

**Guadalupe County Hospital
A Component Unit of
Guadalupe County, New Mexico**

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2013 and 2012



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
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INTRODUCTORY SECTION

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Board of Directors and Principal Employee
June 30, 2013

Board of Directors

| | |
|----------------|---------------------|
| Robert Cordova | Chairman |
| Danita Agar | Vice-Chairman |
| Loretta Lopez | Secretary/Treasurer |
| Kalpesh Bhakta | Member |
| Keith Ross | Member |

Principal Employee

| | |
|------------------|---------------|
| Christina Campos | Administrator |
|------------------|---------------|

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Guadalupe County Hospital, a component unit of Guadalupe County, New Mexico (the Hospital) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the budget comparison of the Hospital for the year ended June 30, 2013, presented as supplemental information as listed in the table of contents. The financial statements of the Hospital as of June 30, 2012, were audited by other auditors whose report dated November 1, 2012, expressed an unqualified opinion on the basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the budgetary comparison of the Hospital for the year ended June 30, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements and budgetary comparison. The schedule of pledged collateral and schedule of individual deposit and investment accounts are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of pledged collateral and schedule of individual deposit and investment accounts are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic financial statements a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2013, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 9, 2013

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis
June 30, 2013 and 2012

Our discussion and analysis of Guadalupe County Hospital's, a component unit of Guadalupe County, New Mexico (the Hospital), financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the Hospital's financial statements, which begin on page 10.

Financial Highlights

- The Hospital's net position increased in each of the past two years by \$1,439,222, or 8.7%, in 2013 and \$12,776,803, or 342.8%, in 2012.
- The Hospital reported operating income of \$914,385 in 2013 and \$2,074,411 in 2012. Operating income decreased by \$1,160,028 and \$1,376,397 in 2013 and 2012, respectively.
- Nonoperating net revenues increased by \$16,454, or 3.4%, in 2013 compared to 2012. Nonoperating net revenues increased by \$7,512, or 1.6%, in 2012 compared to 2011.

Using This Annual Report

The Hospital's financial statements consist of three statements — a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the Hospital finances begins on page 6. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and Statement of Revenues, Expenses, and Changes in Position 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. 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 position and changes in them. You can think of the Hospital's net position — the difference between assets and liabilities — as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as, "Where did cash come from? What was cash used for? What was the change in cash balance during the reporting period?"

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis (Continued)
June 30, 2013 and 2012

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet, on page 6. The Hospital's net position increased by \$1,439,222, or 8.7%, in 2013 and \$12,776,803, or 342.8%, in 2012, as shown in Table 1.

Table 1. Assets, Liabilities, and Net Position

| | 2013 | 2012 | 2011 |
|--------------------------------------------------|----------------------|----------------------|---------------------|
| <i>Assets</i> | | | |
| Current assets | \$ 6,814,531 | \$ 4,377,626 | \$ 3,443,041 |
| Capital assets, net | 13,459,528 | 13,887,848 | 623,084 |
| Other noncurrent assets | 34,000 | 17,000 | - |
| Total assets | \$ 20,308,059 | \$ 18,282,474 | \$ 4,066,125 |
| <i>Liabilities and net position</i> | | | |
| Current liabilities | \$ 1,189,305 | \$ 398,006 | \$ 289,832 |
| Long-term obligations, net of current maturities | 1,175,415 | 1,380,351 | 48,979 |
| Total liabilities | 2,364,720 | 1,778,357 | 338,811 |
| <i>Net position</i> | | | |
| Invested in capital assets, net of related debt | 12,134,400 | 12,437,438 | 556,699 |
| Restricted expendable | 34,000 | 17,000 | - |
| Unrestricted | 5,774,939 | 4,049,679 | 3,170,615 |
| Total net position | 17,943,339 | 16,504,117 | 3,727,314 |
| Total liabilities and net position | \$ 20,308,059 | \$ 18,282,474 | \$ 4,066,125 |

A significant component of the change in the Hospital's assets is the increase in current assets. In 2013, current assets increased by \$2,436,905. Total assets for 2013 increased \$2,025,585 from 2012. Total assets for 2013 consist primarily of cash and cash equivalents, sole community provider receivable, investments in certificates of deposit, and net capital assets. Total liabilities have increased by \$586,363 over the last year due mainly to an increase in sole community provider payables.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis (Continued)
June 30, 2013 and 2012

Operating Results and Changes in the Hospital's Net Position

In 2013, the Hospital's operating income decreased by \$1,160,028. This is the result of total operating revenues decreasing \$922,335, and total operating expenses increasing by \$237,693 in fiscal year 2013 as compared to fiscal year 2012.

Table 2. Operating Results and Changes in Net Position

| | 2013 | 2012 | 2011 |
|----------------------------------------------------|----------------------|----------------------|---------------------|
| <i>Operating revenues</i> | | | |
| Net patient service revenue | \$ 3,488,280 | \$ 3,574,288 | \$ 3,607,537 |
| Sole community provider | 1,361,878 | 3,709,387 | 4,032,662 |
| Electronic health records incentive payment | 1,558,150 | - | - |
| Grants and other operating revenue | 43,230 | 90,198 | 23,537 |
| Total operating revenues | 6,451,538 | 7,373,873 | 7,663,736 |
| <i>Operating expenses</i> | | | |
| Salaries, wages, and benefits | 1,924,798 | 1,867,885 | 1,872,779 |
| Professional fees | 1,755,836 | 1,668,009 | 1,185,199 |
| Depreciation and amortization | 630,949 | 615,580 | 124,614 |
| Other operating expenses | 1,225,570 | 1,147,986 | 1,030,334 |
| Total operating expenses | 5,537,153 | 5,299,460 | 4,212,926 |
| <i>Operating income</i> | 914,385 | 2,074,413 | 3,450,810 |
| <i>Nonoperating revenues (expenses)</i> | | | |
| Mill levy revenue | 477,999 | 501,822 | 440,339 |
| Investment Income | 16,797 | 15,799 | 34,605 |
| Other nonoperating revenue | 67,645 | 68,894 | 1,087 |
| Interest expense | (62,444) | (102,972) | - |
| Total nonoperating revenues (expenses), net | 499,997 | 483,543 | 476,031 |
| Excess of revenues over expenses | 1,414,382 | 2,557,956 | 3,926,841 |
| Capital contributions | 24,840 | 10,218,847 | (5,948,222) |
| Change in net position | 1,439,222 | 12,776,803 | (2,021,381) |
| Net position, beginning of year | 16,504,117 | 3,727,314 | 5,748,695 |
| Net position, end of year | \$ 17,943,339 | \$ 16,504,117 | \$ 3,727,314 |

