REDW LLC

The Rogoff Firm

CERTIFIED PUBLIC ACCOUNTANTS | BUSINESS & FINANCIAL ADVISORS

Gila Regional Medical Center

(A Component Unit of Grant County)

Basic Financial Statements, Supplementary Information
and
Independent Auditors' Reports

June 30, 2008 and 2007

Gila Regional Medical Center
(A Component Unit of Grant County)

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Gila Regional Medical Center

(A Component Unit of Grant County)

Board of Trustees and Principal Employees
June 30, 2008

Board of Trustees

Don White	Chairperson
Ray C. Baca	Vice Chairperson
Jim Leidich	Secretary/Treasurer
Michael Harris	Member
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Donald Montoya, MD	Member

Principal Employees

Brian Bentley	Chief Executive Officer
Craig Stewart	Chief Financial Officer
Cathy Woodard	Chief Nursing Officer
Jean Remillard, MD	Chief Medical Officer

Independent Auditors' Report

Board of Trustees and the Management of
Gila Regional Medical Center
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying financial statements of the business-type activities of Gila Regional Medical Center (the "Medical Center"), a component unit of Grant County, as of and for the year ended June 30, 2008, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents. We have also audited the budget comparison schedules for the year ended June 30, 2008 presented as supplementary information in the schedules of revenues, expenses and changes in net assets–budget and actual as listed in the table of contents. These financial statements and schedules are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit. The 2007 financial statements and schedules were audited by other auditors whose report dated April 15, 2008, expressed an unqualified opinion on those statements and schedules.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Medical Center as of June 30, 2008, and the changes in financial position and cash flows thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the 2008 supplementary schedules referred to above present fairly, in all material respects, the respective budgetary comparison of the Medical Center for the year ended June 30, 2008 in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards,* we have also issued our report dated October 3, 2008, on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements and on the supplementary budgetary schedules listed in the table of contents. The accompanying information identified in the table of contents as New Mexico State Auditor's Supplementary Information is presented for purposes of additional analysis and to meet the requirements of the New Mexico Office of the State Auditor, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

REDW LLC

October 3, 2008

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Introduction

This section of the financial report presents management's discussion and analysis of Gila Regional Medical Center's (the "Medical Center") financial performance during the fiscal year that ended June 30, 2008. Please read it in conjunction with the Medical Center's basic financial statements, which follow this section.

Financial Highlights

- Cash, cash equivalents, and certificates of deposit increased by $1,029,000 in 2008 and by $951,000 in 2007, or 6.4% and 6.3%, respectively.
- The Medical Center's net assets increased by $2,576,000 in 2008 and by $7,101,000 in 2007, or 5.4% and 17.5%, respectively.
- The Medical Center reported operating income in 2008 of $1,705,000 which represents a decrease of $1,358,000, or 44.3%, compared to the operating income reported in 2007.
- Net nonoperating revenues increased by $307,000 or 54.4% in 2008, compared to a decrease in 2007 of $456,000 or 44.7%. In 2007 the Medical Center received $3,474,000 in grant funds from the State of New Mexico, which were used to fund the building of the cancer center.
- The debt service coverage ratio for 2008 (using the current year's debt service requirements) was 3.77 compared to 3.51 in 2007. The required debt service coverage ratio as outlined in the Medical Center's Revenue Bonds' covenants is 2.35.

Using This Annual Report

The Medical Center's financial statements consist of three statements: balance sheets; statements of revenues, expenses and changes in net assets; and statements of cash flows. These statements provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Medical Center is accounted for as a business-type activity and presents its financial statement using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any medical center's finances is, "Is the medical center as a whole better or worse off as a result of the year's activities?" The balance sheets and the statements of revenues, expenses and changes in net assets report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net assets and changes in them. The Medical Center's total net assets, the difference between assets and liabilities, are one measure of the Medical Center's financial health or financial position. Over time, increases or decreases in the Medical Center's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Medical Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economics factors should also be considered to assess the overall financial health of the Medical Center.

The Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

The Medical Center's Net Assets

The Medical Center's net assets are the difference between its assets and liabilities reported in the balance sheets. The Medical Center's net assets increased in 2008 by $2,576,000 or 5.4% and in 2007 by $7,101,000 or 17.5%, as shown in the following table:

TABLE 1
ASSETS, LIABILITIES AND NET ASSETS

	2008	2007	2006
Assets			
Cash and cash equivalents	**$ 3,416,376**	$ 4,141,736	$ 3,557,307
Patient accounts receivable, net	**8,917,475**	10,857,096	9,523,048
Certificates of deposit and other current assets	**18,461,874**	15,005,392	16,149,346
Capital assets, net	**29,948,982**	29,493,898	25,122,338
Other noncurrent assets	**623,042**	3,528,983	990,768
Total assets	**$ 61,367,749**	$ 63,027,105	$ 55,342,807
Liabilities			
Long-term debt, including current maturities	**$ 6,320,662**	$ 7,691,569	$ 9,002,569
Other current and noncurrent liabilities	**4,856,326**	7,721,090	5,826,764
Total liabilities	**11,176,988**	15,412,659	14,829,333
Net Assets			
Invested in capital assets, net of related debt	**23,628,320**	23,281,643	17,606,022
Restricted-expendable for debt service	**841,416**	831,785	788,630
Unrestricted	**25,721,025**	23,501,018	22,118,822
Total net assets	**50,190,761**	47,614,446	40,513,474
Total liabilities and net assets	**$ 61,367,749**	$ 63,027,105	$ 55,342,807

In 2008, the increase in net assets of $2,576,000 was due primarily to an increase in net patient service revenue. The most significant increase in 2007 net assets was a capital grant from the State of New Mexico for $3,474,000 for construction of a new cancer center, which opened in May 2007. There was also $600,000 from prior-year Medicare cost report recoveries, in addition to the $3,027,000 increase in net patient service revenue.

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Operating Results and Changes in the Medical Center's Net Assets

The Medical Center's operating income in 2008 was approximately $1,705,000, a 44.3% decrease compared to 2007 results. In 2007, operating income was $3,063,000, which included $600,000 in prior-year cost report recoveries. This compares to an operating income of $1,715,000 in 2006 as shown in the following table:

TABLE 2
OPERATING RESULTS AND CHANGE IN NET ASSETS

	2008	2007	2006
Operating Revenues			
Net patient service revenue	**$ 60,865,549**	$ 58,005,705	$ 52,717,178
Other operating revenues	**504,938**	525,616	564,013
Total operating revenues	**61,370,487**	58,531,321	53,281,191
Operating Expenses			
Salaries, wages and employee benefits	**31,890,269**	30,448,627	27,296,236
Purchased services and professional fees	**8,535,168**	6,965,344	6,819,800
Depreciation and amortization	**2,495,683**	1,935,127	1,675,442
Other operating expenses	**16,744,468**	16,119,452	15,775,030
Total operating expenses	**59,665,588**	55,468,550	51,566,508
Operating income	**1,704,899**	3,062,771	1,714,683
Nonoperating Revenues (Expenses)			
Interest income	**765,316**	672,282	483,952
Interest expense	**(320,199)**	(394,442)	(354,829)
Grants and gifts	**426,299**	286,373	891,380
Net nonoperating revenues	**871,416**	564,213	1,020,503
Excess of revenues over expenses before capital grant	**2,576,315**	3,626,984	2,735,186
Capital grant, State of New Mexico funding	**-**	3,473,988	-
Change in net assets	**$ 2,576,315**	$ 7,100,972	$ 2,735,186

