

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

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2015 and 2014

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, 2015

Board of Directors

Danita Agar	President
Keith Ross	Vice-President
Lee Vega	Secretary/Treasurer
Erasmus Bravo	Member
Yolanda Tenorio	Member

Principal Employee

Christina Campos	Administrator
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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Directors and Management of
Guadalupe County Hospital and
Mr. Timothy Keller, 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), which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements. We have also audited the schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2015, presented as supplemental information as listed in the table of contents.

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 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 audit to obtain reasonable assurance about whether the 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 Hospital as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance 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 schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2015, 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 schedule of revenues and expenses – budget to actual. 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, schedule of individual deposit and investment accounts, and schedule of vendors 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 as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2015, 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 for the year ended June 30, 2015. We issued a similar report for the year ended June 30, 2014, dated September 15, 2014, which has not been included with the 2015 financial and compliance report. 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, 2015

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis
Years Ended June 30, 2015 and 2014

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, 2015 and 2014. 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 \$206,425, or 1.1%, in 2015 and \$1,422,193, or 7.9%, in 2014.
- Net patient service revenue increased in each of the past two years by \$1,954,010, or 36.9% in 2015 and \$1,809,526, or 51.9% in 2014.
- Effective July 1, 2013, the Hospital acquired a retail pharmacy that had previously been independent of the Hospital.
- The Hospital reported an operating loss of \$428,917 in 2015 and an operating income of \$883,057 in 2014. Operating income decreased in each of the past two years by \$1,311,974, or 148.6%, in 2015 and \$31,328, or 3.4%, in 2014.
- Nonoperating net revenues increased in each of the past two years by \$96,206, or 17.8%, in 2015 and \$39,139, or 7.8%, in 2014.

Using This Annual Report

The Hospital's financial statements consist of three statements — a Statement of Net Position; 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 Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the Hospital's 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 Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net 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 it. 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.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2015 and 2014

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?"

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Statement of Net Position, on pages 10 and 11. The Hospital's net position increased by \$206,425, or 1.1%, in 2015 and \$1,422,193, or 7.9%, in 2014, as shown in Table 1.

Table 1. Assets, Liabilities, and Net Position

	2015	2014	2013
<i>Assets</i>			
Current assets	\$ 9,111,902	\$ 8,072,692	\$ 6,814,531
Capital assets, net	12,250,622	12,886,747	13,459,528
Other noncurrent assets	66,000	50,000	34,000
Total assets	\$ 21,428,524	\$ 21,009,439	\$ 20,308,059
<i>Liabilities and net position</i>			
Current liabilities	\$ 912,647	\$ 583,171	\$ 1,189,305
Long-term obligations, net of current maturities	943,920	1,060,736	1,175,415
Total liabilities	1,856,567	1,643,907	2,364,720
<i>Net position</i>			
Net investment in capital assets	11,170,975	11,690,977	12,134,400
Restricted	66,000	50,000	34,000
Unrestricted	8,334,982	7,624,555	5,774,939
Total net position	19,571,957	19,365,532	17,943,339
Total liabilities and net position	\$ 21,428,524	\$ 21,009,439	\$ 20,308,059

In 2015, current assets increased by \$1,039,210. Total assets for 2015 increased \$419,085 from 2014. Total assets for 2015 consist primarily of cash and cash equivalents, investments in certificates of deposit, net patient accounts receivable, and net capital assets. Total liabilities have increased by \$212,660 over the last year due mainly to an increase in estimated third-party payor settlements. Net position as a percentage of assets decreased from 92% at the end of 2014 to 91% at the end of 2015. Stated differently, liabilities (debt) for the Hospital increased from 8% of assets at the end of 2014 to 9% of assets at the end of 2015. The Hospital has a very strong balance sheet.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2015 and 2014

Operating Results and Changes in the Hospital's Net Position

In 2015, the Hospital's operating income decreased by \$1,311,974. The decrease is due primarily to an \$817,000 decrease in safety net care pool and sole community provider revenues, as well as a \$464,000 decrease in electronic health records incentive payments from Medicare. Total operating revenues increased by \$692,026 while total operating expenses increased by \$2,004,000 in fiscal year 2015 as compared to fiscal year 2014. Expenses increased primarily due to emergency department coverage rate increases and pain clinic provider rate increases.