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis (Continued)
June 30, 2013 and 2012

Analysis of Financial Position, Results of Operations, Nonoperating Activities, and Cash Flows

During the year operating revenues decreased by \$922,335, or 12.5%. Operating expenses increased by \$237,693, or 4.5%.

Consistent with the health care industry nationally, as well as in New Mexico, wages, payroll taxes, and employee benefits are typically the highest individual expense line items. Salary, wages, and employee benefits increased in 2013 by \$56,913, or 3.0%. This increase is based on increases in the full-time equivalents. The health care labor market is very competitive and health care providers must continually increase their salary and wage scales in order to attract, and then retain caregivers. This represents an ongoing pressure on the operating results of providers.

Table 3. Budget to Actual

| | Actual | Final Budget | Positive (Negative) Variance |
|-----------------------------------------|---------------------|-------------------------|---------------------------------------------|
| Budgetary basis revenues | \$ 6,976,375 | \$ 7,467,976 | \$ (491,601) |
| Budgetary basis expenses | 5,537,153 | 6,671,677 | 1,134,524 |
| Excess of revenues over expenses | \$ 1,439,222 | \$ 796,299 | \$ 642,923 |

Actual results compare favorably to budgeted amounts for the hospital due to actual revenues being \$491,601 less than budgeted while actual expenses were \$1,134,524 less than budgeted. This results in a positive variance of \$642,923 with net income being \$1,439,222 as compared to budgeted net income of \$796,299, as shown in Table 3.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013, the Hospital had \$13,459,528 invested in capital assets, net of accumulated depreciation, as detailed in note 4 to the basic financial statements. In 2013, the Hospital purchased new assets costing \$205,821. The majority of the additions are related to expenditures for buildings and improvements, as well as equipment.

Debt

At June 30, 2013, the Hospital had \$1,175,415 in long-term debt obligations, a decrease of \$204,936 from June 30, 2012.

The Hospital cannot issue formal debt issuances of revenue notes without approval of the Guadalupe County Commissioners. The amount of debt issued is subject to limitations that apply to the County and its component units as a whole.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis (Continued)
June 30, 2013 and 2012

Currently Known Facts, Decisions, and Conditions

The health care industry is subject to a tremendous amount of regulatory activity related to the provision of services as well as the billing for such services. Many different regulatory agencies establish standards that the Hospital must meet in order to continue operating. The costs involved with meeting constantly changing regulations can create a costly burden for the Hospital. However, the costs of not meeting such regulations are potentially far greater. Significant penalties are assessed, for example, when fraud and/or abuse, either intentional or unintentional, is noted in billings submitted to Medicare or Medicaid. There has been no such activity detected at the Hospital.

There will continue to be significant pressure on net patient service revenues in the future. Changes in the Medicare and Medicaid programs and the possible reduction of funding could have an adverse impact on the Hospital. Negotiations with other third-party payors regarding payment for services provided to these payors' insured members are critical to maintaining the Hospital's financial position. These third-party payors are facing increasing pressures on their own operating results. In addition, the costs of providing care to uninsured patients are significant due to the high percentage of such patients within New Mexico. Economic conditions in Santa Rosa and the surrounding area can have a direct impact on the Hospital's operating results.

Health care expenditures are expected to continue representing a greater percentage of the Gross National Product. The costs related to salaries, wages, payroll taxes, and employee benefits will continue to increase due to what is expected to be continued intense competition for caregivers and qualified administrative personnel. Pharmaceutical and medical supply costs are also expected to continue increasing.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the finance department at 117 Camino de Vida, Suite 100, Santa Rosa, New Mexico 88435.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Balance Sheets
June 30, 2013 and 2012

| ASSETS | 2013 | 2012 |
|--------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 4,010,727 | \$ 1,837,195 |
| Certificates of deposit held at County | 500,000 | 500,000 |
| Receivables: | | |
| Patient accounts receivable, net of estimated uncollectible accounts of approximately \$431,599 and \$413,874, respectively | 445,945 | 442,839 |
| Sole community provider receivable | 1,469,159 | 1,304,529 |
| Estimated third-party payor settlements | 156,589 | 21,090 |
| Taxes | 5,746 | 7,126 |
| Other | 9,335 | 22,686 |
| Inventories | 174,478 | 188,543 |
| Prepaid expenses | 42,552 | 53,618 |
| Total current assets | 6,814,531 | 4,377,626 |
| <i>Noncurrent assets</i> | | |
| Cash and cash equivalents restricted by USDA loan agreement | 34,000 | 17,000 |
| Capital assets, net | 13,459,528 | 13,887,848 |
| Total assets | \$ 20,308,059 | \$ 18,282,474 |

See accompanying notes to basic financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Balance Sheets (Continued)
June 30, 2013 and 2012

LIABILITIES AND NET POSITION

Current liabilities

| | | |
|------------------------------------------------|------------|------------|
| Accounts payable | \$ 124,609 | \$ 218,358 |
| Accrued compensation and related liabilities | 112,742 | 109,589 |
| Sole community provider payable | 802,241 | - |
| Accrued interest payable | 27,486 | 36,808 |
| Current maturities of revenue bonds payable | 103,089 | 15,000 |
| Current maturities of capital lease obligation | 19,138 | 18,251 |
| Total current liabilities | 1,189,305 | 398,006 |