Operating Income

The first component of the overall change in the Medical Center's net assets is its operating income or loss – the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Medical Center reported operating income in 2008 of $1,705,000, a decrease of $1,358,000 compared to the 2007 operating income of $3,063,000. Part of the decrease for 2008 compared to 2007 was because of a $600,000 net gain in 2007 due to cost report recoveries from successful reopenings of prior-year Medicare cost reports from 2000 to 2005. The primary components of the operating results in 2008 are as follows:

- An increase in net patient service revenue of $2,860,000 or 4.9% due to volume increases in outpatient clinical areas as listed below.
- Increases in salaries and benefits of $1,442,000 an increase of 4.7% compared to the prior year. Salaries and benefits increased $3,152,000 or 11.5% in 2007 compared to 2006. The increase in 2008 was due to a 4.0% across the board wage increase plus a small increase in full-time equivalent employees (FTEs) required due to increasing patient volumes in some clinical departments such as the Emergency Room, Laboratory, Outpatient Surgery, Physical Therapy, and Home Health.
- An increase in purchased services and professional fees of $1,570,000 or 22.5% in 2008 compared to an increase in 2007 of $145,000 or 2.1%. The 2008 increase was due to an increase in Radiologists fees of $874,000, due to Locum Tenens Radiologists and a change in the Radiologist provider group; an increase in Emergency Room physician fees of $247,000, due to a new physician ER group contract; the addition of Hospitalist fees of $175,000 due to starting a new Hospitalist program during 2008; and $274,000 or 3.2% in normal inflationary increases.
- Net patient service revenues increased 4.9% in 2008 compared to 2007. At the same time, total operating expenses increased 7.6% in 2008 compared to 2007 due to the increases in wages, purchased services, and medical and professional fees outlined above.

Net patient service revenue increased 4.9% in 2008 due primarily to the following volume increases: Nursery patient days increased 6.6% over 2007; Emergency Room visits increased 6.2% over 2007; Outpatient Surgeries increased 2.6% compared to last year; Laboratory tests increased 6.5%, and Physical Therapy visits increased 4.8% compared with 2007 levels. Diagnostic Imaging procedures also increased by 2.0% compared to 2007 volumes. This contrasts with a 3% drop in 2007 for Diagnostic Imaging procedures as compared to 2006. Improved case management and a favorable payor mix and reimbursement rates also played a factor in the net patient service revenue increase.

Employee salaries, wages and benefits increased in 2008 in connection with the Medical Center's retention and recruitment efforts. These efforts resulted primarily from the shortage of nurses and other healthcare professionals in the United States. Total FTEs of the Medical Center increased by 15 in 2008 compared to 2007, or 3%. This was due to the higher patient volumes mentioned above, as well as additional regulatory requirements from various governmental & healthcare regulatory agencies.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consisting primarily of noncapital grants and gifts, investment income, and interest expense increased by $307,000 or 54.4% in 2008 compared to 2007, due to an increase in investment income from CD's and increased donations primarily from the Gila Regional Medical Center Foundation for the new cancer center.

The Medical Center's Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2008, 2007 and 2006 discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2008, the Medical Center had $29,949,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2008, the Medical Center invested over $900,000 dollars in various Information Technology equipment & software to upgrade operating systems and install new computerized clinical applications to enhance patient care delivery. Additionally, the Medical Center invested over $400,000 in new surgical equipment, $300,000 for a new digital x-ray room, and $200,000 for new building service equipment, plus various other smaller clinical equipment purchases.

Debt

At June 30, 2008, the Medical Center had $6,321,000 in revenue bonds outstanding. The Medical Center did not issue any new debt in 2008 or 2007. Total debt decreased by approximately $1,371,000 in 2008. The Medical Center's revenue bonds are subject to limitations imposed by state law. There have been no changes in the Medical Center's debt ratings for the past three years. See Note 6 to the financial statements for further information about long-term debt.

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2008

Budgetary Highlights

The budget was modified once during the year to account for the loss of the 340-b drug pricing for the first half of the fiscal year and also for anticipated additional costs for the new Hospitalist program. Total operating revenue was over budget by $1,537,000, due to higher than anticipated patient volumes and the Sole Community Provider supplemental revenue. Operating expenses were also over budget by $1,586,000 due to purchased services, professional fees, and medical fees being $377,000 over budget as outlined previously. Additionally, supplies and other costs were over budget by a total of $842,000 due to the higher outpatient volumes and revenues previously mentioned.

Other Economic Factors

The primary and secondary service areas of the Medical Center are comprised of four counties in Southwestern New Mexico. The population in both service areas totaled 58,662 in 2000. By 2010, the total population is projected to be 62,555, an increase of 6.6%. The population figures and estimates were compiled by the Bureau of Economic Research of the University of New Mexico. The area's largest employer is Freeport McMoRan, an international mining conglomerate, which owns several copper mines in the Medical Center's service area. Silver City is a tourist destination and many local businesses are involved in the tourism industry. Silver City is also a destination for retirees due to its good climate and rural location. Future Medical Center growth will be driven in part by the projected population increases and the increases in retirees who are heavy users of hospital services.

Contacting the Medical Center's Financial Management

This financial report is designed to provide the Medical Center's Board of Trustees, customers, and the citizens of Grant County with a general overview of the Medical Center's finances and to show the Medical Center's financial accountability. If you have any questions about this report or need additional financial information, contact:

Gila Regional Medical Center
1313 East 32nd Street
Silver City, NM 88061
(575) 538-4130

Basic Financial Statements

Gila Regional Medical Center

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

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	$ 3,416,376	$ 4,141,736
Certificates of deposit	13,575,484	9,019,893
Restricted cash and investments, current	1,730,944	1,716,960
Patient accounts receivable, net of allowance; 2008 - $4,819,000; 2007 - $3,735,000	8,917,475	10,857,096
Other receivables, net	684,646	1,695,639
Inventories	1,717,436	1,930,825
Prepaid expenses and other	753,364	642,075
Total current assets	30,795,725	30,004,224
Noncurrent assets and investments		
Certificates of deposit, long-term	-	2,801,239
Held by trustee for debt service	2,221,411	2,277,398
	2,221,411	5,078,637
Less amount required to meet current obligations	1,730,944	1,716,960
	490,467	3,361,677
Capital assets, net	29,948,982	29,493,898
Other assets	132,575	167,306
Total assets	$ 61,367,749	$ 63,027,105

The accompanying notes are an integral part of these financial statements.