Table 2. Operating Results and Changes in Net Position

	2015	2014	2013
<i>Operating revenues</i>			
Net patient service revenue	\$ 7,251,816	\$ 5,297,806	\$ 3,488,280
Safety net care pool and sole community provider	792,816	1,609,729	1,361,878
Electronic health records incentive payment	472,931	936,917	1,558,150
Grants and other operating revenue	41,676	22,761	43,230
Total operating revenues	8,559,239	7,867,213	6,451,538
<i>Operating expenses</i>			
Salaries, wages, and benefits	2,403,892	2,221,423	1,924,798
Professional fees	3,458,684	2,054,890	1,755,836
Depreciation and amortization	659,194	653,493	630,949
Other operating expenses	2,466,386	2,054,350	1,225,570
Total operating expenses	8,988,156	6,984,156	5,537,153
<i>Operating income (loss)</i>	(428,917)	883,057	914,385
<i>Nonoperating revenues (expenses)</i>			
Mill levy revenue	569,265	508,982	477,999
Investment income	62,122	21,257	16,797
Other nonoperating revenue	58,136	57,665	67,645
Interest expense	(54,181)	(48,768)	(62,444)
Total nonoperating revenues (expenses), net	635,342	539,136	499,997
Excess of revenues over expenses	206,425	1,422,193	1,414,382
Capital contributions	-	-	24,840
Change in net position	206,425	1,422,193	1,439,222
Net position, beginning of year	19,365,532	17,943,339	16,504,117
Net position, end of year	\$ 19,571,957	\$ 19,365,532	\$ 17,943,339

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

During the year operating revenues increased by \$692,026, or 8.8%. Operating expenses increased by \$2,004,000, or 28.7%. The increase in operating expenses is mostly due to an increase in professional fees related to the emergency department coverage and pain clinic services.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2015 and 2014

Consistent with the healthcare 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 2015 by \$182,469, or 8.2%. This increase is based on pay increases and increases in the full-time equivalents due to expansion of the pain clinic service. The healthcare labor market is very competitive and healthcare 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	Favorable (Unfavorable) Variance
Budgetary basis revenues	\$ 9,194,581	\$ 8,694,469	\$ 500,112
Budgetary basis expenses	8,988,156	8,694,469	(293,687)
Excess of revenues over expenses	\$ 206,425	\$ -	\$ 206,425

Actual results compare favorably to budgeted amounts for the Hospital due to actual revenues being \$500,112 more than budgeted while actual expenses were \$293,687 more than budgeted. This results in a positive variance of \$206,425 with net income totaling \$206,425 as compared to budgeted net income of \$-0-, as shown in Table 3.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the Hospital had \$12,250,622 invested in capital assets, net of accumulated depreciation, as detailed in note 4 to the basic financial statements. In 2015, the Hospital purchased new assets costing \$23,069. The additions are primarily for equipment.

Debt

At June 30, 2015, the Hospital had \$943,920 in long-term debt obligations, a decrease of 116,816, or 11.0%, from June 30, 2014.

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)
Years Ended June 30, 2015 and 2014

Currently Known Facts, Decisions, and Conditions

The healthcare 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.

Healthcare 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
Statements of Net Position
June 30, 2015 and 2014

ASSETS	2015	2014
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,015,689	\$ 5,470,872
Investments	5,547,913	500,000
Receivables:		
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$459,000 and \$268,000, respectively	1,053,067	1,137,637
Safety net care pool	90,588	490,692
Estimated third-party payor settlements	-	24,949
Electronic health records incentive payments	-	78,188
Taxes	6,950	5,915
Other	4,822	-
Inventories	356,810	338,029
Prepaid expenses	36,063	26,410
Total current assets	9,111,902	8,072,692
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted by USDA loan agreement	66,000	50,000
Capital assets, net	12,250,622	12,886,747
Total noncurrent assets	12,316,622	12,936,747
Total assets	\$ 21,428,524	\$ 21,009,439

