payment, the hospital claim is adjusted to \$0. It is anticipated that this will impact net revenue in the coming year. It is not possible for anyone to estimate the amount of RAC activity, but the Hospital is seeing more retractions. There are ever increasing pressures on reimbursements by all payor sources including higher copay amounts and higher resultant bad debt and charity care.

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- ◆ Expenses: In the coming year (fiscal year 2013), the Hospital expects expenses to be comparable to the year just ended. Fiscal year 2013 will be the second full year in the new facility, and expenses are expected to remain stable, notwithstanding the inflationary increases for wages and supplies.

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,

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 1,854,195	\$ 636,274
Certificates of deposit held at County	500,000	500,000
Investments in certificates of deposit	-	238,995
Receivables		
Patient accounts receivable, net of allowance for uncollectible accounts: 2012 - \$414,000; 2011 - \$342,000	442,839	776,868
Sole community provider	1,304,529	1,097,499
Estimated third party payor settlements	21,090	23,590
Interest	-	2,146
Other	29,811	7,500
Supplies inventory and other current assets	188,543	160,169
Total current assets	4,341,007	3,443,041
Capital assets, net	13,887,848	623,084
Total assets	\$ 18,228,855	\$ 4,066,125
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 112,870	\$ 128,778
Accrued liabilities	149,244	96,217
Accrued compensated absences	49,022	47,431
Current portion of revenue bonds payable	14,599	-
Current maturities of capital lease obligation	18,251	17,406
Total current liabilities	343,986	289,832
Revenue bonds payable, less current maturities	1,350,025	-
Capital lease obligation, less current maturities	30,727	48,979
Total liabilities	1,724,738	338,811
Net assets		
Invested in capital assets, net of related debt	12,474,246	556,699
Unrestricted	4,029,871	3,170,615
Total net assets	16,504,117	3,727,314
Total liabilities and net assets	\$ 18,228,855	\$ 4,066,125

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,

	2012	2011
Operating Revenue		
Net patient service revenue	\$ 3,569,280	\$ 3,607,537
Other revenue	<u>6,964</u>	<u>6,148</u>
Total operating revenue	<u>3,576,244</u>	<u>3,613,685</u>
Operating Expense		
Salaries and wages	1,483,962	1,484,472
Medical fees	1,648,352	1,185,199
Depreciation	615,580	124,614
Supplies and other	509,113	516,531
Employee benefits	383,923	388,307
Management fees	240,000	232,912
Other	205,526	57,861
Utilities	137,616	55,855
Insurance	89,723	61,784
Repairs and maintenance	68,520	82,718
Rents and leases	<u>15,110</u>	<u>22,673</u>
Total operating expenses	<u>5,397,425</u>	<u>4,212,926</u>
Operating loss	<u>(1,821,181)</u>	<u>(599,241)</u>
Nonoperating Revenue		
Sole community provider	3,709,387	4,032,662
Mill levy (property taxes)	501,822	440,339
Grant income	83,234	17,389
Other nonoperating revenue	68,895	1,087
Investment income	<u>15,799</u>	<u>34,605</u>
Total nonoperating revenue	<u>4,379,137</u>	<u>4,526,082</u>
Excess of revenue over expenses before contributions	2,557,956	3,926,841
Contributions (to) from Guadalupe County for hospital facility	<u>10,218,847</u>	<u>(5,948,222)</u>
Change in net assets	12,776,803	(2,021,381)
Net assets, beginning of year	<u>3,727,314</u>	<u>5,748,695</u>
Net assets, end of year	<u><u>\$ 16,504,117</u></u>	<u><u>\$ 3,727,314</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,

	2012	2011
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 3,912,773	\$ 3,266,918
Cash paid to suppliers	(3,314,280)	(3,349,070)
Cash paid to employees	<u>(1,483,962)</u>	<u>(1,484,472)</u>
Net cash used in operating activities	<u>(885,469)</u>	<u>(1,566,624)</u>
Cash flows from noncapital financing activities		
Grant receipts	83,234	17,389
Other noncapital financing activities	68,895	1,087
Mill levy (property taxes)	506,244	437,261
Sole community provider	<u>3,502,357</u>	<u>3,921,799</u>
Net cash provided by noncapital financing activities	<u>4,160,730</u>	<u>4,377,536</u>
Cash flows from capital and related financing activities		
Principal paid on capital lease obligation	(17,407)	(16,601)
Building construction expenses contributed to County	(2,244,311)	(5,948,222)
Purchase of capital assets	<u>(52,562)</u>	<u>(497,163)</u>
Net cash used in capital and related financing activities	<u>(2,314,280)</u>	<u>(6,461,986)</u>
Cash flows from investing activities		
Net sale of investments	238,995	1,380,785
Investment income	<u>17,945</u>	<u>42,477</u>
Net cash provided by investing activities	<u>256,940</u>	<u>1,423,262</u>
Net increase (decrease) in cash and cash equivalents	1,217,921	(2,227,812)
Cash and cash equivalents, beginning of year	<u>636,274</u>	<u>2,864,086</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,854,195</u></u>	<u><u>\$ 636,274</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 — continued
For the Years Ended June 30,