Gila Regional Medical Center
(A Component Unit of Grant County)
Balance Sheets — continued
June 30,

	2008	2007
Liabilities		
Current liabilities		
Current maturities of long-term debt	**$ 1,455,662**	$ 1,366,000
Accounts payable	**2,398,990**	5,383,847
Accrued expenses		
Vacation	**1,517,370**	1,411,625
Payroll	**636,460**	402,411
Interest	**128,506**	158,060
Other	**-**	185,147
Estimated third party payor settlement	**175,000**	180,000
Total current liabilities	**6,311,988**	9,087,090
Long-term debt, less current maturities	**4,865,000**	6,325,569
Total liabilities	**11,176,988**	15,412,659
Net Assets		
Invested in capital assets, net of related debt	**23,628,320**	23,281,643
Restricted-expendable for debt service	**841,416**	831,785
Unrestricted	**25,721,025**	23,501,018
Total net assets	**50,190,761**	47,614,446
Total liabilities and net assets	**$ 61,367,749**	$ 63,027,105

The accompanying notes are an integral part of these financial statements.

Gila Regional Medical Center

(A Component Unit of Grant County)
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30,

	2008	2007
Operating Revenues		
Patient service revenue	**$ 66,281,499**	$ 63,687,969
Provision for uncollectible accounts	**5,415,950**	5,682,264
	60,865,549	58,005,705
Other	**504,938**	525,616
Total operating revenues	**61,370,487**	58,531,321
Operating Expenses		
Salaries, wages and employee benefits	**31,890,269**	30,448,627
Supplies and other	**14,861,487**	13,863,719
Purchased services and professional fees	**8,535,168**	6,965,344
Depreciation	**2,495,683**	1,935,127
Amortization of physician guarantee amounts	**25,770**	501,930
Rental and leases	**1,857,211**	1,753,803
Total operating expenses	**59,665,588**	55,468,550
Operating income	**1,704,899**	3,062,771
Nonoperating Revenues (Expenses)		
Interest income	**765,316**	672,282
Interest expense	**(320,199)**	(394,442)
Grants and gifts	**426,299**	286,373
Total nonoperating revenues	**871,416**	564,213
Excess of revenues over expenses before capital grant	**2,576,315**	3,626,984
Capital grant from State of New Mexico for Cancer Center	**-**	3,473,988
Change in net assets	**2,576,315**	7,100,972
Net assets, beginning of year	**47,614,446**	40,513,474
Net assets, end of year	**$ 50,190,761**	$ 47,614,446

The accompanying notes are an integral part of these financial statements.

Gila Regional Medical Center
(A Component Unit of Grant County)
Statements of Cash Flows
For the Years Ended June 30,

	2008	2007
Cash flows from operating activities		
Cash received from patients and third-party payors	**$ 64,290,331**	$ 56,251,562
Cash paid to suppliers and contractors	**(28,101,892)**	(21,072,437)
Cash paid to employees	**(31,765,176)**	(30,331,703)
Other receipts (payments), net	**-**	(232,257)
Net cash provided by operating activities	**4,423,263**	4,615,165
Cash flows from noncapital financing activities		
Grants and gifts	**426,299**	286,373
Cash flows from capital and related financing activities		
Capital grants	**-**	3,473,988
Principal paid on long-term debt	**(1,360,000)**	(1,305,000)
Interest paid on long-term debt	**(331,106)**	(423,970)
Purchase of capital assets	**(2,950,767)**	(6,323,663)
Changes in assets limited as to use	**55,987**	(410,746)
Net cash used in capital and related financing activities	**(4,585,886)**	(4,989,391)
Cash flows from investing activities		
Purchase of certificates of deposit	**(1,754,352)**	-
Interest on investments	**765,316**	672,282
Net cash (used in) provided by investing activities	**(989,036)**	672,282
Net (decrease) increase in cash and cash equivalents	**(725,360)**	584,429
Cash and cash equivalents, beginning of year	**4,141,736**	3,557,307
Cash and cash equivalents, end of year	**$ 3,416,376**	$ 4,141,736

The accompanying notes are an integral part of these financial statements.

Gila Regional Medical Center
(A Component Unit of Grant County)
Statements of Cash Flows — continued
For the Years Ended June 30,

	2008	2007
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 1,704,899**	$ 3,062,771
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	**2,495,683**	1,935,127
Amortization	**25,770**	501,930
Provision for uncollectible accounts	**5,415,950**	5,682,264
Changes in assets and liabilities		
Patient accounts receivable	**(3,476,329)**	(7,016,312)
Other receivables	**985,223**	(758,799)
Inventories	**213,389**	(132,628)
Prepaid expenses and other	**(76,558)**	(228,954)
Accounts payable and accrued expenses	**(2,859,764)**	1,989,861
Estimated third-party payor settlements	**(5,000)**	(420,095)
Net cash provided by operating activities	**$ 4,423,263**	$ 4,615,165
Supplemental Cash Flow Information		
Contribution of works of art received	**$ -**	$ 19,500

The accompanying notes are an integral part of these financial statements.

1) Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Gila Regional Medical Center (the "Medical Center") is a 68-bed acute care hospital located in Silver City, New Mexico. The Medical Center is a component unit of Grant County (the "County") and the Board of County Commissioners appoints members to the Board of Trustees of the Medical Center. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Grant County area. There are no component units of the Medical Center.

The Medical Center had a management agreement with Quorum Health Resources (QHR), a healthcare management company, to supervise and direct the Medical Center's daily operations. On August 1, 2007, the Medical Center converted its relationship with QHR to a management advisory services agreement (MASA). The Chief Executive Officer and Chief Financial Officer became employees of the Medical Center as a result of this agreement. The MASA will expire August 1, 2009. Management fees approximated $355,000 and $329,000 in 2008 and 2007, respectively.

Basis of Accounting and Presentation

The Medical Center's financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as county appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Medical Center prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Government Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

1) Nature of Operations and Summary of Significant Accounting Policies — continued

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents
The Medical Center considers all liquid investments, other than investments of cash limited as to use, with original maturities of three months or less, to be cash equivalents.

Patient Accounts Receivable and Allowances
The Medical Center reports patient accounts receivable for services rendered at net realizable amounts form third-party payors, patients and others. Contractual allowances represent the amounts which reduce patient accounts receivable to amounts that are considered to be collectible from third-party payors based on existing contracts the Medical Center has with these payors. The contractual allowance percentages are updated monthly by payor class and line of business and are based on the accounts within that payor category that have been completely paid or adjusted to zero over the previous six months. Contractual allowances are deducted from gross patient accounts receivable on the balance sheets.

The allowance for doubtful patient accounts receivable is that amount which, in management's judgment, is considered adequate to reduce patient accounts receivable to an amount that is considered to be ultimately collectible. The Medical Center calculates its allowance for doubtful accounts based on percentages of accounts receivable aging categories that consider historical write-offs by major payor categories over the past several years.

