

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

Basic Financial Statements and  
Independent Auditors' Reports

June 30, 2016 and 2015



**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, 2016**

***Board of Directors***

Danita Agar	President
Keith Ross	Vice-President
Lee Vega	Secretary/Treasurer
Erasmus Bravo	Member
Yolanda Tenorio	Member (term ended June 2016)
Yvette Griego	Member (term commenced July 2016)

***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 Guadalupe County Hospital, a component unit of Guadalupe County, New Mexico (the Hospital) as of and for the years ended June 30, 2016 and 2015, 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 schedule of revenues and expenses – budget to actual of the Hospital for the year ended June 30, 2016, 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, 2016 and 2015, 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, 2016, 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 financial statements that collectively comprise 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 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 as a whole.

The schedule of vendor information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016, 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, 2016. We issued a similar report for the year ended June 30, 2015, dated October 9, 2015, which has not been included with the 2016 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are 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  
September 26, 2016



**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Management's Discussion and Analysis**  
**Years Ended June 30, 2016 and 2015**

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, 2016 and 2015. 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 \$351,369, or 1.8%, in 2016 and \$206,425, or 1.1%, in 2015.
- Net patient service revenue increased in each of the past two years by \$1,412,923, or 23.2%, in 2016 and \$1,822,730, or 42.8%, in 2015.
- The Hospital reported an operating loss of \$436,345 in 2016 and \$428,261 in 2015. Operating income decreased in each of the past two years by \$8,084, or 1.9%, in 2016 and \$1,311,503, or 148.5%, in 2015.
- Nonoperating net revenues increased in each of the past two years by \$153,028, or 24.1%, in 2016 and \$95,735, or 17.8%, in 2015.

**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, 2016 and 2015**

**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 \$351,369, or 1.8%, in 2016 and \$206,425, or 1.1%, in 2015, as shown in Table 1.

**Table 1. Assets, Liabilities, and Net Position**

	2016	2015	2014
<i>Assets</i>			
Current assets	\$ 9,155,244	\$ 8,611,902	\$ 7,572,692
Capital assets, net	11,614,326	12,250,622	12,886,747
Other noncurrent assets	582,000	566,000	550,000
<b>Total assets</b>	<b>\$ 21,351,570</b>	<b>\$ 21,428,524</b>	<b>\$ 21,009,439</b>
<i>Liabilities and net position</i>			
Current liabilities	\$ 600,491	\$ 912,647	\$ 583,171
Long-term obligations, net of current maturities	827,753	943,920	1,060,736
<b>Total liabilities</b>	<b>1,428,244</b>	<b>1,856,567</b>	<b>1,643,907</b>
<i>Net position</i>			
Net investment in capital assets	10,649,490	11,170,975	11,690,977
Restricted	582,000	566,000	550,000
Unrestricted	8,691,836	7,834,982	7,124,555
<b>Total net position</b>	<b>19,923,326</b>	<b>19,571,957</b>	<b>19,365,532</b>
<b>Total liabilities and net position</b>	<b>\$ 21,351,570</b>	<b>\$ 21,428,524</b>	<b>\$ 21,009,439</b>

In 2016, current assets increased by \$543,342. Total assets for 2016 decreased \$76,954 from 2015. Total assets for 2016 consist primarily of cash and cash equivalents, investments in certificates of deposit, net patient accounts receivable, and net capital assets. Total liabilities have decreased by \$428,323 over the last year due primarily to a decrease in estimated third-party payor settlements. Net position as a percentage of assets increased from 91% at the end of 2015 to 93% at the end of 2016. Stated differently, liabilities (debt) for the Hospital decreased from 9% of assets at the end of 2015 to 7% of assets at the end of 2016. 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, 2016 and 2015**

**Operating Results and Changes in the Hospital's Net Position**

In 2016, the Hospital's operating income decreased by \$8,084. Total operating revenues increased by \$1,005,249 while total operating expenses increased by \$1,013,333 in fiscal year 2016 as compared to fiscal year 2015. 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**