Noncurrent liabilities

| | | |
|--------------------------------------------------|-----------|-----------|
| Revenue bonds payable, net of current portion | 1,163,825 | 1,349,624 |
| Capital lease obligation, net of current portion | 11,590 | 30,727 |
| Total noncurrent liabilities | 1,175,415 | 1,380,351 |
| Total liabilities | 2,364,720 | 1,778,357 |

Net position

| | | |
|---------------------------------------------------|------------|------------|
| Investment in capital assets, net of related debt | 12,134,400 | 12,437,438 |
| Restricted expendable | 34,000 | 17,000 |
| Unrestricted | 5,774,939 | 4,049,679 |
| Total net position | 17,943,339 | 16,504,117 |

| | | |
|-------------------------------------------|----------------------|----------------------|
| Total liabilities and net position | \$ 20,308,059 | \$ 18,282,474 |
|-------------------------------------------|----------------------|----------------------|

See accompanying notes to basic financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2013 and 2012

| | 2013 | 2012 |
|---------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <i>Operating revenues</i> | | |
| Net patient service revenue, net of provision for bad debts of \$523,260 and \$686,821, respectively | \$ 3,488,280 | \$ 3,574,288 |
| Sole community provider | 1,361,878 | 3,709,387 |
| Electronic health records incentive payment | 1,558,150 | - |
| Grant income | 37,724 | 83,234 |
| Other | 5,506 | 6,964 |
| Total operating revenues | 6,451,538 | 7,373,873 |
| <i>Operating expenses</i> | | |
| Salaries and wages | 1,530,362 | 1,483,962 |
| Employee benefits | 394,436 | 383,923 |
| Professional fees | 1,755,836 | 1,668,009 |
| Supplies | 559,478 | 509,114 |
| Utilities | 127,508 | 137,616 |
| Repairs and maintenance | 142,935 | 68,520 |
| Depreciation and amortization | 630,949 | 615,580 |
| Insurance | 76,265 | 89,723 |
| Management fees | 240,000 | 240,000 |
| Other | 79,384 | 103,013 |
| Total operating expenses | 5,537,153 | 5,299,460 |
| Operating income | 914,385 | 2,074,413 |
| <i>Nonoperating revenues (expenses)</i> | | |
| Mill levy revenue | 477,999 | 501,822 |
| Investment Income | 16,797 | 15,799 |
| Other nonoperating revenue | 67,645 | 68,894 |
| Interest expense | (62,444) | (102,972) |
| Total nonoperating revenues (expenses), net | 499,997 | 483,543 |
| Excess of revenues over expenses | 1,414,382 | 2,557,956 |
| Capital contributions | 24,840 | 10,218,847 |
| Change in net position | 1,439,222 | 12,776,803 |
| Net position, beginning of year | 16,504,117 | 3,727,314 |
| Net position, end of year | \$ 17,943,339 | \$ 16,504,117 |

See accompanying notes to basic financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

| | 2013 | 2012 |
|-----------------------------------------------------------------|---------------------|---------------------|
| <i>Increase (Decrease) in Cash and Cash Equivalents</i> | | |
| <i>Cash flows from operating activities</i> | | |
| Cash received from and on behalf of patients | \$ 3,349,675 | \$ 3,910,817 |
| Cash received from sole community provider payments | 1,999,489 | 3,502,357 |
| Cash received from electronic health record incentive payments | 1,558,150 | - |
| Cash received from operating grants | 37,724 | 83,234 |
| Cash received from other revenue | 5,506 | 6,964 |
| Cash paid to and on behalf of employees | (1,921,645) | (1,805,727) |
| Cash paid to suppliers and contractors | (3,050,024) | (2,904,624) |
| Net cash provided by operating activities | 1,978,875 | 2,793,021 |
| <i>Cash flows from noncapital financing activities</i> | | |
| Cash received from mill levies | 479,379 | 494,696 |
| Cash received from other noncapital financing activities | 84,187 | 53,708 |
| Net cash provided by noncapital financing activities | 563,566 | 548,404 |
| <i>Cash flows from capital and related financing activities</i> | | |
| Principal payments on revenue bonds | (97,710) | - |
| Principal payments on capital lease obligation | (18,250) | (17,407) |
| Interest paid | (71,766) | (66,164) |
| Building construction expenses contributed to County | - | (2,244,311) |
| Purchase of capital assets | (205,821) | (52,562) |
| Cash received from capital contributions | 24,840 | - |
| Net cash used in capital and related financing activities | (368,707) | (2,380,444) |
| <i>Cash flows from investing activities</i> | | |
| Cash received from sale of investments | - | 238,995 |
| Interest received | 16,798 | 17,945 |
| Net cash provided by investing activities | 16,798 | 256,940 |
| Net increase in cash and cash equivalents | 2,190,532 | 1,217,921 |
| Cash and cash equivalents, beginning of year | 1,854,195 | 636,274 |
| Cash and cash equivalents, end of year | \$ 4,044,727 | \$ 1,854,195 |

See accompanying notes to basic financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012

| | 2013 | 2012 |
|-----------------------------------------------------------------------------------------------|---------------------|---------------------|
| <i>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</i> | | |
| Cash and cash equivalents | \$ 4,010,727 | \$ 1,837,195 |
| Cash and cash equivalents restricted by USDA loan agreement | 34,000 | 17,000 |
| Total cash and cash equivalents | \$ 4,044,727 | \$ 1,854,195 |
| <i>Reconciliation of Operating Income to Net Cash Provided By Operating Activities</i> | | |
| Operating income | \$ 914,385 | \$ 2,074,413 |
| <i>Adjustments to reconcile operating income to net cash provided by operating activities</i> | | |
| Depreciation and amortization | 630,949 | 615,580 |
| Provision for bad debts | 523,260 | 686,821 |
| Decrease (increase) in assets and liabilities: | | |
| Receivables: | | |
| Patient accounts | (526,366) | (352,792) |
| Sole community provider | (164,630) | (207,030) |
| Estimated third-party payor settlements | (135,499) | 2,500 |
| Inventories | 14,065 | (28,374) |
| Prepaid expenses | 11,066 | (53,618) |
| Increase (decrease) in liabilities: | | |
| Accounts payable | (93,749) | (6,637) |
| Accrued compensation and related liabilities | 3,153 | 62,158 |
| Sole community provider | 802,241 | - |
| Total adjustments | 1,064,490 | 718,608 |
| Net cash provided by operating activities | \$ 1,978,875 | \$ 2,793,021 |

Noncash Investing, Capital, and Financing Activities

During the year ended June 30, 2012, Guadalupe County transferred the hospital facility assets and related debt to the Hospital, resulting in the transfer of approximately \$13,828,000 in hospital capital assets and \$1,365,000 of related debt.