Management believes that the allowances for doubtful accounts and contractual allowances are adequate. Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is a possibility that recorded estimates of the allowance for doubtful accounts and contractual allowances will change by a material amount in the near term.

On a monthly basis, the Medical Center evaluates patient accounts receivable balances older than six months to determine collectibility. Accounts are considered uncollectible when there has been no recent payment activity and no other indication that payment will

1) Nature of Operations and Summary of Significant Accounting Policies — continued

Patient Accounts Receivable and Allowances — continued
be received. Those balances that are considered uncollectible are written off upon approval from the Director of Patient Financial Services, Assistant Vice President of Finance and Chief Financial Officer, depending on the balance of the account.

Net Patient Service Revenue
The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are accrued on the estimated basis in the period the related services are rendered and adjusted in future periods as more information is available to improve estimates or final settlements are determined.

Investments
Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost.

Inventories
Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital Assets
Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. The Medical Center's policy is to expense items with costs less than $5,000, in accordance with Section 12-6-10 NMSA 1978. Costs incurred for repair and maintenance are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center:

Land improvements	15 – 20 years
Buildings and leasehold improvements	20 – 40 years
Equipment	3 – 10 years

1) Nature of Operations and Summary of Significant Accounting Policies — continued

Capital Assets — continued

The Medical Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. All interest was charged to expense in 2008 and 2007.

Bond Issuance Costs

Bond issuances costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Compensated Absences

The Medical Center's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned, but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as social security and Medicare taxes computed, using rates in effect at that date. The estimated compensated absences liability expected to be paid more than one year after the balance sheet date is included in other long-term liabilities.

Net Assets

Net assets of the Medical Center are classified in four components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Medical Center, including amounts deposited with trustees as required by

1) Nature of Operations and Summary of Significant Accounting Policies — continued

Net Assets — continued

bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Medical Center, such as permanent endowments. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Charity Care

The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Medical Center maintains records to identify and monitor the level of charity care provided. Those records include the amount of charges foregone for services and supplies furnished under the Medical Center's charity care policy and aggregated approximately $936,000 and $709,000 in 2008 and 2007, respectively.

Income Taxes

As the Medical Center is a political subdivision of the County, the Medical Center is exempt from federal and state income tax.

The Foundation

Gila Regional Medical Center Foundation (the "Foundation") is a legally separate, tax-exempt organization under Internal Revenue Code Section 501(c)(3) established primarily to raise and hold funds to support the Medical Center and its programs. Although the Medical Center does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Medical Center. The resources and operations were determined not to be significant to the Medical Center and, therefore, the Foundation is not reported as a component unit of the Medical Center in the accompanying financial statements.

Reclassifications

Certain reclassifications have been made to the 2007 financial information to conform to the 2008 financial statement presentation. Such reclassifications had no effect on the 2007 change in net assets.

2) Net Patient Service Revenue

A summary of payment arrangements with major third-party payors follows:

Medicare—Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, behavioral inpatient services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual costs reports by the Medical Center and audits thereof by the Medicare fiscal intermediary.

Medicaid—The State of New Mexico (the “State”) administers its Medicaid program through contracts with three Managed Care Organizations (MCOs). Medicaid beneficiaries are required to enroll with one of the MCOs. The State pays each MCO a per member, per month rate based on their current enrollment. These amounts are allocated by each MCO to separate pools for the hospital, physicians, and ancillary providers. As a result, the MCOs assume the financial risk of providing health care to its members. This arrangement is commonly referred to as “SALUD!.”

Through the Medical Center’s contracts with MCOs, inpatient acute care services and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge and discounted fee schedules. These rates vary accordingly to a patient classification system that is based on clinical, diagnostic, and other factors. Behavioral and home health services rendered to Medicaid program beneficiaries are paid using a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary.

2) Net Patient Service Revenue — continued

Medicare and Medicaid cost report liabilities are as follows:

	June 30, 2008 Amount	June 30, 2008 Status	June 30, 2007 Amount
Medicare			
2006	$ -	Final	$ (120,000)
2007	25,000	Estimate Unaudited	(50,000)
2008	50,000	Estimate Unaudited	-
	75,000		(170,000)
Medicaid			
2004	(22,760)	Expected payment	50,000
2005	-	Estimate Unaudited	50,000
2006	-	Estimate Unaudited	50,000
2007	-	Estimate Unaudited	200,000
2008	122,760	Estimate Unaudited	-
	100,000		350,000
Estimated third-party payor settlements	$ 175,000		$ 180,000

Management believes that these estimates are adequate. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations.

Settlements of prior-year cost reports and changes in estimates resulted in increases to net patient service revenue of approximately $369,000 and $600,000 in the years ended June 30, 2008 and 2007, respectively.

Other Third-Party Payors—The Medical Center has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established changes and prospectively determined daily rates.

2) Net Patient Service Revenue — continued

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

	2008	2007
Gross patient revenue		
Inpatient	**$ 37,133,194**	$ 35,820,604
Outpatient	**72,752,547**	69,458,544
Total gross patient revenue	**109,885,741**	105,279,148
Less contractual adjustments and provision for uncollectible accounts		
Third-party payor contractual allowances, discounts, and adjustments	**43,604,242**	41,591,179
Provision for uncollectible accounts	**5,415,950**	5,682,264
Total contractual adjustments and provision for uncollectible accounts	**49,020,192**	47,273,443
Net patient service revenue	**$ 60,865,549**	$ 58,005,705

3) Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Medical Center's deposits may not be returned to it. In accordance with Section 6-10-17, NMSA, 1978 compilation, the Medical Center is required to obtain collateral in an amount equal to one-half of the deposited public money in excess of $100,000. The Medical Center's policy is to require collateral in accordance with state statutes. As of June 30, 2008 and 2007, the Medical Center was in compliance with the state collateralization requirements, exceeding the 50% requirement by approximately $3.9 million and $1.2 million, respectively. As of June 30, 2008, the Medical Center had deposits with a bank balance of $17,452,143, of which $4,648,371 was uninsured and uncollateralized, and therefore subject to custodial credit risk. As of June 30, 2007, the Medical Center had deposits with a bank balance of $16,173,800, of which $6,718,679 were uninsured and uncollateralized, and therefore subject to custodial credit risk.

3) Deposits and Investments — continued

Investments

The Medical Center may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, commercial paper rated not less than Grade "A" by a national rating service; bonds or other obligations issued by the State of New Mexico; the State Treasurer's *New MexiGrow* Local Government Investment Pool (the "Pool"); and in bank repurchase agreements. It may also invest, to a limited extent, in corporate bonds and equity securities.

The Pool is not Securities and Exchange Commission registered. Section 6-10-10-I, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or agencies sponsored by the United States government. The Pool's investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments. The Pool does not have unit shares. According to Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the funds' amounts were invested. Participation in the Pool is voluntary.