	2016	2015	2014
<i>Operating revenues</i>			
Net patient service revenue	\$ 7,490,343	\$ 6,077,420	\$ 4,254,690
Retail pharmacy revenue	1,338,509	1,174,396	1,043,116
Safety net care pool	376,569	792,816	1,609,729
Electronic health records incentive payment	303,131	472,931	936,917
Grants and other operating revenue	56,592	42,332	22,946
<b>Total operating revenues</b>	<b>9,565,144</b>	<b>8,559,895</b>	<b>7,867,398</b>
<i>Operating expenses</i>			
Salaries, wages, and benefits	2,563,807	2,403,892	2,221,423
Professional fees	4,144,746	3,458,684	2,054,890
Depreciation and amortization	651,141	659,194	653,493
Other operating expenses	2,641,795	2,466,386	2,054,350
<b>Total operating expenses</b>	<b>10,001,489</b>	<b>8,988,156</b>	<b>6,984,156</b>
<i>Operating income (loss)</i>	<b>(436,345)</b>	<b>(428,261)</b>	<b>883,242</b>
<i>Nonoperating revenues (expenses)</i>			
Mill levy revenue	589,919	569,265	508,982
Investment income	185,211	62,122	21,257
Other nonoperating revenue	56,290	57,480	57,480
Interest expense	(43,706)	(54,181)	(48,768)
<b>Total nonoperating revenues, net</b>	<b>787,714</b>	<b>634,686</b>	<b>538,951</b>
Change in net position	351,369	206,425	1,422,193
Net position, beginning of year	19,571,957	19,365,532	17,943,339
<b>Net position, end of year</b>	<b>\$ 19,923,326</b>	<b>\$ 19,571,957</b>	<b>\$ 19,365,532</b>

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

During the year operating revenues increased by \$1,005,249, or 11.7%. Operating expenses increased by \$1,013,333, or 11.3%. 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, 2016 and 2015**

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 2016 by \$159,915, or 6.7%. 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**

	<b>Actual</b>	<b>Final Budget</b>	<b>Favorable (Unfavorable) Variance</b>
Budgetary basis revenues	\$ 10,352,858	\$ 10,700,582	\$ (347,724)
Budgetary basis expenses	10,001,489	10,428,926	427,437
<b>Excess of revenues over expenses</b>	<b>\$ 351,369</b>	<b>\$ 271,656</b>	<b>\$ 79,713</b>

Actual results compare favorably to budgeted amounts for the Hospital due to actual revenues being \$347,724 less than budgeted while actual expenses were \$427,437 less than budgeted. This results in a positive variance of \$79,713 with net income totaling \$351,369 as compared to budgeted net income of \$271,656, as shown in Table 3.

**Capital Asset and Debt Administration**

*Capital Assets*

At the end of 2016, the Hospital had \$11,614,326 invested in capital assets, net of accumulated depreciation, as detailed in note 4 to the basic financial statements. In 2016, the Hospital purchased new assets costing \$14,845. The additions are primarily for land improvements.

*Debt*

At June 30, 2016, the Hospital had \$827,753 in long-term debt obligations, a decrease of \$116,167, or 12.3%, from June 30, 2015.

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, 2016 and 2015**

#### **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, 2016 and 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 503,060	\$ 1,515,689
Investments	7,122,500	5,547,913
Receivables:		
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$515,000 and \$459,000, respectively	1,029,676	1,053,067
Safety net care pool	40,831	90,588
Taxes	10,016	6,950
Other	17,997	4,822
Inventories	386,398	356,810
Prepaid expenses	44,766	36,063
Total current assets	9,155,244	8,611,902
<i>Noncurrent assets</i>		
Cash and cash equivalents restricted by New Medicare management agreement	500,000	500,000
Cash and cash equivalents restricted by USDA loan agreement	82,000	66,000
Capital assets, net	11,614,326	12,250,622
Total noncurrent assets	12,196,326	12,816,622
<b>Total assets</b>	<b>\$ 21,351,570</b>	<b>\$ 21,428,524</b>

*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, 2016 and 2015**

<b>LIABILITIES AND NET POSITION</b>	<b>2016</b>	<b>2015</b>
<i>Current liabilities</i>		
Accounts payable	\$ 316,856	\$ 207,961
Accrued compensation and related liabilities	146,552	149,372
Estimated third-party payor settlements	-	419,587
Accrued interest payable	20,917	23,421
Current maturities of revenue bonds payable	116,166	112,306
Total current liabilities	600,491	912,647
<i>Noncurrent liabilities</i>		
Revenue bonds payable, net of current portion	827,753	943,920
Total liabilities	1,428,244	1,856,567
<i>Net position</i>		
Net investment in capital assets	10,649,490	11,170,975
Restricted	582,000	566,000
Unrestricted	8,691,836	7,834,982
Total net position	19,923,326	19,571,957
<b>Total liabilities and net position</b>	<b>\$ 21,351,570</b>	<b>\$ 21,428,524</b>