	2012	2011
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (1,821,181)	\$ (599,241)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	615,580	124,614
Provision for uncollectible accounts and contractual allowances	691,829	571,920
Changes in operating assets and liabilities		
Patient accounts receivable	(357,800)	(878,387)
Other receivables	(26,733)	15,957
Supplies inventory and other current assets	(28,374)	18,680
Accounts payable	(15,908)	(813,448)
Accrued payroll and related liabilities	53,027	22,058
Accrued compensated absences	1,591	11,523
Estimated third-party payor settlements	2,500	(40,300)
Net cash used in operating activities	\$ (885,469)	\$ (1,566,624)
Noncash capital and related financing activities		
Capital assets transferred from Guadalupe County	\$ 13,827,782	\$ -
Bonds payable transferred from Guadalupe County	\$ (1,364,624)	\$ -

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, 2012 and 2011

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, outpatient and emergency medical care services for residents of Guadalupe County (the "County"). The Hospital is a component unit of the County. 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, 2016, stipulates that the Hospital pays New Mexicare a flat monthly fee of \$12,000 for management and pays the County \$8,000 per month for administrative services.

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 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.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2012 and 2011

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. Deposits that are held by the County are not included as Hospital cash and 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.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Notes to Basic Financial Statements
June 30, 2012 and 2011

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

In 2012, the new hospital facility and associated assets were transferred at net book value from the County to the Hospital and are included in the Hospital's capital assets.

Capital assets owned by the Hospital consist of land, land improvements, building, and equipment which 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 three to forty years. The following estimated useful lives are being used by the Hospital:

Land improvements	10 years
Buildings and improvements	40 years
Equipment	3-20 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
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June 30, 2012 and 2011

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 \$151,000 and \$49,000 in 2012 and 2011, 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, 2012, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2012, financial statements.

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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.

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

	June 30, 2012 Amount	June 30, 2012 Status	June 30, 2011 Amount
Medicare			
2008	\$ (1,710)	Tentative Settlement	\$ (1,710)
2009	(10,000)	Tentative Settlement	(10,000)
2010	42,046	Tentative Settlement	42,046
2011	(6,746)	Tentative Settlement	(6,746)
2012	<u>(2,500)</u>	Not filed	<u>-</u>
	<u>21,090</u>		<u>23,590</u>
Medicaid			
2010	-	Filed	-
2011	-	Filed	-
2012	<u>-</u>	Not filed	<u>-</u>
	<u>-</u>		<u>-</u>
Estimated third-party payor settlements	<u>\$ 21,090</u>		<u>\$ 23,590</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 a decrease to net patient service revenue of approximately \$2,500 for the year ended June 30, 2012, and an increase of approximately \$44,100 for the year ended June 30, 2011.

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.

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

	<u>2012</u>	<u>2011</u>
Gross charges	\$ 5,555,825	\$ 5,202,172
Third-party contractual allowances and cost report settlements	(1,144,084)	(973,312)
Bad debts and changes in allowance for contractual accounts, net of recoveries	(691,829)	(571,920)
Charity care	<u>(150,632)</u>	<u>(49,403)</u>
Net patient service revenue	<u>\$ 3,569,280</u>	<u>\$ 3,607,537</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, 2012, the Hospital had deposits with a bank balance of \$2,402,538, of which \$377,855 were uninsured and uncollateralized, and therefore subject to custodial credit risk. As of June 30, 2011, the Hospital had deposits with bank balances of \$1,176,379, all of which was fully insured or collateralized.

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.

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The Hospital had no investments at June 30, 2012. As of June 30, 2011, all of the Hospital's investments (negotiable certificates of deposits) had maturities of less than one year.

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, 2012 and 2011, was as follows (based on most recently published public information for the date of the balance sheet):

- ♦ June 30, 2012 – not applicable (no investments)

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

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.