The Medical Center's value of its investment in the Pool, the credit rating of the Pool, and the weighted-average maturity (WAM) at June 30, 2008, is as follows:

June 30, 2008			
New MexiGrow LGIP	AAAm rated	$1,040	24-day WAM

3) Deposits and Investments — continued

Investments — continued

At June 30, 2008 and 2007, the Medical Center had the following investments and maturities:

		June 30, 2008			
		Maturities in Years			
Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
U.S. Treasury securities	**$ 2,220,371**	**$ 1,874,578**	**$ 345,793**	**$ -**	**$ -**
State Treasurer's investment pool	**1,040**	**1,040**	**-**	**-**	**-**
	$ 2,221,411	**$ 1,875,618**	**$ 345,793**	**$ -**	**$ -**

		June 30, 2007			
		Maturities in Years			
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasury securities	$ 1,595,329	$ 1,249,536	$ 345,793	$ -	$ -
State Treasurer's investment pool	997	997	-	-	-
Money market mutual funds	681,072	681,072	-	-	-
	$ 2,277,398	$ 1,931,605	$ 345,793	$ -	$ -

- *Interest Rate Risk*—As a means of limiting its exposure to fair value losses arising from rising interest rates, the Medical Center's practice is to invest in certificates of deposits with maturities of less than one year.
- *Custodial Credit Risk*—For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.
- *Concentration of Credit Risk*—The Medical Center places no limit on the amount that may be invested in any one issuer.

3) Deposits and Investments — continued

Summary of Carrying Values

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

	2008	2007
Carrying value		
Deposits	**$ 16,991,860**	$ 15,962,868
Investments	**2,221,411**	2,277,398
	$ 19,213,271	$ 18,240,266
Included in the following balance sheets captions		
Cash and cash equivalents	**$ 3,416,376**	$ 4,141,736
Certificates of deposit, current	**13,575,484**	9,019,893
Restricted cash and cash equivalents, current	**1,730,944**	665,051
Held by trustee for debt service	**490,467**	1,612,347
Certificates of deposit, noncurrent	**-**	2,801,239
	$ 19,213,271	$ 18,240,266

4) Patient Accounts Receivables

The Medical Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payor agreements. Patient accounts receivable at June 30, 2008 and 2007, consisted of the items shown below:

	2008	2007
Medicare	**$ 6,595,512**	$ 6,308,477
Medicaid	**3,798,894**	4,451,047
Other third-party payers	**4,236,999**	4,669,642
Patients	**5,714,925**	4,978,484
	20,346,330	20,407,650
Less allowance for contractual adjustments	**6,609,983**	5,815,269
	13,736,347	14,592,381
Less allowance for uncollectible accounts	**4,818,872**	3,735,285
	$ 8,917,475	$ 10,857,096

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2008 and 2007

5) Capital Assets

Capital asset activity of the Medical Center for the years ended June 30, 2008 and 2007, was as follows:

	June 30, 2008				
	Beginning Balance	**Additions**	**Disposals and Retirements**	**Transfers**	**Ending Balance**
Land	**$ 642,700**	**$ -**	**$ -**	**$ -**	**$ 642,700**
Land improvements	**48,356**	**34,204**	**-**	**-**	**82,560**
Buildings	**29,099,435**	**18,987**	**-**	**-**	**29,118,422**
Equipment	**25,151,742**	**2,555,360**	**(314,808)**	**279,736**	**27,672,030**
Construction in progress	**279,736**	**342,216**	**-**	**(279,736)**	**342,216**
Total	**55,221,969**	**2,950,767**	**(314,808)**	**-**	**57,857,928**
Less accumulated depreciation					
Land improvements	**4,600**	**2,446**	**-**	**-**	**7,046**
Buildings	**8,640,443**	**773,064**	**-**	**-**	**9,413,507**
Equipment	**17,083,028**	**1,720,173**	**(314,808)**	**-**	**18,488,393**
	25,728,071	**2,495,683**	**(314,808)**	**-**	**27,908,946**
Capital assets, net	**$ 29,493,898**	**$ 455,084**	**$ -**	**$ -**	**$ 29,948,982**

	June 30, 2007				
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
Land	$ 642,700	$ -	$ -	$ -	$ 642,700
Land improvements	48,356	-	-	-	48,356
Buildings	25,525,771	34,487	-	3,539,177	29,099,435
Equipment	22,023,422	3,163,895	(35,575)	-	25,151,742
Construction in progress	710,608	3,124,355	(16,050)	(3,539,177)	279,736
Total	48,950,857	6,322,737	(51,625)	-	55,221,969
Less accumulated depreciation					
Land improvements	3,103	1,497	-	-	4,600
Buildings	15,887,829	1,230,774	(35,575)	-	17,083,028
Equipment	7,937,587	702,856	-	-	8,640,443
	23,828,519	1,935,127	(35,575)	-	25,728,071
Capital assets, net	$ 25,122,338	$ 4,387,610	$ (16,050)	$ -	$ 29,493,898

The Medical Center received capital grants from the State of New Mexico totaling approximately $3,474,000 during 2007 for construction of a cancer center.

6) Long-Term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended June 30, 2008 and 2007:

	June 30, 2008				
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**	**Due Within One Year**
Long-term debt					
Revenue bonds					
Series 2004	**$ 3,155,000**	**$ -**	**$ 175,000**	**$ 2,980,000**	**$ 165,000**
Series 2000	**3,980,000**	**-**	**655,000**	**3,325,000**	**1,275,000**
Series 1996	**530,000**	**-**	**530,000**	**-**	**-**
	7,665,000	**-**	**1,360,000**	**6,305,000**	**1,440,000**
Plus unamortized bond premium	**26,569**	**-**	**10,907**	**15,662**	**15,662**
Total long-term debt	**7,691,569**	**-**	**1,370,907**	**6,320,662**	**1,455,662**
Other long-term liabilities					
Accrued compensated absences	**1,411,625**	**1,517,370**	**1,411,625**	**1,517,370**	**1,517,370**
Total long-term obligations	**$ 9,103,194**	**$ 1,517,370**	**$ 2,782,532**	**$ 7,838,032**	**$ 2,973,032**

	June 30, 2007				
	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Long-term debt					
Revenue bonds					
Series 2004	$ 3,355,000	$ -	$ 200,000	$ 3,155,000	$ 175,000
Series 2000	4,060,000	-	80,000	3,980,000	655,000
Series 1996	1,555,000	-	1,025,000	530,000	530,000
	8,970,000	-	1,305,000	7,665,000	1,360,000
Plus unamortized bond premium	32,569	-	6,000	26,569	6,000
Total long-term debt	9,002,569	-	1,311,000	7,691,569	1,366,000
Other long-term liabilities					
Accrued compensated absences	1,377,604	1,411,625	1,377,604	1,411,625	1,411,625
Total long-term obligations	$ 10,380,173	$ 1,411,625	$ 2,688,604	$ 9,103,194	$ 2,777,625

<u>Revenue Bonds Payable</u>
The revenue bonds payable consist of the following:

- Subordinated Hospital Revenue Bonds, Series 2004, issued in the amount of $3,850,000 with various maturity dates through August 1, 2014. Interest is payable semiannually on each February 1 and August 1 at interest rates ranging from 3.90% to 4.50%.