*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, 2016 and 2015**

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$799,838 and \$674,404, respectively	\$ 7,490,343	\$ 6,077,420
Retail pharmacy revenue	1,338,509	1,174,396
Safety net care pool	376,569	792,816
Electronic health records incentive payment	303,131	472,931
Grant income	48,142	36,551
Other	8,450	5,781
<b>Total operating revenues</b>	<b>9,565,144</b>	<b>8,559,895</b>
<i>Operating expenses</i>		
Salaries and wages	2,047,080	1,876,623
Employee benefits	516,727	527,269
Professional fees	4,144,746	3,458,684
Retail pharmacy supplies	1,036,136	950,365
Other supplies	895,443	801,903
Utilities	120,640	141,704
Repairs and maintenance	145,276	167,548
Depreciation and amortization	651,141	659,194
Insurance	101,671	83,238
Management fees	240,000	240,000
Other	102,629	81,628
<b>Total operating expenses</b>	<b>10,001,489</b>	<b>8,988,156</b>
<b>Operating loss</b>	<b>(436,345)</b>	<b>(428,261)</b>
<i>Nonoperating revenues (expenses)</i>		
Mill levy revenue	589,919	569,265
Investment income	185,211	62,122
Rental income	56,290	57,480
Interest expense	(43,706)	(54,181)
<b>Total nonoperating revenues, net</b>	<b>787,714</b>	<b>634,686</b>
Change in net position	351,369	206,425
Net position, beginning of year	19,571,957	19,365,532
<b>Net position, end of year</b>	<b>\$ 19,923,326</b>	<b>\$ 19,571,957</b>

*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, 2016 and 2015**

	2016	2015
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from and on behalf of patients	\$ 7,094,147	\$ 6,606,526
Cash received from retail pharmacy	1,338,509	1,174,396
Cash received from safety net care pool provider payments	426,326	1,192,920
Cash received from electronic health records incentive payments	303,131	551,119
Cash received from operating grants	34,967	31,729
Cash received from other revenue	8,450	5,781
Cash paid to and on behalf of employees	(2,566,627)	(2,388,982)
Cash paid to suppliers and contractors	(6,715,937)	(6,059,218)
Net cash provided by (used in) operating activities	(77,034)	1,114,271
<i>Cash flows from noncapital financing activities</i>		
Cash received from mill levies	586,853	568,230
<i>Cash flows from capital and related financing activities</i>		
Principal payments on revenue bonds	(112,307)	(107,599)
Principal payments on capital lease obligation	-	(11,590)
Interest paid	(46,210)	(51,115)
Purchase of capital assets	(14,845)	(23,068)
Net cash used in capital and related financing activities	(173,362)	(193,372)
<i>Cash flows from investing activities</i>		
Interest received	185,211	62,121
Cash received from rental activities	56,290	57,480
Purchase of investments	(1,574,587)	(5,047,913)
Net cash used in investing activities	(1,333,086)	(4,928,312)
Net decrease in cash and cash equivalents	(996,629)	(3,439,183)
Cash and cash equivalents, beginning of year	2,081,689	5,520,872
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,085,060</b>	<b>\$ 2,081,689</b>

*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, 2016 and 2015**

	2016	2015
<b><i>Reconciliation of cash and cash equivalents to the statements of net position</i></b>		
Cash and cash equivalents	\$ 503,060	\$ 1,515,689
Cash and cash equivalents restricted by		
New Medicare management agreement	500,000	500,000
Cash and cash equivalents restricted by USDA loan agreement	82,000	66,000
<b>Total cash and cash equivalents</b>	<b>\$ 1,085,060</b>	<b>\$ 2,081,689</b>
<b><i>Reconciliation of operating loss to net cash provided by (used in) operating activities</i></b>		
Operating loss	\$ (436,345)	\$ (428,261)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	651,141	659,194
Provision for bad debts	799,838	674,404
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(776,447)	(589,834)
Safety net care pool	49,757	400,104
Estimated third-party payor settlements	-	24,949
Electronic health records incentive payments	-	78,188
Other	(13,175)	(4,822)
Inventories	(29,588)	(18,781)
Prepaid expenses	(8,703)	(9,653)
Increase (decrease) in liabilities:		
Accounts payable	108,895	(105,714)
Accrued compensation and related liabilities	(2,820)	14,910
Estimated third-party payor settlements	(419,587)	419,587
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (77,034)</b>	<b>\$ 1,114,271</b>