See accompanying notes to basic financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements
Years Ended June 30, 2013 and 2012

1. Reporting Entity and Summary of Significant Accounting Policies:

a. 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 Board of County Commissioners of the County affirms the Hospital Board of Directors, and the Hospital may not issue debt without the County's approval. For this reason, the Hospital is considered to be a component unit of Guadalupe County, New Mexico. As organized, the Hospital is exempt from federal and state income taxes. There are no component units of the Hospital.

The Hospital has a management agreement with New Mexicare, Inc. (New Mexicare), a nonprofit health care 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.

b. Summary of Significant Accounting Policies

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

Enterprise fund accounting – The Hospital's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The Hospital uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include business checking accounts maintained with local financial institutions, cash on hand, and investments in highly liquid debt instruments with an original maturity of three months or less. Deposits that are held by the County are not included in the Hospital's cash and cash equivalents.

Inventories – Inventories consist of medical, pharmaceutical, and laboratory supplies and are stated at the lower of cost (using the first-in, first-out method) or market value.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

Guadalupe County Hospital

A Component Unit of Guadalupe County, New Mexico Notes to Basic Financial Statements (Continued) Years Ended June 30, 2013 and 2012

1. Reporting Entity and Summary of Significant Accounting Policies:

b. Summary of Significant Accounting Policies (continued)

Certificates of deposit held at County – The management agreement between the Hospital and New Mexicare requires the County to maintain a reserve in the amount of \$500,000 for Hospital operations.

Cash and cash equivalents restricted by USDA loan agreement – The Hospital's revenue bonds with the United States Department of Agriculture require the Hospital to establish a reserve account, and each year set aside into that account an amount at least equal to one-tenth of one yearly payment. Written approval must be obtained from Rural Development, Community Programs to utilize any of the reserve.

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.

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.

Net position – Net position of the Hospital is classified in four components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures. *Restricted nonexpendable net position* equals the principal portion of permanent endowments. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

Operating revenues and expenses – The Hospital's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing health care services — the Hospital's principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Guadalupe County Hospital

A Component Unit of Guadalupe County, New Mexico Notes to Basic Financial Statements (Continued) Years Ended June 30, 2013 and 2012

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Sole community provider – The Hospital qualifies as a sole community provider (SCP) hospital based on the Indigent Hospital and County Health Care Act (the Act). The Sole Community Provider Fund (Fund) was established under this Act. The Fund is administered by the New Mexico Human Services Department and consists of funds provided by counties to match federal funds for Medicaid Sole Community Provider hospital payments. Money in the Fund is used to make SCP hospital payments pursuant to the State Medicaid Program. The SCP has been restructured to provide New Mexico hospitals with less favorable rates than in past years. As the program continues to undergo changes the Hospital will receive less favorable rates on return for their matches than in past years.

Grants and contributions – From time to time, the Hospital receives grants from the state of New Mexico and others, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to specific capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects or purposes related to the Hospital's operating activities are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Budgets and budgetary accounting – Prior to the beginning of each fiscal year, an accrual basis budget for the Hospital is prepared by the Hospital's management and is presented to the Board of Directors and the County Commissioners for approval. Upon approval, the budget is sent to the State of New Mexico Department of Finance and Administration (DFA) for tentative approval. Final approval is granted after the beginning of the fiscal year when the fund balances for the prior year are known. Expenditures cannot legally exceed the total fund budget. Any budget amendments are approved by the Board of Directors and County Commissioners and sent to the DFA for approval. Budgeted amounts may be transferred between departments within a fund; however, any revisions that alter the total expenditures of a fund must be approved by the DFA.

Recent accounting pronouncements – In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. This statement, which is effective for financial statements for periods beginning after June 15, 2012, provides, among other things, additional guidance to primary governments that are business-type activities reporting financial information in a single column. New guidance, which includes reporting a blended component unit, allows users to better distinguish between the primary government and its component unit by requiring condensed combining information in the notes to the financial statements. The Hospital adopted GASB Statement No. 61 during fiscal year 2013, with no effect on the Hospital's financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Recent accounting pronouncements (continued) – In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement, which is effective for financial statements for periods beginning after December 15, 2011, supersedes GASB Statement No. 20. The Hospital adopted GASB Statement No. 62 during fiscal year 2013, and its provisions were applied retroactively for all periods presented. Adoption of GASB Statement No. 62 did not materially affect the Hospital's financial statements.

In June 2012, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which establishes standards for reporting deferred outflows and deferred inflows of resources and net position. The statement requires reporting of deferred outflows of resources (consumption of net position applicable to future periods) and deferred inflows of resources (acquisition of net position applicable to future periods) in separate sections of the balance sheet following assets and liabilities. The difference between assets plus deferred outflows of resources less liabilities plus deferred inflows of resources equals net position and net position should be displayed in three components as: net investment in capital assets, restricted, and unrestricted. GASB Statement No. 63 is effective for financial statement periods beginning after December 15, 2011. The Hospital adopted the provisions of the statement in fiscal year 2013. The adoption of GASB Statement No. 63 did not materially affect the Hospital's financial statements.

In March 2011, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65, which is effective for financial statements for periods beginning after December 15, 2012, amends or supersedes accounting and financial reporting guidance for certain items previously reported as assets or liabilities. The Hospital will adopt GASB Statement No. 65 in fiscal year 2014 by retroactively restating financial statements for all periods presented. Debt issuance costs will need to be expensed as incurred when this standard is implemented.