6) Long-Term Obligations — continued

Revenue Bonds Payable — continued

The proceeds from the bond issue were used to construct and equip an ambulatory surgical center addition to the Medical Center. The Series 2004 Bonds are subordinated to the Series 2000 and 1996 bond issues and are secured by net revenues.

- Hospital Refunding Revenue Bonds, Series 2000, issued in the amount of $4,500,000 with various maturity dates through August 1, 2010. Interest is payable semiannually on each February 1 and August 1 at interest rates ranging from 4.90% to 5.50%. The proceeds from the bond issue were used to renovate and to construct an addition to the Medical Center. The bonds are secured by net revenues and payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

- Hospital Refunding Revenue Bonds, Series 1996, issued in the amount of $9,330,000 with various maturity dates through August 1, 2007. Interest is payable semiannually on each February 1 and August 1 at interest rates ranging from 5.00% to 5.25%. The proceeds from the bond issue were used to refund previously outstanding bond obligations. The bonds are secured by net revenues and payments of bond principal are also secured by an insurance policy issued by a commercial insurer. The bonds were paid in full in August 2007.

The bond indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service in the balance sheets. The indenture agreements also require the Medical Center to comply with certain restrictive covenants including minimum debt service requirements and liquidity requirements.

The debt service requirements as of June 30, 2008, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2009	$ 1,730,944	$ 1,440,000	$ 290,944
2010	1,734,933	1,520,000	214,933
2011	1,217,962	1,085,000	132,962
2012	692,437	600,000	92,437
2013	720,562	655,000	65,562
2014-2015	1,049,579	1,005,000	44,578
	$ 7,146,417	$ 6,305,000	$ 841,416

7) Tax Sheltered Annuity Plan

The Medical Center contributes to a tax sheltered retirement plan covering all eligible employees. The plan is a 403(b) plan under the Internal Revenue Code and is administered by the Travelers Company. Eligible employees may participate in the Medical Center's retirement plan after 12 months of continuous employment on a regular full-time or part-time status. The Medical Center will contribute 2.5% of the employee's annual salary provided the employee is a participant in the plan. The Medical Center will match an additional 2.5% of the employee's contribution up to a maximum of 5.0% of the employee's annual salary. Employees may contribute a maximum of 20.0% of their annual salary. The Medical Center's contributions for each employee are vested immediately upon contribution. The Medical Center's contributions to the plan were approximately $1,358,000 and $829,000 for the years ended June 30, 2008 and 2007, respectively. Employee contributions to the plan were approximately $633,000 and $560,000 for 2008 and 2007, respectively. There are no stand-alone financial reports available to the public for the plan.

8) Commitments and Contingencies

Healthcare Regulatory Environment—The healthcare industry is subject to laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, the imposition of significant fines and penalties and significant repayments for patient services previously billed.

Management believes that the Medical Center is in compliance with applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to assure health insurance portability, guarantee security and privacy of health information, enforce standards for health information and establish administrative simplification provisions. Management feels that the Medical Center is in compliance with all applicable provisions of HIPAA.

8) Commitments and Contingencies — continued

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

Medical Malpractice Claims— The Medical Center purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Litigation—In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Medical Center's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Medical Center's future financial position or results of operations. However, events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Operating Leases— The Medical Center leases equipment through operating lease agreements expiring in various years through 2013. Total rent expense for all operating leases was approximately $1,857,000 and $1,754,000 for 2008 and 2007, respectively. Future minimum lease payments for noncancelable operating leases with lease terms exceeding one year at June 30, 2008, were as follows:

2009	$ 499,208
2010	499,208
2011	335,646
2012	216,235
2013	197,142
Future minimum lease payments	$ 1,747,439

Supplementary Information (Audited)

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Revenues, Expenses and Changes in Net Assets—Budget and Actual
For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget - Favorable
	Original	Final	**Actual**	(Unfavorable)
Operating Revenues	$ 59,208,387	$ 59,833,743	**$ 61,370,487**	$ 1,536,744
Operating Expenses				
Salaries, wages and employee benefits	31,591,876	31,514,572	**31,890,269**	(375,697)
Supplies and other	13,315,653	14,012,620	**14,861,487**	(848,867)
Purchased services and professional fees	7,728,967	8,158,457	**8,535,168**	(376,711)
Depreciation	1,892,956	1,892,956	**2,495,683**	(602,727)
Amortization of physician guarantee amounts	452,126	452,126	**25,770**	426,356
Rental and leases	2,049,039	2,049,039	**1,857,211**	191,828
Total operating expenses	57,030,617	58,079,770	**59,665,588**	(1,585,818)
Operating income	2,177,770	1,753,973	**1,704,899**	(49,074)
Nonoperating Revenues (Expenses)	509,239	639,239	**871,416**	232,177
Change in net assets	$ 2,687,009	$ 2,393,212	**2,576,315**	$ 183,103
Net assets, beginning of year			**47,614,446**	
Net assets, end of year			**$ 50,190,761**	

Note to Schedule

Annual budgets are adopted as required by New Mexico statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America.

The legal level of budgetary control is at the fund level.

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Revenues, Expenses and Changes in Net Assets—Budget and Actual
For the Year Ended June 30, 2007

	Budgeted Amounts			Variance with Final Budget - Favorable
	Original	Final	**Actual**	(Unfavorable)
Operating Revenues	$ 56,402,783	$ 56,402,783	**$ 58,531,321**	$ 2,128,538
Operating Expenses				
Salaries, wages and employee benefits	29,550,278	29,550,278	**30,448,627**	(898,349)
Supplies and other	14,154,477	14,154,477	**13,863,719**	290,758
Purchased services and professional fees	6,898,214	6,898,214	**6,965,344**	(67,130)
Depreciation	1,847,295	1,847,295	**1,935,127**	(87,832)
Amortization of physician guarantee amounts	-	-	**501,930**	(501,930)
Rental and leases	1,890,407	1,890,407	**1,753,803**	136,604
Total operating expenses	54,340,671	54,340,671	**55,468,550**	(1,127,879)
Operating income	2,062,112	2,062,112	**3,062,771**	1,000,659
Nonoperating Revenues (Expenses)	174,105	174,105	**564,213**	390,108
Change in net assets	$ 2,236,217	$ 2,236,217	**3,626,984**	$ 1,390,767
Capital grant from State of New Mexico for Cancer Center			**3,473,988**	
Net assets, beginning of year			**40,513,474**	
Net assets, end of year			**$ 47,614,446**	

Note to Schedule

Annual budgets are adopted as required by New Mexico statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America.

The legal level of budgetary control is at the fund level.