See accompanying notes to basic financial statements.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Statements of Net Position (Continued)
June 30, 2015 and 2014

LIABILITIES AND NET POSITION	2015	2014
<i>Current liabilities</i>		
Accounts payable	\$ 207,961	\$ 313,675
Accrued compensation and related liabilities	149,372	134,462
Estimated third-party payor settlements	419,587	-
Accrued interest payable	23,421	20,355
Current maturities of revenue bonds payable	112,306	103,089
Current maturities of capital lease obligation	-	11,590
Total current liabilities	912,647	583,171
<i>Noncurrent liabilities</i>		
Revenue bonds payable, net of current portion	943,920	1,060,736
Total liabilities	1,856,567	1,643,907
<i>Net position</i>		
Net investment in capital assets	11,170,975	11,690,977
Restricted	66,000	50,000
Unrestricted	8,334,982	7,624,555
Total net position	19,571,957	19,365,532
Total liabilities and net position	\$ 21,428,524	\$ 21,009,439

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, 2015 and 2014**

	2015	2014
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$674,404 and \$499,843, respectively	\$ 7,251,816	\$ 5,297,806
Safety net care pool and sole community provider	792,816	1,609,729
Electronic health records incentive payment	472,931	936,917
Grant income	36,551	17,534
Other	5,125	5,227
Total operating revenues	8,559,239	7,867,213
<i>Operating expenses</i>		
Salaries and wages	1,876,623	1,738,218
Employee benefits	527,269	483,205
Professional fees	3,458,684	2,054,890
Supplies	1,752,268	1,355,791
Utilities	141,704	154,305
Repairs and maintenance	167,548	137,000
Depreciation and amortization	659,194	653,493
Insurance	83,238	86,333
Management fees	240,000	240,000
Other	81,628	80,921
Total operating expenses	8,988,156	6,984,156
Operating income (loss)	(428,917)	883,057
<i>Nonoperating revenues (expenses)</i>		
Mill levy revenue	569,265	508,982
Investment income	62,122	21,257
Other nonoperating revenue	58,136	57,665
Interest expense	(54,181)	(48,768)
Total nonoperating revenues (expenses), net	635,342	539,136
Change in net position	206,425	1,422,193
Net position, beginning of year	19,365,532	17,943,339
Net position, end of year	\$ 19,571,957	\$ 19,365,532

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, 2015 and 2014

	2015	2014
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 7,780,922	\$ 4,737,754
Cash received from safety net care pool and sole community provider payments	1,192,920	1,785,955
Cash received from electronic health records incentive payments	551,119	858,729
Cash received from operating grants	31,729	17,534
Cash received from other revenue	5,125	5,227
Cash paid to and on behalf of employees	(2,388,982)	(2,199,703)
Cash paid to suppliers and contractors	(6,059,218)	(4,067,583)
Net cash provided by operating activities	1,113,615	1,137,913
<i>Cash flows from noncapital financing activities</i>		
Cash received from mill levies	568,230	508,813
<i>Cash flows from capital and related financing activities</i>		
Principal payments on revenue bonds	(107,599)	(103,089)
Principal payments on capital lease obligation	(11,590)	(19,138)
Interest paid	(51,115)	(55,899)
Purchase of capital assets	(23,068)	(80,712)
Purchase of investments	(5,047,913)	-
Net cash used in capital and related financing activities	(5,241,285)	(258,838)
<i>Cash flows from investing activities</i>		
Interest received	62,121	21,257
Cash received from rental activities	58,136	67,000
Net cash provided by investing activities	120,257	88,257
Net increase (decrease) in cash and cash equivalents	(3,439,183)	1,476,145
Cash and cash equivalents, beginning of year	5,520,872	4,044,727
Cash and cash equivalents, end of year	\$ 2,081,689	\$ 5,520,872