Reclassifications – Certain amounts have been reclassified in the 2012 financial statements in order to be consistent with the 2013 financial statements. These reclassifications had no effect on the previously reported change in net position.

Subsequent events – The Hospital has evaluated subsequent events through October 9, 2013, the date on which the financial statements were available to be issued.

2. Deposits and Investments:

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it.

The Hospital's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each financial institution. In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Hospital is required to collateralize an amount equal to one-half of the public money in excess of \$250,000 at each financial institution.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

2. Deposits and Investments (continued):

Of the Hospital's total deposits of \$4,577,079 and \$2,402,538 at June 30, 2013 and 2012, respectively, a total of \$1,095,290 and \$377,855, respectively, was uninsured and uncollateralized, and therefore subject to custodial credit risk.

Statutes authorize the Hospital to invest in obligations of the U.S. Treasury, agencies, and instrumentalities, commercial paper, and bankers' acceptances.

The Hospital's investments for the years ended June 30, 2013 and 2012, are as follows:

| | 2013 | | | | | |
|--------------------------|-------------------|----------------------------------|-------------|-------------|---------------|--------------------|
| | Fair Value | Investment Maturities (in Years) | | | | Investment Ratings |
| | | Less Than One | One to Five | Six to Ten | More than Ten | |
| Certificates of deposit | 500,000 | 500,000 | - | - | - | Not applicable |
| Total investments | \$ 500,000 | \$ 500,000 | \$ - | \$ - | \$ - | |

| | 2012 | | | | | |
|--------------------------|-------------------|----------------------------------|-------------|-------------|---------------|--------------------|
| | Fair Value | Investment Maturities (in Years) | | | | Investment Ratings |
| | | Less Than One | One to Five | Six to Ten | More than Ten | |
| Certificates of deposit | 500,000 | 500,000 | - | - | - | Not applicable |
| Total investments | \$ 500,000 | \$ 500,000 | \$ - | \$ - | \$ - | |

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

3. Patient Accounts Receivable (continued):

The Hospital's allowance for uncollectible accounts for self-pay patients has not changed significantly from prior years. The Hospital's provisions for bad debts and writeoffs have not changed significantly from the prior year. The Hospital has not changed its charity care or uninsured discount policies during fiscal years 2013 or 2012. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets by the Hospital at June 30, 2013 and 2012, consisted of these amounts:

| | 2013 | 2012 |
|-------------------------------------------------------|-------------------|-------------------|
| Receivable from patients and their insurance carriers | \$ 610,346 | \$ 671,700 |
| Receivable from Medicare | 226,428 | 151,149 |
| Receivable from Medicaid | 40,770 | 33,864 |
| Total patient accounts receivable | 877,544 | 856,713 |
| Less allowance for uncollectible accounts | 431,599 | 413,874 |
| Net patient accounts receivable | \$ 445,945 | \$ 442,839 |

4. Capital Assets:

In accordance with Section 12-6-10 NMSA 1987, the Hospital capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least one year. Capital assets acquisitions are recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation.

All capital assets other than land and construction in progress are depreciated or amortized (in the case of capital leases) by the straight-line method of depreciation using these asset lives:

| | |
|----------------------------|---------------|
| Land improvements | 10 years |
| Buildings and improvements | 40 years |
| Equipment | 3 to 20 years |

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

4. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances for the year ended June 30, 2013, were as follows:

| | 2013 | | | | Ending Balance |
|--------------------------------------------------------|----------------------|---------------------|-------------------|-------------|----------------------|
| | Beginning Balance | Additions | Retirements | Transfers | |
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 187,363 | \$ - | \$ - | \$ - | \$ 187,363 |
| Total capital assets not being depreciated | 187,363 | - | - | - | 187,363 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | 202,963 | 24,840 | - | - | 227,803 |
| Buildings and improvements | 12,259,178 | 110,733 | - | - | 12,369,911 |
| Equipment | 2,435,532 | 70,248 | (385,591) | - | 2,120,189 |
| Total capital assets being depreciated | 14,897,673 | 205,821 | (385,591) | - | 14,717,903 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | (19,009) | (20,251) | - | - | (39,260) |
| Buildings and improvements | (306,479) | (310,174) | - | - | (616,653) |
| Equipment | (871,700) | (300,524) | 382,399 | - | (789,825) |
| Total accumulated depreciation | (1,197,188) | (630,949) | 382,399 | - | (1,406,478) |
| Total capital assets being depreciated, net | 13,700,485 | (425,128) | (3,192) | - | 13,272,165 |
| Capital assets, net of accumulated depreciation | \$ 13,887,848 | \$ (425,128) | \$ (3,192) | \$ - | \$ 13,459,528 |

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

4. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances for the year ended June 30, 2012, were as follows:

| | 2012 | | | | Ending Balance |
|--------------------------------------------------------|----------------------|----------------------|-------------|-------------|----------------------|
| | Beginning Balance | Additions | Retirements | Transfers | |
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ - | \$ 187,363 | \$ - | \$ - | \$ 187,363 |
| Total capital assets not being depreciated | - | 187,363 | - | - | 187,363 |
| <i>Capital assets being depreciated</i> | | | | | |
| Land improvements | - | 202,963 | - | - | 202,963 |
| Buildings and improvements | - | 12,259,178 | - | - | 12,259,178 |
| Equipment | 1,204,692 | 1,230,840 | - | - | 2,435,532 |
| Total capital assets being depreciated | 1,204,692 | 13,692,981 | - | - | 14,897,673 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Land improvements | - | (19,009) | - | - | (19,009) |
| Buildings and improvements | - | (306,479) | - | - | (306,479) |
| Equipment | (581,608) | (290,092) | - | - | (871,700) |
| Total accumulated depreciation | (581,608) | (615,580) | - | - | (1,178,179) |
| Total capital assets being depreciated, net | 623,084 | 13,077,401 | - | - | 13,700,485 |
| Capital assets, net of accumulated depreciation | \$ 623,084 | \$ 13,264,764 | \$ - | \$ - | \$ 13,887,848 |