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Reconciliation to Balance Sheets

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

	2012	2011
Carrying value		
Deposits	\$ 2,354,195	\$ 1,136,274
Investments	<u>-</u>	<u>238,995</u>
	<u>\$ 2,354,195</u>	<u>\$ 1,375,269</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 1,854,195	\$ 636,274
Certificates of deposit held at County	500,000	500,000
Investments, current	<u>-</u>	<u>238,995</u>
	<u>\$ 2,354,195</u>	<u>\$ 1,375,269</u>

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:

	2012	2011
Medicare	15%	25%
Medicaid	10%	18%
Other third-party payors	35%	31%
Self-pay	<u>40%</u>	<u>26%</u>
	<u>100%</u>	<u>100%</u>

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

	<u>2012</u>	<u>2011</u>
Medicare	\$ 165,716	\$ 350,711
Medicaid	109,329	243,529
Other third-party payors	383,270	429,124
Self-pay	<u>440,329</u>	<u>365,494</u>
	1,098,644	1,388,858
Less allowance for contractual adjustments	<u>(241,931)</u>	<u>(270,231)</u>
	856,713	1,118,627
Less allowance for uncollectible accounts	<u>(413,874)</u>	<u>(341,759)</u>
	<u>\$ 442,839</u>	<u>\$ 776,868</u>

5) Capital Assets

Capital asset activity of the Hospital for the years ended June 30, 2012 and 2011, was as follows:

	<u>June 30, 2012</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ -	\$ 187,363	\$ -	\$ 187,363
Capital assets being depreciated				
Building and improvements	-	12,259,178	-	12,259,178
Land improvements	-	202,963	-	202,963
Equipment	<u>1,204,691</u>	<u>1,230,840</u>	<u>-</u>	<u>2,435,531</u>
	<u>1,204,691</u>	<u>13,692,981</u>	<u>-</u>	<u>14,897,672</u>
Less accumulated depreciation				
Building and improvements	-	(306,479)	-	(306,479)
Land improvements	-	(19,009)	-	(19,009)
Equipment	<u>(581,607)</u>	<u>(290,092)</u>	<u>-</u>	<u>(871,699)</u>
	<u>(581,607)</u>	<u>(615,580)</u>	<u>-</u>	<u>(1,197,187)</u>
Total capital assets, net	<u>\$ 623,084</u>	<u>\$ 13,264,764</u>	<u>\$ -</u>	<u>\$ 13,887,848</u>

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	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>

In 2011, the new hospital facility and related assets were presented in Guadalupe County's financial statements. During fiscal year 2012, it was determined that the new hospital facility and related assets would be transferred to Guadalupe County Hospital and presented in its financial statements. Approximately \$13,828,000 in new hospital facility assets were transferred from Guadalupe County. See note 12 for additional information.

6) Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2012 and 2011:

	June 30, 2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Capital lease obligation	\$ 66,385	\$ -	\$ 17,407	\$ 48,978	\$ 18,251
Revenue bonds payable	-	1,364,624	-	1,364,624	14,599
Other long-term liabilities					
Accrued compensated absences	<u>47,431</u>	<u>49,022</u>	<u>47,431</u>	<u>49,022</u>	<u>49,022</u>
Total long-term obligations	<u>\$ 113,816</u>	<u>\$ 1,413,646</u>	<u>\$ 64,838</u>	<u>\$ 1,462,624</u>	<u>\$ 81,872</u>

	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	<u>35,908</u>	<u>47,431</u>	<u>35,908</u>	<u>47,431</u>	<u>47,431</u>
Total long-term obligations	<u>\$ 118,894</u>	<u>\$ 47,431</u>	<u>\$ 52,509</u>	<u>\$ 113,816</u>	<u>\$ 64,837</u>

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Capital Lease—The Hospital has 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 \$32,027 and \$19,216 at June 30, 2012 and 2011, 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, 2012:

<u>Year Ending June 30,</u>		
2013	\$	20,184
2014		20,184
2015		<u>11,774</u>
Total minimum lease payments		52,142
Less amount representing interest		<u>3,164</u>
Present value of future minimum lease payments	\$	<u><u>48,978</u></u>

Revenue Bonds Payable

The revenue bonds payable, transferred to the Hospital from Guadalupe County in 2012 (see Note 12), consist of the following:

- ♦ Guadalupe County, New Mexico Hospital Improvement Revenue Bonds, Series 2009, issued in the amount of \$3,550,000 with a maturity date of December 29, 2049. Interest is payable annually on December 29 at an interest rate of 4.375%. The bonds were purchased by the United States Department of Agriculture under the provisions of the Consolidated Farm and Rural Development Act.

The proceeds from the bond issue were used to construct the new hospital facility. The bonds are secured by Hospital net revenues and payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

The bond indenture agreement requires the funds to be maintained as a trust fund or funds for the purposes established and shall be deposited in one or more bank accounts in an insured bank. The indenture agreements also require the hospital to comply with certain restrictive covenants including liquidity and tax requirements.