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, 2015 and 2014

	2015	2014
<i>Reconciliation of cash and cash equivalents to the statements of net position</i>		
Cash and cash equivalents	\$ 2,015,689	\$ 5,470,872
Cash and cash equivalents restricted by USDA loan agreement	66,000	50,000
Total cash and cash equivalents	\$ 2,081,689	\$ 5,520,872
<i>Reconciliation of operating income (loss) to net cash provided by operating activities</i>		
Operating income (loss)	\$ (428,917)	\$ 883,057
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</i>		
Depreciation and amortization	659,194	653,493
Provision for bad debts	674,404	499,843
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(589,834)	(1,191,535)
Safety net care pool	400,104	978,467
Estimated third-party payor settlements	24,949	131,640
Electronic health records incentive payments	78,188	(78,188)
Other	(4,822)	-
Inventories	(18,781)	(163,551)
Prepaid expenses	(9,653)	16,142
Increase (decrease) in liabilities:		
Accounts payable	(105,714)	189,066
Accrued compensation and related liabilities	14,910	21,720
Estimated third-party payor settlements	419,587	-
Sole community provider payable	-	(802,241)
Net cash provided by operating activities	\$ 1,113,615	\$ 1,137,913

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, 2015 and 2014

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). Effective July 1, 2014, the Hospital began operating an onsite retail pharmacy.

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 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 in the event of hospital default. 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 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 the 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.

Investments – Investments are recorded at fair value. Fair value is determined using quoted market prices.

Inventories – Inventories consist of medical, pharmaceutical, and laboratory supplies and are stated at cost using the first-in, first-out method.

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, 2015 and 2014

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

b. Summary of Significant Accounting Policies (continued)

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 three 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 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. *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 healthcare 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 healthcare services, other than financing costs.

Sole community provider/Safety net care pool – 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. Effective January 1, 2014, the Fund was replaced by the safety net care pool. Changes to the program are ongoing, and as the program continues to undergo changes, the Hospital will receive less funding.

Guadalupe County Hospital

**A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

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

b. Summary of Significant Accounting Policies (continued)

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. Expenditures cannot legally exceed the total fund budget. Any budget amendments are approved by the Board of Directors and County Commissioners. 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 County Commissioners. Actual expenditures exceeded budgeted expenditures for the year ended June 30, 2015.

Subsequent events – The Hospital has evaluated subsequent events through October 9, 2015, the date on which the financial statements were available to be issued.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

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.

Of the Hospital's total deposits of \$7,734,725 and \$6,022,756 at June 30, 2015 and 2014, respectively, a total of \$756,877 and \$2,573,705, 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 are as follows:

	2015					
	Fair Value	Investment Maturities (in Years)				Investment Ratings
		Less Than One	One to Five	Six to Ten	More than Ten	
<i>Held at County</i>						
Certificates of deposit	\$ 501,634	\$ 501,634	\$ -	\$ -	\$ -	Not applicable
<i>Wells Fargo</i>						
Money market	33,075	33,075	-	-	-	Not applicable
Certificates of deposit	5,013,204	500,296	4,512,908	-	-	Not applicable
Total investments	\$ 5,547,913	\$ 1,035,005	\$ 4,512,908	\$ -	\$ -	-

	2014					
	Fair Value	Investment Maturities (in Years)				Investment Ratings
		Less Than One	One to Five	Six to Ten	More than Ten	
<i>Held at County</i>						
Certificates of deposit	\$ 500,000	\$ 500,000	\$ -	\$ -	\$ -	Not applicable

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.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient 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.

The Hospital's allowance for uncollectible accounts for self-pay patients increased 71% as of June 30, 2015, as compared to June 30, 2014, due to an increase in encounters from noninsured patients, which resulted in higher self-pay receivable balances. 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 consisted of these amounts:

	2015	2014
Receivable from patients and their insurance carriers	\$ 1,004,307	\$ 869,454
Receivable from Medicare	227,273	420,469
Receivable from Medicaid	280,568	116,110
Total patient accounts receivable	1,512,148	1,406,033
Less allowance for uncollectible accounts	459,081	268,396
Net patient accounts receivable	\$ 1,053,067	\$ 1,137,637

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

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 asset 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

Capital asset additions, retirements, transfers, and balances were as follows:

	2015				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<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	227,803	-	-	-	227,803
Buildings and improvements	12,369,911	5,090	-	-	12,375,001
Equipment	2,200,901	17,978	-	-	2,218,879
Total capital assets being depreciated	14,798,615	23,068	-	-	14,821,683
<i>Less accumulated depreciation for</i>					
Land improvements	(60,753)	(21,493)	-	-	(82,246)
Buildings and improvements	(928,581)	(312,098)	-	-	(1,240,679)
Equipment	(1,109,897)	(325,602)	-	-	(1,435,499)
Total accumulated depreciation	(2,099,231)	(659,193)	-	-	(2,758,424)
Total capital assets being depreciated, net	12,699,384	(636,125)	-	-	12,063,259
Capital assets, net of accumulated depreciation	\$ 12,886,747	\$ (636,125)	\$ -	\$ -	\$ 12,250,622

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

4. Capital Assets (continued):

	2014				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	227,803	-	-	-	227,803
Buildings and improvements	12,369,911	-	-	-	12,369,911
Equipment	2,120,189	80,712	-	-	2,200,901
Total capital assets being depreciated	14,717,903	80,712	-	-	14,798,615
<i>Less accumulated depreciation for</i>					
Land improvements	(39,260)	(21,493)	-	-	(60,753)
Buildings and improvements	(616,653)	(311,928)	-	-	(928,581)
Equipment	(789,825)	(320,072)	-	-	(1,109,897)
Total accumulated depreciation	(1,445,738)	(653,493)	-	-	(2,099,231)
Total capital assets being depreciated, net	13,272,165	(572,781)	-	-	12,699,384
Capital assets, net of accumulated depreciation	\$ 13,459,528	\$ (572,781)	\$ -	\$ -	\$ 12,886,747

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

5. Noncurrent Liabilities:

A schedule of changes in the Hospital's noncurrent liabilities is as follows:

	2015				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds payable	\$ 1,163,825	\$ -	\$ (107,599)	\$ 1,056,226	\$ 112,306
Capital lease obligation	11,590	-	(11,590)	-	-
Compensated absences	53,912	76,773	(69,638)	61,047	61,047
Total long-term debt and capital lease obligations	\$ 1,229,327	\$ 76,773	\$ (188,827)	\$ 1,117,273	\$ 173,353

	2014				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds payable	\$ 1,266,914	\$ -	\$ (103,089)	\$ 1,163,825	\$ 103,089
Capital lease obligation	30,728	-	(19,138)	11,590	11,590
Compensated absences	50,414	74,331	(70,833)	53,912	53,912
Total long-term debt and capital lease obligations	\$ 1,348,056	\$ 74,331	\$ (193,060)	\$ 1,229,327	\$ 168,591

Long-term debt – The terms and due dates of the Hospital's long-term debt 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. Payments of \$158,516, including 4.375% interest, are payable annually on December 28. 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 the Hospital's net revenue and payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

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
2016	\$ 112,306	\$ 46,210	\$ 158,516
2017	117,220	41,296	158,516
2018	122,348	36,168	158,516
2019	127,701	30,815	158,516
2020	133,287	25,229	158,516
2021-2023	443,364	39,666	483,030
	\$ 1,056,226	\$ 219,384	\$ 1,275,610

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. 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 2015 or 2014. 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 adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2015	2014
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 2,730,982	\$ 2,595,811
Medicaid/Centennial Care	1,092,284	419,607
Other third-party payors	3,251,341	1,950,993
Patients	929,717	875,993
	8,004,324	5,842,404
Less:		
Charity care	78,104	44,755
Provision for bad debts	674,404	499,843
Net patient service revenue	\$ 7,251,816	\$ 5,297,806

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

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/Centennial Care* – 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 healthcare 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 \$49,000 and \$173,000 in 2015 and 2014, respectively, 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 healthcare 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 and wages, 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, 2015 and 2014, were approximately \$43,000 and \$38,000, respectively. The Hospital did not receive any gifts or grants to subsidize charity care services during 2015 and 2014. The safety net care pool subsidizes services to uninsured patients and unreimbursed Medicaid costs.