*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, 2016 and 2015**

**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), as well as operates 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, 2016 and 2015**

**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.

***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.

**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

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

**b. Summary of Significant Accounting Policies (continued)**

***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.

***Change in accounting policies*** – Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurements and Application*, is effective for years beginning after June 15, 2015 (fiscal year ended June 30, 2016, for the Hospital). The statement establishes new requirements on how fair value should be measured, which assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The adoption of this statement has no impact on change in net position.

***Reclassifications*** – Certain amounts have been reclassified in the 2015 financial statements in order to be consistent with the 2016 financial statements. These reclassifications had no effect on the previously reported change in net position.

***Subsequent events*** – The Hospital has evaluated subsequent events through September 26, 2016, 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, 2016 and 2015**

**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 \$8,210,385 and \$7,734,725 at June 30, 2016 and 2015, respectively, a total of \$-0- and \$791,407, 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.

**Fair value** – The Hospital categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Hospital's certificates of deposit are value using quoted market prices (Level 2 input).

The Hospital's investments are as follows:

	2016					
	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	\$ 503,061	\$ 503,061	\$ -	\$ -	\$ -	Not applicable
<i>Wells Fargo</i>						
Money market	8,102	8,102	-	-	-	Not applicable
Certificates of deposit	6,611,337	752,123	5,608,521	250,693	-	Not applicable
<b>Total investments</b>	<b>\$ 7,122,500</b>	<b>\$ 1,263,286</b>	<b>\$ 5,608,521</b>	<b>\$ 250,693</b>	<b>\$ -</b>	<b>-</b>

	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
<b>Total investments</b>	<b>\$ 5,547,913</b>	<b>\$ 1,035,005</b>	<b>\$ 4,512,908</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>

**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**2. Deposits and Investments (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. The schedule of pledged collateral for the funds held by the County is unavailable because the bank comingles pledged collateral for all funds it holds. The County monitors pledged collateral for all of its funds to ensure all holdings are adequately collateralized.

**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 has not changed significantly from prior years. 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:

	<b>2016</b>	<b>2015</b>
Receivable from patients and their insurance carriers	\$ 1,051,927	\$ 1,004,307
Receivable from Medicare	348,422	227,273
Receivable from Medicaid	144,714	280,568
Total patient accounts receivable	<b>1,545,063</b>	1,512,148
Less allowance for uncollectible accounts	<b>515,387</b>	459,081
<b>Net patient accounts receivable</b>	<b>\$ 1,029,676</b>	<b>\$ 1,053,067</b>

**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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:

	2016				
	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	14,845	-	-	242,648
Buildings and improvements	12,375,001	-	-	-	12,375,001
Equipment	2,218,879	-	-	-	2,218,879
Total capital assets being depreciated	14,821,683	14,845	-	-	14,836,528
<i>Less accumulated depreciation for</i>					
Land improvements	(82,246)	(22,421)	-	-	(104,667)
Buildings and improvements	(1,240,679)	(312,268)	-	-	(1,552,947)
Equipment	(1,435,499)	(316,452)	-	-	(1,751,951)
Total accumulated depreciation	(2,758,424)	(651,141)	-	-	(3,409,565)
Total capital assets being depreciated, net	12,063,259	(636,296)	-	-	11,426,963
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 12,250,622</b>	<b>\$ (636,296)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,614,326</b>



**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**4. Capital Assets (continued):**

	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	(1,109,896)	(325,603)	-	-	(1,435,499)
Total accumulated depreciation	(2,099,230)	(659,194)	-	-	(2,758,424)
Total capital assets being depreciated, net	12,699,385	(636,126)	-	-	12,063,259
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 12,886,748</b>	<b>\$ (636,126)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,250,622</b>