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The debt service requirements as of June 30, 2012, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2013	\$ 74,302	\$ 14,599	\$ 59,703
2014	74,302	15,238	59,064
2015	74,302	15,905	58,397
2016	74,302	16,600	57,702
2017	74,302	17,327	56,975
2018-2022	371,508	98,690	272,818
2023-2027	371,508	122,252	249,256
2028-2032	371,508	151,439	220,069
2033-2037	371,508	187,595	183,913
2038-2042	371,508	232,382	139,126
2043-2047	371,508	287,863	83,645
2048-2050	222,904	204,734	18,170
	<u>\$ 2,823,462</u>	<u>\$ 1,364,624</u>	<u>\$ 1,458,838</u>

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 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, effective July 1, 2005. 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, 2012, were \$53,280 and \$25,120, respectively. Employee and employer contributions to the plan for the year ended June 30, 2011, were \$47,324 and \$24,094, respectively.

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Notes to Basic Financial Statements
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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.

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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 \$501,822 and \$440,339 in 2012 and 2011, 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 69% and 31%, 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 2012 were \$3,709,000 million, net of \$1,591,000 of matching funds contributed to the County. Total revenues for this program in 2011 were \$4.0 million, net of \$1,063,000 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, 2012:

- ◆ 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 2012 and 2011 for these services was \$1,062,720 and \$698,516, respectively.

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- ◆ 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 2012 and 2011 for the lease was \$11,618 and \$11,487, respectively. In addition, the Hospital began renting space to the Clinic during 2012. The revenue related to the rental agreement was approximately \$42,000.
- ◆ 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 2012 for these expenses was \$559.

12) New Hospital Building Construction and Capital Contribution

The Hospital moved into a new facility on July 1, 2011. Prior to fiscal year 2012, the facility belonged to the County; therefore, the related assets were reported in the County’s financial statements, and all construction costs funded by the Hospital were 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. In 2012, County management decided to transfer the new hospital facility assets and related debt to the Hospital. As such, new hospital assets of \$13,828,000 and \$1,365,000 of related debt were transferred in 2012 and are included in the Hospital’s financial statements as of June 30, 2012.

Supplementary Information (Audited)

Guadalupe County Hospital
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Schedule of Revenues, Expenses and Changes in Net Assets—Budget and Actual
For the Year Ended June 30, 2012

	<u>Budgeted Amounts</u>		Actual	Variance with
	Original	Final		Final Budget - Favorable (Unfavorable)
Operating Revenue				
Net patient service revenue	\$ 3,623,715	\$ 3,623,715	\$ 3,569,280	\$ (54,435)
Other revenue	<u>8,124</u>	<u>8,124</u>	<u>6,964</u>	<u>(1,160)</u>
Total operating revenue	<u>3,631,839</u>	<u>3,631,839</u>	<u>3,576,244</u>	<u>(55,595)</u>
Operating Expenses				
Medical fees	1,441,325	1,536,325	1,648,352	(112,027)
Salaries and wages	1,584,780	1,584,780	1,483,962	100,818
Depreciation	403,289	614,289	615,580	(1,291)
Supplies and other	559,750	559,750	509,113	50,637
Employee benefits	296,382	296,382	383,923	(87,541)
Management fees	168,360	168,360	240,000	(71,640)
Other	1,953,872	1,953,872	205,526	1,748,346
Utilities	75,381	135,381	137,616	(2,235)
Insurance	69,831	69,831	89,723	(19,892)
Repairs and maintenance	46,437	46,437	68,520	(22,083)
Rents and leases	<u>44,522</u>	<u>44,522</u>	<u>15,110</u>	<u>29,412</u>
Total operating expenses	<u>6,643,929</u>	<u>7,009,929</u>	<u>5,397,425</u>	<u>1,612,504</u>
Operating loss	<u>(3,012,090)</u>	<u>(3,378,090)</u>	<u>(1,821,181)</u>	<u>1,556,909</u>
Nonoperating Revenue				
Sole community provider	3,726,261	3,726,261	3,709,387	(16,874)
Mill levy (property taxes)	434,640	434,640	501,822	67,182
Investment income	30,000	30,000	15,799	(14,201)
Grant income	35,927	11,493	83,234	71,741
Other nonoperating revenue	<u>65,000</u>	<u>65,000</u>	<u>68,895</u>	<u>3,895</u>
Total nonoperating revenue	<u>4,291,828</u>	<u>4,267,394</u>	<u>4,379,137</u>	<u>111,743</u>
Excess of revenues over expenses before contributions	1,279,738	889,304	2,557,956	1,668,652
Contributions from Guadalupe County for hospital facility	<u>-</u>	<u>-</u>	<u>10,218,847</u>	<u>10,218,847</u>
Change in net assets	<u>\$ 1,279,738</u>	<u>\$ 889,304</u>	<u>12,776,803</u>	<u>\$ 11,887,499</u>
Net assets, beginning of year			<u>3,727,314</u>	
Net assets, end of year			<u>\$ 16,504,117</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.