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

5. Noncurrent Liabilities:

A schedule of changes in the Hospital's noncurrent liabilities for the years ended June 30, 2013 and 2012, is as follows:

| 2013 | | | | | |
|---------------------------------------------------------------|----------------------|------------------|---------------------|---------------------|-----------------------------------|
| | Beginning Balance | Additions | Decreases | Ending Balance | Amounts Due Within One Year |
| Revenue bonds payable | \$ 1,364,624 | \$ - | \$ (97,710) | \$ 1,266,914 | \$ 103,089 |
| Capital lease obligation | 48,978 | - | (18,250) | 30,728 | 19,138 |
| Compensated absences | 49,022 | 66,077 | (64,685) | 50,414 | 50,414 |
| Total long-term debt and capital lease obligations | \$ 1,462,624 | \$ 66,077 | \$ (180,645) | \$ 1,348,056 | \$ 172,641 |

| 2012 | | | | | |
|---------------------------------------------------------------|----------------------|---------------------|--------------------|---------------------|-----------------------------------|
| | Beginning Balance | Additions | Decreases | Ending Balance | Amounts Due Within One Year |
| Revenue bonds payable | \$ - | 1,364,624 | \$ - | \$ 1,364,624 | \$ 15,000 |
| Capital lease obligation | 66,385 | - | (17,407) | 48,978 | 18,251 |
| Compensated absences | 47,431 | 49,022 | (47,431) | 49,022 | 49,022 |
| Total long-term debt and capital lease obligations | \$ 113,816 | \$ 1,413,646 | \$ (64,838) | \$ 1,462,624 | \$ 82,273 |

Long-term debt – The terms and due dates of the Hospital's long-term debt at June 30, 2013 and 2012, are as follows:

- Guadalupe County, New Mexico Hospital Improvement Revenue Bonds, dated December 28, 2011, in the original amount of \$3,550,000, for the purpose of improvements and expansion of the Hospital's facilities. The bonds are payable annually on December 28 in the remaining principal amounts ranging from \$13,868 to \$103,089 through 2049. Interest is payable annually on December 28 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 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 Hospital to maintain certain financial ratios and other financial covenants. The Hospital was in compliance with all related covenants at June 30, 2013.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

5. Noncurrent Liabilities (continued):

Annual principal and interest payments over the terms of long-term debt are as follows:

| Years Ending June 30, | Principal | Interest | Total Payments |
|----------------------------------|---------------------|---------------------|---------------------------|
| 2014 | \$ 103,089 | \$ 55,428 | \$ 158,517 |
| 2015 | 13,868 | 50,917 | 64,785 |
| 2016 | 14,474 | 50,311 | 64,785 |
| 2017 | 15,108 | 49,677 | 64,785 |
| 2018 | 15,769 | 49,016 | 64,785 |
| 2019-2023 | 89,814 | 234,110 | 323,924 |
| 2024-2028 | 111,257 | 212,668 | 323,925 |
| 2029-2033 | 137,819 | 186,105 | 323,924 |
| 2034-2038 | 170,723 | 153,201 | 323,924 |
| 2039-2043 | 211,483 | 112,442 | 323,925 |
| 2044-2048 | 261,974 | 61,951 | 323,925 |
| 2049-2050 | 121,536 | 8,033 | 129,569 |
| | \$ 1,266,914 | \$ 1,223,859 | \$ 2,490,773 |

The Hospital leases certain equipment under a capital lease obligation. The following is a schedule, by year, of equipment and accumulated amortization:

| | June 30, | | | |
|----------------------|-----------------|-------------------------------------|-------------|-------------------------------------|
| | 2013 | | 2012 | |
| | Cost | Accumulated Amortization | Cost | Accumulated Amortization |
| Laboratory equipment | \$ 89,674 | \$ 44,837 | \$ 89,674 | \$ 32,026 |

Amortization of equipment under capital lease obligations was \$12,811 for both 2013 and 2012.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

5. Noncurrent Liabilities (continued):

The following is a schedule by year, of future minimum lease payments under capital lease obligations, together with the present value of future minimum lease payments as of June 30, 2013:

| Years Ending June 30, | Amount |
|---------------------------------------------------------------|------------------|
| 2014 | \$ 20,184 |
| 2015 | 11,774 |
| Total future minimum lease payments | 31,958 |
| Less amount representing interest | (1,230) |
| Present value of future minimum lease payments | 30,728 |
| Less current portion | (19,138) |
| Total capital lease obligation, net of current portion | \$ 11,590 |

6. Net Patient Service Revenue:

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

| | Years Ended June 30, | |
|-------------------------------------------------------------------------|-----------------------------|---------------------|
| | 2013 | 2012 |
| Patient service revenue (net of contractual adjustments and discounts): | | |
| Medicare | \$ 2,065,020 | \$ 2,285,591 |
| Medicaid | 246,283 | 197,181 |
| Other third-party payors | 1,248,910 | 1,222,989 |
| Patients | 748,985 | 705,980 |
| | 4,309,198 | 4,411,741 |
| Less: | | |
| Charity care | 297,658 | 150,632 |
| Provision for bad debts | 523,260 | 686,821 |
| Net patient service revenue | \$ 3,488,280 | \$ 3,574,288 |

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

6. Net Patient Service Revenue (continued):

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital is reimbursed for some items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.
- *Medicaid/SALUD!* – 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.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, 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.

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. The net patient service revenue increased approximately \$30,000 in 2013 and decreased approximately \$2,500 in 2012, due to differences between original estimates and final settlements or revised estimates.

The Hospital provides charity care to patients who are financially unable to pay for the health care services they receive. The Hospital’s policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the Hospital does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The Hospital determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages and benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended June 30, 2013 and 2012, were approximately \$336,000 and \$165,000, respectively.