**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**5. Noncurrent Liabilities:**

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

	<b>2016</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
Revenue bonds payable	\$ 1,056,226	\$ -	\$ (112,307)	\$ 943,919	\$ 116,166
Compensated absences	61,047	84,495	(68,695)	76,847	76,847
<b>Total long-term debt</b>	<b>\$ 1,117,273</b>	<b>\$ 84,495</b>	<b>\$ (181,002)</b>	<b>\$ 1,020,766</b>	<b>\$ 193,013</b>

  

	<b>2015</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Amounts Due Within One Year</b>
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
<b>Total long-term debt and capital lease obligations</b>	<b>\$ 1,229,327</b>	<b>\$ 76,773</b>	<b>\$ (188,827)</b>	<b>\$ 1,117,273</b>	<b>\$ 173,353</b>

**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 \$157,463, 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, 2016 and 2015**

**5. Noncurrent Liabilities (continued):**

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

<b>Years Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2017	\$ 116,166	\$ 41,296	\$ <b>157,462</b>
2018	121,248	36,214	<b>157,462</b>
2019	126,553	30,910	<b>157,463</b>
2020	132,090	25,373	<b>157,463</b>
2021	137,868	19,594	<b>157,462</b>
2022-2023	309,994	20,829	<b>330,823</b>
	<b>\$ 943,919</b>	<b>\$ 174,216</b>	<b>\$ 1,118,135</b>

**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 2016 or 2015. 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:

	<b>2016</b>	<b>2015</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 3,815,994	\$ 2,396,296
Medicaid/Centennial Care	1,048,925	951,262
Other third-party payors	2,777,749	2,892,688
Patients	749,339	589,682
	<b>8,392,007</b>	<b>6,829,928</b>
Less:		
Charity care	101,826	78,104
Provision for bad debts	799,838	674,404
<b>Net patient service revenue</b>	<b>\$ 7,490,343</b>	<b>\$ 6,077,420</b>

**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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 \$420,000 and \$49,000 in 2016 and 2015, 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, 2016 and 2015, were approximately \$50,000 and \$40,000, respectively. The Hospital did not receive any gifts or grants to subsidize charity care services during 2016 and 2015. The safety net care pool subsidizes services to uninsured patients and unreimbursed Medicaid costs.

**7. Electronic Health Records Incentive Payment:**

The Hospital recognized Medicare electronic health records (EHR) incentive payments during the year ended June 30, 2016, and Medicare and Medicaid EHR incentive payments during the year ended June 30, 2015. 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, 2016 and 2015**

### **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 stage two meaningful use with Centers for Medicare and Medicaid Services (CMS) for the 90-day period ended December 31, 2015.

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 \$303,131 and \$431,300 was recognized in 2016 and 2015, respectively.

Medicaid incentive revenue of \$-0- and \$41,631 was also recognized in 2016 and 2015, respectively.

### **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 \$590,000 and \$569,000 in 2016 and 2015, 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 \$82,000 and \$77,000 for the years ended June 30, 2016 and 2015, 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 for both the years ended June 30, 2016 and 2015.

The plans are administered by the Hospital. The Hospital has the authority to amend the plans.

**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2016 and 2015**

**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 Hospital is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

***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, 2016 and 2015**

**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:

	<b>2016</b>	<b>2015</b>
Medicare	<b>24 %</b>	19 %
Medicaid/Centennial Care	<b>24</b>	40
Patients	<b>16</b>	15
Commercial and other	<b>36</b>	26
	<b>100 %</b>	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, 2016**

	<b>Community 1st Bank</b>	<b>First National Bank of New Mexico</b>	<b>Moreton Capital Markets</b>	<b>Wells  Fargo</b>
Deposits at June 30, 2016	\$ 87,694	\$ 782,207	\$ 6,619,439	\$ 720,945
Less: Fair value adjustment	-	-	110,763	-
Less: CDs held by Moreton Capital Markets and fully insured under FDIC limits	-	-	6,508,676	-
Less: CDs held by Guadalupe County and fully collateralized	-	-	-	503,061
Less: FDIC insurance	250,000	250,000	-	250,000
Uninsured public funds	(162,306)	532,207	-	(32,116)
Pledged collateral held by the pledging bank's trust department or agent, but not in the Hospital's name	-	606,096	-	-
Total uninsured and uncollateralized public funds	\$ -	\$ (73,889)	\$ -	\$ -
50% pledged collateral requirement per statute	\$ -	\$ 266,104	\$ -	\$ -
Total pledged collateral	-	606,096	-	-
<b>Pledged collateral over the requirement</b>	<b>\$ -</b>	<b>\$ 339,992</b>	<b>\$ -</b>	<b>\$ -</b>
<b>First National Bank of New Mexico</b>		<b>Fair Value</b>		
FHLMC - Pool #: C91403, matures March 1, 2032		\$ 275,382		
FHLMC Series 4203 Class DG, matures April 15, 2033		330,714		
<b>Total pledged securities</b>		<b>\$ 606,096</b>		