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Schedule of Revenues, Expenses and Changes in Net Assets—Budget and Actual
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Favorable (Unfavorable)
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				
Salaries and wages	1,395,743	1,441,411	1,484,472	(43,061)
Medical fees	1,415,411	1,237,743	1,185,199	52,544
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
Depreciation	135,428	246,428	124,614	121,814
Repairs and maintenance	139,352	139,352	82,718	56,634
Insurance	76,436	76,436	61,784	14,652
Other	35,602	35,602	57,861	(22,259)
Utilities	54,125	54,125	55,855	(1,730)
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.

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, 2012

	Wells Fargo	Community 1st Bank	1st National Bank
Deposits at June 30, 2012	\$ 563,495	\$ 1,837,161	\$ 1,882
Less: CD's held by Guadalupe County and fully collateralized	(500,000)	-	-
Less: FDIC coverage	<u>(63,495)</u>	<u>(250,000)</u>	<u>(1,882)</u>
Uninsured public funds	-	1,587,161	-
Pledged collateral held by the pledging bank's trust department or agent but not in the Hospital's name	<u>-</u>	<u>1,209,306</u>	<u>-</u>
Total uninsured and uncollateralized public funds	<u>\$ -</u>	<u>\$ 377,855</u>	<u>\$ -</u>
50% pledged collateral requirement per statute	\$ -	\$ 793,581	\$ -
Total pledged collateral	<u>-</u>	<u>1,209,306</u>	<u>-</u>
Pledged collateral over the requirement	<u>\$ -</u>	<u>\$ (415,725)</u>	<u>\$ -</u>

Pledged collateral at June 30, 2012, consists of the following:

Security	CUSIP	Maturity	Market Value
FNMA #0907130313 3.5%	31393CD39	5/25/2033	\$ 545,485
FNMA #1112220017 5.50%	31410GX40	1/1/2038	188,753
FHLMC #1205090036 5.5%	31294KUW3	11/1/2018	<u>475,068</u>
Total pledged collateral			<u>1,209,306</u>
Amount over collateralized for 50% requirement			<u>\$ 415,725</u>

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, 2012

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	\$ 49,554	\$ 395	\$ 15,838	\$ -	\$ 34,111
Wells Fargo	GCH Savings Account	Savings	13,941	-	-	-	13,941
1st National Bank	GCH Savings Account	Savings	1,882	-	-	-	1,882
Community First	GCH Savings Account	Savings	1,837,161	-	33,000	-	1,804,161
			<u>1,902,538</u>	395	<u>48,838</u>	-	1,854,095
Cash on hand		Petty Cash	-	-	-	-	100
			<u>1,902,538</u>	<u>395</u>	<u>48,838</u>	<u>-</u>	<u>1,854,195</u>
Certificates of Deposit							
Wells Fargo	Certificate of Deposit	CD's	500,000	-	-	-	500,000
Total deposits and investments			<u>\$ 2,402,538</u>	<u>\$ 395</u>	<u>\$ 48,838</u>	<u>\$ -</u>	<u>\$ 2,354,195</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, 2012, which collectively comprise the Hospital's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2012, presented as supplementary information, and have issued our report thereon dated November 1, 2012. 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 did not identify any matters that are required to be reported under *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5 NMSA 1978.

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

Albuquerque, New Mexico
November 1, 2012

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Schedule of Findings and Responses
For the Year Ended June 30, 2012

No current year findings noted.

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Current Status Schedule of Prior Audit Findings
For the Year Ended June 30, 2012

Prior-Year Number	Description	Current-Year Status/Number
SA 11-1	Purchase Order Procedures – Other	Resolved

Guadalupe County Hospital
(A Component Unit of Guadalupe County)
Other Disclosures
For the Year Ended June 30, 2012

Exit Conference

A closed meeting exit conference was held with the Hospital on October 29, 2012. 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
Keith Ross	Member
Bret Goebel	CFO
Frank Tenorio	Assistant Administrator

Representing REDW_{LLC}

Halie Garcia, CPA	Senior Manager
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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.