7. Electronic Health Records Incentive Payment:

The Hospital recognized Medicare and Medicaid electronic health records (EHR) incentive payments during the year ended June 30, 2013. The EHR incentive payments are provided to incent hospitals and eligible providers to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue.

The Hospital recognizes the Medicare incentive payment on the date that the Hospital has successfully complied with meaningful use criteria during the entire EHR reporting period. The Hospital attested to meaningful use with Centers for Medicare and Medicaid Services (CMS) in fiscal year 2013. The Medicare EHR reporting period is through September 30 of each year.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

7. Electronic Health Records Incentive Payment (continued):

The Medicare incentive payment recognized is an estimate and subject to audit by CMS. The Medicare EHR incentive payment is based on the patient days and charity care reported in the Medicare cost report. Medicare incentive revenue of \$1,558,150 was recognized in 2013.

The Hospital recognizes the first of its three Medicaid incentive payments in the year that certified EHR technology is adopted, implemented, or upgraded or when such technology is meaningfully used under the Medicare EHR incentive program. The subsequent two payments will be issued when meaningful use is demonstrated under Medicare. A Medicaid incentive payment of \$371,750 was recognized as revenue in 2013. Subsequent payments will be recognized when the Hospital has successfully complied with future meaningful use criteria.

8. Mill Levy Tax:

A New Mexico law adopted in 1980 and amended in 1981, allows counties to provide expanded tax support to qualified hospitals. The Hospital received mill levy proceeds from the County approximating \$478,000 and \$502,000 in 2013 and 2012, respectively. Mill levies were used in accordance with the provisions of the 1980 Hospital Funding Act, as amended.

9. Retirement Plans:

The Hospital has a deferred compensation plan created in accordance with Internal Revenue Code §457. The name of the plan is Guadalupe County Hospital 457(b) Governmental Deferred Compensation Plan (the Compensation Plan). The Compensation Plan is available to all employees with at least 90 days of service and permits them to defer a portion of their salary until withdrawn in future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Employee contributions to the Compensation Plan totaled \$57,825 and \$53,280 for the years ended June 30, 2013 and 2012, respectively.

The Hospital provides a 401(a) profit-sharing pension plan for all employees with at least 90 days of service. The name of the plan is Guadalupe County Hospital 401(a) Plan (the Plan). The Hospital makes a contribution match of up to 3% of the employee's base wage. Employer contributions to the Plan are discretionary and are fully vested once the employee is eligible to participate in the 401(a) plan. The Hospital funds all retirement contributions and employees are not allowed to contribute to the Plan. Employer contributions to the Plan totaled approximately \$28,650 and \$25,120 for the years ended June 30, 2013 and 2012, respectively.

The plans are administered by the Hospital.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

10. Risk Management and Contingencies:

Medical malpractice claims – The Hospital has professional liability insurance coverage with Lexington Insurance Company. The policy provides protection on a “claims-made” basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the Hospital purchases insurance to cover prior acts. The current professional liability insurance provides \$3,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has a \$2,500 deductible per claim.

Industry regulations – The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions known or unasserted at this time.

Health care reform – As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States of America’s health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. The federal health care reform legislation does not affect the 2013 financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

11. Concentration of Risk:

Receivables – The Hospital grants credit without collateral to its patients, most of who are local residents, and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Guadalupe County.

The mix of receivables from patients and third-party payors at June 30, 2013 and 2012, was as follows:

| | 2013 | 2012 |
|----------------------|--------------|--------------|
| Medicare | 20 % | 16 % |
| Medicaid | 12 | 10 |
| Patients | 44 | 39 |
| Commercial and other | 24 | 35 |
| | 100 % | 100 % |

Physicians – The Hospital is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or changes in their utilization patterns may have an adverse effect on hospital operations.

12. Related-party Transactions:

The Hospital entered into the following related-party transactions during the years ended June 30, 2013 and 2012:

- The Hospital contracts with the Santa Rosa Medical Clinic (the Clinic) to provide on-call emergency and urgent medical services for the Hospital. The Clinic is owned by the Hospital's laboratory medical director. The amount paid to the Clinic in fiscal year 2013 was \$1,069,519. In fiscal year 2012, these services were provided by Alamo Locums, Inc., which was also owned by the Hospital's laboratory medical director and combined into the Clinic in fiscal year 2013. The amount paid to Alamo Locums, Inc., in fiscal year 2012 was \$1,062,720.
- The Hospital also rents space to the Clinic. The revenue related to the rental agreement was approximately \$48,000 and \$42,000 for fiscal years 2013 and 2012, respectively.
- The Hospital paid the lodging expenses of the Tectime Software Associates that helped install the new accounting and billing system. The amount paid to Travelodge Motel owned by one of the Hospital's board members during fiscal year 2013 for these expenses was \$1,129. In fiscal year 2012, the Hospital paid Super 8 Motel, which is owned by one of the same board members, \$559 for lodging expenses of the Tectime Software Associates.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2013 and 2012

13. 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.

14. Commitments:

On April 22, 2013, the Hospital entered into an agreement with Route 66 Pharmacy to purchase and take over operations of the pharmacy effective July 1, 2013. The purchase price of \$132,738, which was paid on July 25, 2013, equates to the cost of the pharmaceutical inventory as of June 30, 2013.