7. Electronic Health Records Incentive Payment:

The Hospital recognized Medicare and Medicaid electronic health records (EHR) incentive payments during the years ended June 30, 2015 and 2014. 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.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

7. Electronic Health Records Incentive Payment (continued):

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) during the year ended June 30, 2015. The Medicare EHR reporting period is through September 30 of each year.

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 \$431,300 and \$936,917 was recognized in 2015 and 2014, respectively.

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 \$41,631 and \$-0- was recognized as revenue in 2015 and 2014, respectively. 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 \$569,000 and \$509,000 in 2015 and 2014, respectively. Mill levies were used in accordance with the provisions of the 1980 Hospital Funding Act, as amended.

9. Retirement Plan:

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 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 are immediately fully vested. Employee contributions to the Compensation Plan totaled approximately, \$77,000 and \$67,000 for the years ended June 30, 2015 and 2014, 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 Plan. The Hospital funds all retirement contributions and employees are not allowed to contribute to the Plan. Employer contributions to the Plan totaled approximately \$37,000 and \$35,000 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014

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 \$5,000 deductible per claim.

Risk management – The District 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.

Industry regulations – The healthcare 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 healthcare 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 healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare 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.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

11. Concentration of Risk:

Patient accounts receivable – The Hospital grants credit without collateral to its patients, most of whom 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 was as follows:

	2015	2014
Medicare	19 %	26 %
Medicaid/Centennial Care	40	23
Patients	15	11
Commercial and other	26	40
	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.

SUPPLEMENTAL INFORMATION

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Pledged Collateral
June 30, 2015

	Community 1st Bank	Wells Fargo
Deposits at June 30, 2015	\$ 1,749,457	\$ 5,985,168
Less: CDs held by Guadalupe County and fully insured	-	501,634
Less: CDs held by Wells Fargo and fully insured	-	5,046,279
Less: FDIC insurance	250,000	250,000
Uninsured public funds	1,499,457	187,255
Pledged collateral held by the pledging bank's trust department or agent, but not in the Hospital's name	742,580	152,725
Total uninsured and uncollateralized public funds	\$ 756,877	\$ 34,530
50% pledged collateral requirement per statute	\$ 749,729	\$ 93,628
Total pledged collateral	742,580	152,725
Pledged collateral over (under) the requirement	\$ (7,149)	\$ 59,097
Community 1st Bank Securities	Fair Value	
FNMA #0907130313, matures May 25, 2033	\$ 217,203	
FNMA Pool #E01497, matures November 1, 2018	154,606	
ALAMOGORDO NM MUN SCD#001, matures August 1, 2019	186,821	
GNMA-II Pool #005201, matures October 20, 2041	183,950	
Total pledged securities	\$ 742,580	
Wells Fargo Bank Securities		Fair Value
FNMA #31410KNP5, matures July 1, 2038		\$ 152,725
Total pledged securities		\$ 152,725

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, 2015

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Deposit Accounts						
Community 1st Bank	Community 1st Savings	Savings	\$ 1,749,457	\$ -	\$ -	\$ 1,749,457
Wells Fargo	Checking	Interest bearing checking	437,255	-	105,123	332,132
Cash on hand	Petty cash	Petty cash	100	-	-	100
Investments						
Wells Fargo	Investment Portfolio	Mutual Fund, Certificates of Deposit	5,046,279	-	-	5,046,279
Wells Fargo	CDs at County	Certificates of Deposit	501,634	-	-	501,634
Total deposits and investments			\$ 7,734,725	\$ -	\$ 105,123	\$ 7,629,602

See accompanying independent auditors' report.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Vendors
Year Ended June 30, 2015

Prepared by Agency Staff Name: Christina Campos

Title: Administrator

Date: June 30, 2015

RFB#/RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded	In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
Guadalupe County Hospital did not enter into any contracts exceeding \$60,000 during the year ended June 30, 2015, that required procurement procedures per New Mexico Procurement Code.								