*See accompanying independent auditors' report.*

**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Schedule of Individual Deposit and Investment Accounts**  
**June 30, 2016**

<b>Depository</b>	<b>Account Name</b>	<b>Account Type</b>	<b>Bank Balance</b>	<b>Deposits in Transit</b>	<b>Outstanding Checks</b>	<b>Book Balance</b>
<b>Deposit Accounts</b>						
Community 1st Bank	Community 1st Savings	Savings	\$ 87,694	\$ -	\$ -	\$ 87,694
First National Bank of New Mexico	Checking	Interest bearing checking	782,207	-	-	782,207
Wells Fargo	Checking	Interest bearing checking	217,884	-	2,825	215,059
<b>Cash on hand</b>	Petty cash	Petty cash	100	-	-	100
<b>Investments</b>						
Moreton Capital Markets	Investment Portfolio	Cash, Money Market, Certificates of Deposit	6,619,439	-	-	6,619,439
Wells Fargo	CDs at County	Certificates of Deposit	503,061	-	-	503,061
<b>Total deposits and investments</b>			<b>\$ 8,210,385</b>	<b>\$ -</b>	<b>\$ 2,825</b>	<b>\$ 8,207,560</b>

*See accompanying independent auditors' report.*

**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Schedule of Vendor Information**  
**Year Ended June 30, 2016**

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
5010-A	Guadalupe County Hospital	Hospitals or Special Hospital Districts	N/A	Sole Source	Sunrise Medical Group, PC	Winner	\$ 2,116,000	\$ 2,116,000	117 Camino De Vida Suite 300, Santa Rosa, NM 88435	No	No	Professional services agreement for pain management services.	

*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, 2016**

	Actual	Original Budget	Final Budget	Final Budget - Favorable (Unfavorable)
<i>Revenues</i>				
Net patient service revenue	\$ 7,490,343	\$ 7,026,215	\$ 7,914,475	\$ (424,132)
Retail pharmacy revenue	1,338,509	1,173,557	1,273,557	64,952
Safety net care pool	376,569	782,107	782,107	(405,538)
Electronic health records incentive payment	303,131	517,844	-	303,131
Other	56,592	37,500	37,500	19,092
Nonoperating revenues, net	787,714	465,943	692,943	94,771
<b>Total revenues</b>	<b>10,352,858</b>	<b>10,003,166</b>	<b>10,700,582</b>	<b>(347,724)</b>
<i>Expenses</i>				
Salaries, wages, and benefits	2,563,807	2,558,441	2,601,641	37,834
Professional fees	4,144,746	4,347,824	4,324,024	179,278
Other	3,292,936	3,366,161	3,503,261	210,325
<b>Total expenses</b>	<b>10,001,489</b>	<b>10,272,426</b>	<b>10,428,926</b>	<b>427,437</b>
<b>Change in net position</b>	<b>\$ 351,369</b>	<b>\$ (269,260)</b>	<b>\$ 271,656</b>	<b>\$ 79,713</b>

*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, 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated September 26, 2016. We have also audited the schedule of revenue and expenses – budget to actual of the Hospital for the year ended June 30, 2016, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **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  
September 26, 2016

**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended June 30, 2016**

The audit for the year ended June 30, 2015, reported two findings that were resolved in the current year.

**2015-001 Actual Expenditures Exceeded Budgeted Expenditures – Resolved**

**2015-002 Minimum Pledged Collateral Requirement – Resolved**

**Guadalupe County Hospital**  
**A Component Unit of Guadalupe County, New Mexico**  
**Exit Conference**  
**Year Ended June 30, 2016**

An exit conference was held September 26, 2016, with the Board of Directors to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Keith Ross	Board of Directors
Erasmio Bravo	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.