SUPPLEMENTAL INFORMATION

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Pledged Collateral
June 30, 2013

| | Community 1st Bank | Wells Fargo |
|-------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------|
| Deposits at June 30, 2013 | \$ 2,900,330 | \$ 1,676,649 |
| Less: CDs held by Guadalupe County and fully insured | - | 500,000 |
| Less: FDIC insurance | 250,000 | 250,000 |
| Uninsured public funds | 2,650,330 | 926,649 |
| Pledged collateral held by the pledging bank's trust department or agent, but not in the Hospital's name | 1,555,040 | 930,933 |
| Total uninsured and uncollateralized public funds | \$ 1,095,290 | \$ (4,284) |
| 50% pledged collateral requirement per statute | \$ 1,325,165 | \$ 463,325 |
| Total pledged collateral | 1,555,040 | 930,933 |
| Pledged collateral over the requirement | \$ 229,875 | \$ 467,608 |

| | Fair Value |
|------------------------------------------------|-----------------------|
| Community 1st Bank Securities | |
| FNMA #0907130313, matures May 25, 2033 | \$ 385,866 |
| FNMA Pool #889099, matures January 1, 2038 | 101,730 |
| FNMA Pool #E01497, matures November 1, 2018 | 329,988 |
| GNMA-II Pool #005201, matures October 20, 2041 | 737,456 |
| Total pledged securities | \$ 1,555,040 |

| | Fair Value |
|-------------------------------------------|-----------------------|
| Wells Fargo Securities | |
| FNMA Pool #AR7400, matures June 1, 2043 | \$ 156,650 |
| FNMA Pool #AI8345, matures August 1, 2041 | 7,437 |
| FNMA Pool #AR9091, matures March 1, 2043 | 766,846 |
| Total pledged securities | \$ 930,933 |

See accompanying independent auditors' report.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Individual Deposit and Investment Accounts
Year Ended June 30, 2013

| Depository | Account Name | Account Type | Bank Balance | Deposits in Transit | Outstanding Checks | Book Balance |
|---------------------------------------|-----------------------|---------------------------|---------------------|----------------------------|---------------------------|---------------------|
| Deposit Accounts | | | | | | |
| Community 1st Bank | Community 1st Savings | Savings | \$ 2,900,330 | \$ - | \$ - | \$ 2,900,330 |
| Wells Fargo | Checking | Interest bearing checking | 1,176,649 | 135 | 32,487 | 1,144,297 |
| Cash on hand | Petty cash | Petty cash | 100 | - | - | 100 |
| Certificates of Deposit | | | | | | |
| Wells Fargo | CD's at County | Certificate of Deposits | 500,000 | - | - | 500,000 |
| Total deposits and investments | | | \$ 4,577,079 | \$ 135 | \$ 32,487 | \$ 4,544,727 |

See accompanying independent auditors' report.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Revenues and Expenses – Budget to Actual
Years Ended June 30, 2013

| | Actual | Original Approved Budget | Final Approved Budget | Final Budget - Over (Under) |
|-------------------------------------------------|---------------------|--------------------------------|--------------------------|-----------------------------------|
| <i>Revenues</i> | | | | |
| Net patient service revenue | \$ 3,488,280 | 3,620,286 | \$ 3,370,286 | \$ 117,994 |
| Sole community provider | 1,361,878 | 5,449,252 | 1,952,366 | (590,488) |
| Electronic health records incentive payment | 1,558,150 | - | 1,558,150 | - |
| Other | 43,230 | 56,268 | 56,268 | (13,038) |
| Nonoperating revenues (expenses) and other, net | 524,837 | 556,227 | 530,906 | (6,069) |
| Total revenues | 6,976,375 | 9,682,033 | 7,467,976 | (491,601) |
| <i>Expenses</i> | | | | |
| Salaries, wages, and benefits | 1,924,798 | 1,944,993 | 1,944,993 | (20,195) |
| Professional fees | 1,755,836 | 1,632,792 | 1,632,792 | 123,044 |
| Other | 1,856,519 | 3,679,187 | 3,093,892 | (1,237,373) |
| Total expenses | 5,537,153 | 7,256,972 | 6,671,677 | (1,134,524) |
| Change in net position | \$ 1,439,222 | \$ 2,425,061 | \$ 796,299 | \$ 642,923 |

See accompanying independent auditors' report.



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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 Management of
Guadalupe County Hospital and
Mr. Hector H. Balderas, New Mexico State Auditor
Santa Rosa, New Mexico

We have audited in accordance with the 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, the financial statements of Guadalupe County Hospital, a component unit of Guadalupe County, New Mexico (the Hospital) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 9, 2013. We have also audited the budgetary comparison of the Hospital for the year ended June 30, 2013, represented as supplemental information as listed in the table of contents.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2013-01.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 9, 2013

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Findings and Responses
Year Ended June 30, 2013

2013-01 Filing of Documents with the State Auditors Office

| | |
|------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Condition</i> | The Independent Public Accountant (IPA) Recommendation Form and audit contract were delivered to the Office of the State Auditor (OSA) on May 3 2013. |
| <i>Criteria</i> | [X] Compliance Finding [] Significant Deficiency [] Material Weakness The IPA Recommendation Form and audit contract must be delivered to the OSA each year by April 15 th . |
| <i>Context</i> | This finding appears to be a <i>systemic</i> problem. |
| <i>Cause</i> | There are no policies and procedures regarding the submission of these documents to the OSA. |
| <i>Effect</i> | The Hospital did not comply with New Mexico State Law. |
| <i>Recommendation</i> | Policies and procedures should be created that ensure that all required documents are filed with the OSA by the statutory deadlines. |
| <i>Management's Response</i> | The Hospital will implement policies to ensure that all required documents are filed with the OSA by the Statutory deadlines. |

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Summary Schedule of Prior Year Findings
Year Ended June 30, 2013

The schedule of audit findings for the year ended June 30, 2012, reported no audit findings, nor were there any unresolved findings from periods ending June 30, 2011, or prior. Therefore, there are no matters to report in this schedule for the year ended June 30, 2013.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Exit Conference
Year Ended June 30, 2013

An exit conference was held October 9, 2013, with the Board of Directors to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

| | |
|------------------|-----------------------------------------|
| Loretta Lopez | Board of Directors, Secretary/Treasurer |
| Kalpesh Bhakta | Board of Directors |
| Christina Campos | Administrator |
| Frank Tenorio | Assistant Administrator |
| Bret Goebel | Contracted Chief Financial Officer |
| Luke Zarecor | Dingus, Zarecor & Associates PLLC |
| Alanna Lakey | Dingus, Zarecor & Associates PLLC |

These financial statements were prepared by Dingus, Zarecor & Associates PLLC from records of the Hospital.