See accompanying independent auditors' report.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Revenues and Expenses – Budget to Actual
Year Ended June 30, 2015

	Actual	Original Budget	Final Budget	Final Budget - Favorable (Unfavorable)
<i>Revenues</i>				
Net patient service revenue	\$ 7,251,816	\$ 6,002,932	\$ 6,823,006	\$ 428,810
Safety net care pool and sole community provider	792,816	930,465	930,465	(137,649)
Electronic health records incentive payment	472,931	440,000	487,863	(14,932)
Other	41,676	18,403	26,403	15,273
Nonoperating revenues, net	635,342	551,732	426,732	208,610
Total revenues	9,194,581	7,943,532	8,694,469	500,112
<i>Expenses</i>				
Salaries, wages, and benefits	2,403,892	2,560,680	2,576,030	172,138
Professional fees	3,458,684	2,566,345	3,125,994	(332,690)
Other	3,125,580	2,816,507	2,992,445	(133,135)
Total expenses	8,988,156	7,943,532	8,694,469	(293,687)
Change in net position	\$ 206,425	\$ -	\$ -	\$ 206,425

See accompanying independent auditors' report.



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. Timothy Keller, 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, 2015, 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, 2015. We have also audited the schedule of revenue and expenses – budget to actual of the Hospital for the year ended June 30, 2015, presented 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2015-001 and 2015-002.

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, 2015

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Findings and Responses
Year Ended June 30, 2015

2015-001 Actual Expenditures Exceeded Budgeted Expenditures

[X] Compliance Finding [] Significant Deficiency [] Material Weakness

<i>Condition</i>	The Hospital's actual expenditures for fiscal year 2015 exceeded budgeted expenditures by \$293,687.
<i>Criteria</i>	In order to comply with Section 2.2.2.10 O(1) NMAC, actual expenditures cannot exceed budgeted expenditures, which were \$8,694,469 for fiscal year 2015.
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Cause</i>	The Hospital did not amend its original budget to reflect additional expenses incurred.
<i>Effect</i>	The Hospital is not in compliance with Section 2.2.2.10 O (1) NMAC.
<i>Recommendation</i>	The Hospital should monitor expenditures throughout the fiscal year to ensure actual expenses do not exceed budgeted expenses. If necessary, an amended budget should be submitted to the LGD for approval.
<i>Management's Response</i>	The Hospital will review the budget on a monthly basis and make necessary revisions to ensure actual expenses do not exceed budgeted expenses.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2015

2015-002 Minimum Pledged Collateral Requirement

[X] Compliance Finding [] Significant Deficiency [] Material Weakness

Condition The Hospital did not meet the collateralization requirement with deposits held at Community 1st Bank at year-end. The Hospital was under collateralized by \$7,149.

Criteria In order to comply with Section 2.2.2.10 M (5)(b) NMAC, pledged collateral for deposits in banks must equal at least one-half of the amount of public money in each account.

Context This finding appears to be an *isolated* problem.

Cause There are no policies and procedures regarding reviewing the collateralization requirement of the State of New Mexico.

Effect The Hospital is not in compliance with Section 2.2.2.10 M (5)(b) NMAC and as a result exposes the Hospital to custodial credit risk, in which the Hospital would lose its assets not protected by the FDIC or that were not collateralized.

Recommendation Hospital management should develop policies to ensure that the Hospital's deposits are reviewed frequently to ensure that all deposits are properly collateralized in accordance with New Mexico State law.

Management's Response The Hospital will deposit its savings in fully collateralized accounts to avoid under-collateralization.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2015

The schedule of audit findings for the year ended June 30, 2014, reported no audit findings, nor were there any unresolved findings from periods ending June 30, 2013, and prior. Therefore, there are no matters to report in this schedule for the year ended June 30, 2015.

Guadalupe County Hospital
A Component Unit of Guadalupe County, New Mexico
Exit Conference
Year Ended June 30, 2015

An exit conference was held October 9, 2015, with the Board of Directors to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Yolanda Tenorio	Board of Directors
Christina Campos	Administrator
Bret Goebel	Chief Financial Officer
Tom Dingus	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.