New Mexico State Auditor's Supplementary Information

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Pledged Collateral
For the Year Ended June 30, 2008

Account	Account Number	Account Type		Wells Fargo Bank, NA	Western	Ambank	First NM Savings	Total
General Account	230-0050091	Checking		$ 3,790,753	$ -	$ -	$ -	$ 3,790,753
Payroll Account	230-0003131	Checking		37,674	-	-	-	37,674
Employee Assistance Account	230-0051543	Checking		32,395	-	-	-	32,395
Cafeteria Account	230-0031591	Checking		15,837	-	-	-	15,837
Certificate of Deposit	9891162175	CD		2,846,100	-	-	-	2,846,100
Certificate of Deposit	9891162605	CD		1,032,199	-	-	-	1,032,199
Certificate of Deposit	7655765803	CD		2,409,318	-	-	-	2,409,318
Certificate of Deposit	13279717	CD		-	-	-	1,114,710	1,114,710
Certificate of Deposit	13279705	CD		-	-	-	1,627,589	1,627,589
Certificate of Deposit	5391	CD		-	-	1,641,165	-	1,641,165
Certificate of Deposit	11442	CD		-	2,104,388	-	-	2,104,388
Certificate of Deposit	11201	CD		-	800,015	-	-	800,015
Total amount of deposit in bank				10,164,276	2,904,403	1,641,165	2,742,299	17,452,143
Less FDIC insurance				100,000	100,000	100,000	100,000	400,000
Total uninsured public funds				$ 10,064,276	$ 2,804,403	$ 1,541,165	$ 2,642,299	$ 17,052,143
Collateral requirement - 50% (Section 6-10-17)				$ 5,032,138	$ 1,402,202	$ 770,583	$ 1,321,150	$ 8,526,073
	Maturity	CUSIP						
Pledged securities held by Wells Fargo Bank, NA; held in the name of the Medical Center								
Wells Fargo Bank N.W.	FNMA Matures 06/01/36	31410MQ29	(2)	504,210	-	-	-	504,210
Wells Fargo Bank N.W.	FNMA Matures 05/01/36	31409CV69	(2)	3,241,991	-	-	-	3,241,991
Wells Fargo Bank N.W.	FNMA Matures 05/01/36	31409UUZ6	(2)	139,567	-	-	-	139,567
Wells Fargo Bank N.W. (Repurchase Agreement)	FNMA Matures 05/01/37	31411XXK6	(2)	2,913,425	-	-	-	2,913,425
Wells Fargo Bank N.W.	FNMA Matures 06/01/37	3128MS7G9	(2)	651,094	-	-	-	651,094
Pledged securities held by Ambank; held in the name of the Medical Center								
Los Alamos NM	MUNI Matures 08/01/2011	544228BB4	(1)	-	-	250,000	-	250,000
T or C, NM	MUNI Matures 08/01/2010	598439DH4	(1)	-	-	125,000	-	125,000
Los Lunas, NM	MUNI Matures 07/15/2011	545562LZ1	(1)	-	-	125,000	-	125,000
Lovington, NM	MUNI Matures 09/01/2021	547473CZ9	(1)	-	-	100,000	-	100,000
San Juan Cty, NM	MUNI Matures 08/01/2017	798359HP3	(1)	-	-	200,000	-	200,000
So. Sandoval Cnty	MUNI Matures 08/01/2017	843789DW5	(1)	-	-	100,000	-	100,000
Taos, NM Sch Dist	MUNI Matures 08/01/2010	876014EX5	(1)	-	-	200,000	-	200,000
Pledged securities held by Western Bank; held in the name of the Medical Center								
Grant Cnty Hosp Rev	MUNI Matures 08/01/2008	387774BN1	(1)	-	215,488	-	-	215,488
Grant Cnty Hosp Rev	MUNI Matures 08/01/2012	387779AH4	(1)	-	301,068	-	-	301,068
Grant Cnty Hosp Rev	MUNI Matures 08/01/2013	387779AJO	(1)	-	174,144	-	-	174,144
Grant & Cibola Cntys	MUNI Matures 10/01/2015	388240CY7	(1)	-	134,865	-	-	134,865
Rio Arriba Cnty, NM	MUNI Matures 05/01/2016	766899AN8	(1)	-	185,157	-	-	185,157
Western NM Univ	MUNI Matures 06/15/2010	958893KZ1	(1)	-	253,125	-	-	253,125
Curry Cnty New Mex	MUNI Matures 08/01/2013	231327BB2	(1)	-	101,192	-	-	101,192
Lovington, New Mex	MUNI Matures 09/01/2021	547473CZ9	(1)	-	459,480	-	-	459,480
Pledged securities held by First NM Savings Bank, held in the name of the Medical Center								
MBS FNMA 10 yr	FNMA Matures 10/01/2014	31403DHR3	(2)	-	-	-	11,286	11,286
FNR 2005-30 CY	FNMA Matures 04/25/2029	31394C6V9	(2)	-	-	-	2,017,680	2,017,680
Total pledged collateral				7,450,287	1,824,519	1,100,000	2,028,966	12,403,772
Amount over (under) collateralized				$ 2,418,149	$ 422,317	$ 329,417	$ 707,816	$ 3,877,699

(1) Municipal bond.
(2) U.S. Treasury or agency bond.

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Individual Deposit and Investment Accounts
June 30, 2008

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Deposit Accounts						
Wells Fargo	230-0050091	Checking	$ 3,790,753	$ 5,250	$ 433,430	$ 3,362,573
Wells Fargo	230-0003131	Checking	37,674	-	30,183	7,491
Wells Fargo	230-0051543	Checking	32,395	-	-	32,395
Wells Fargo	230-0031591	Checking	15,837	-	3,170	12,667
			$ 3,876,659	$ 5,250	$ 466,783	3,415,126
Cash on hand		Petty cash				1,250
						$ 3,416,376
Investment Accounts						
Wells Fargo	GRMC	Certificates of Deposit	$ 6,287,617	$ -	$ -	$ 6,287,617
Western Bank	GRMC	Certificates of Deposit	2,904,403	-	-	2,904,403
First New Mexico Savings	GRMC	Certificates of Deposit	2,742,299	-	-	2,742,299
AM Bank	GRMC	Certificates of Deposit	1,641,165	-	-	1,641,165
Bank of Albuquerque	GRMC-2004 Bond P and I Fund	U.S. Treasury bill	124,389	-	-	124,389
		Money market	105	-	-	105
			124,494	-	-	124,494
Wells Fargo	GRMC-1996 and 2000 Debt Service Reserve Fund	U.S. Treasury cash	385,366	-	-	385,366
		U.S. Treasury note	345,793	-	-	345,793
			731,159	-	-	731,159
Wells Fargo	GRMC-2000 Bond Fund	U.S. Treasury cash	1,364,718	-	-	1,364,718
State Treasurer's Local Government Investment Pool		Investment pool	1,040	-	-	1,040
			$ 15,796,895	$ -	$ -	$ 15,796,895

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 Trustees and the Management of
Gila Regional Medical Center
and
Mr. Hector H. Balderas, New Mexico State Auditor

We have audited the accompanying financial statements of the business-type activities of Gila Regional Medical Center (the "Medical Center"), a component unit of Grant County, as of and for the year ended June 30, 2008, which collectively comprise the Medical Center's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2008 presented as supplementary information, and have issued our report thereon dated October 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

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of control deficiencies, that adversely affects the Medical Center's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Medical Center's financial statements that is more than inconsequential will not be prevented or detected by the Medical Center's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as items FS 08-01 through FS 08-05 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Medical Center's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that are required to be reported under *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and responses as items SA 08-1 through SA 08-5.

The Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Medical Center's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of trustees, management, others within the Medical Center, the New Mexico Legislature and the New Mexico Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified users.

REDW LLC

October 3, 2008

Gila Regional Medical Center

(A Component Unit of Grant County)
Schedule of Findings and Responses
For the Year Ended June 30, 2008

FS 08-1 Capital Asset Itemization — Information Technology Systems

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Criteria or Specific Requirement: The preparation of detailed capital asset records aids in the accounting for property disposals, substantiates insurance claims for lost or damaged items, provides information for proper recording of depreciation expense, and provides controls to safeguard the assets.

Condition: The Medical Center maintains detailed capital asset records; however, the records for information technology systems are summarized. Sufficient detail is not maintained to identify with specific systems or projects.

Cause: The information systems capital asset listing is not listed by project or in detail item form. Capital assets purchases are totaled by month purchased and depreciated by this lump sum. Projects are not tracked as a whole or by date in service for depreciation.

Effect: Without the detail listing and pricing of information systems based on the type of equipment and software, it is difficult to ascertain the true value of the systems. This may also affect the Medical Center's ability to record and safeguard its information system capital assets.

Auditors' Recommendations: We recommend that the Medical Center itemized its information technology system capital assets by grouping similar assets together, complete with acquistion and disposal dates. The Medical Center could also group the assets based on specific projects or systems.

Management's Response: Although the Informations Systems Department maintains accurate, complete inventory records on all IT items purchased, we agree that the items should be listed individually on the Capital Equipment schedule rather than aggregated, and have started accounting for them in this way in Fiscal Year 2009.

FS 08-2 Capital Asset Inventory

Criteria or Specific Requirement: A periodic physical inventory of capital assets is necessary to plan for capital expenditures, determine accurate amounts and values of insurable assets, determine whether capital assets are impaired and help detect the loss or unauthorized use of property and equipment. New Mexico State Statute Section 12-6-10, NMSA 1978, requires all organizations to conduct an annual physical inventory of equipment.

Condition: The Medical Center did not take a physical inventory of its capital assets in 2008.

Cause: The Medical Center does not have a process or policy in place to take a physical inventory of its capital assets, or to assess capital assets for impairment.

Effect: Without a periodic physical inventory of its capital assets, the Medical Center may be exposed to the risk of loss or unauthorized use of property and equipment. It may also fail to indentify capital assets whose use has been impaired.

Auditors' Recommendations: We recommend that periodic physical counts of property, especially removable equipment items, be taken and compared to the detailed capital asset subsidiary ledger. Affixing identifying tags with numbers as assigned in the subsidiary ledger will aid in making this comparison. Capital assets whose use has been impaired should be identified at this time, and appropriate adjustments made to carrying values in the general ledger.

Management's Response: Management agrees and will take a complete physical inventory of all items over $25,000 in Fiscal Year 2009.

FS 08-3 Allowance for Doubtful Accounts

Criteria or Specific Requirement: The methodology used to estimate the allowance for uncollectible patient accounts receivable is critical to the appropriate valuation of accounts receivable on the balance sheet. The methodology should be updated regularly and based on actual historical collection data as available.

Condition: During our tests of the allowance for doubtful accounts, we noted that the Medical Center is adhering to its policy for recording those amounts. However, the policy and related percentages have not been updated since September 2006.

Cause: The Medical Center has not updated its policy for developing an allowance for doubtful accounts. The Medical Center should regularly compare actual historical collection data to the stated policy to ensure that the percentages and allowance methodologies are appropriate.

Effect: Without periodic verification against actual data, the allowance estimates made by management may may not reflect actual collection results.

Auditors' Recommendations: The Medical Center should measure actual historical collection data against the stated policy to ensure that the percentages and allowance methodologies are appropriate.

Management's Response: This policy and the allowance percentages were extensively reviewed during the 2006 audit, with recommendations made and put into place. Management agrees that this needs to be updated, and will work with the Business Office Director during the 2009 fiscal year to ensure that the percentages and allowance methodologies are appropriate and current.

FS 08-4 Segregation of Duties — Cash Receipts (Prior Year Finding 07-04)

Criteria or Specific Requirement: A good system of internal control requires that adequate segregation of duties be maintained between the receipt of cash and the ability to adjust patient accounts in the system.

Condition: Cash processors are able to both receive payments and post adjustments to patient accounts.

Cause: The two cash processors have access to receive all mail, enter the receipts into the MediTech system, which posts to patient accounts, and scan the checks into the bank directly.

Effect: The ability of the cash processors to receive cash and checks and post to patient accounts exposes the Medical Center to potential theft and misappropriation of patient cash receipts. The cash processors could potentially steal cash and checks, then cover up the theft by making fraudulent adjustments to patient accounts.

Auditors' Recommendations: The duties of opening the mail and scanning the checks should be delegated to one person, and the other individual should be solely responsible for posting the information to the patient account (which subsequently posts to the accounts receivable subledger). The individual posting to patient accounts should not handle cash and checks, but rather post to the system using check copies, explanations of benefits and other remittance information.

Management's Response: Management agrees that these two functions should be separated for good internal control and this will be done immediately. One person will open the mail and scan the checks into the bank file and will not have the ability to adjust patient accounts. The other person will post the cash receipts to the patient accounts.

FS 08-5 Journal Entry Approval

Criteria or Specific Requirement: To help prevent error or fraud, all journal entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

Condition: We noted three instances where transactions were posted to the accounting system without an approving initial or signature on the face of the journal entry.

Cause: Journal entries are not always being approved before posting to the general ledger.

Effect: By not obtaining appropriate approval of all journal entries, the Medical Center could fail to detect erroroeous or fraudulent entries to the accounting system.

Auditors' Recommendations: Review current policies and develop a process to ensure that journal entries are properly approved by knowledgable personnel prior to entry into the accounting system.

Management's Response: All journal entries done by the AVP/Finance are reviewed by the CFO. The entries done by the Staff Accountant are now reviewed by the AVP/Finance. Although 99% of all journal entries were signed, we will carefully review all future entries to make sure there is a double check that all journal entries are properly signed and approved.

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2008

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

SA 08-1 Budget Compliance (Prior Year Finding 07-08)

Criteria or Specific Requirement: The New Mexico State Auditor Rule require a finding to be reported if actual expenses exceed budgeted expenses (6-3-1 to 6-3-25 NMSA 1978).

Condition: The Medical Center exceeded its budgeted expenses for fiscal year 2008 by $1.6 million.

Cause: Operational expenses exceeded expected amounts.

Effect: The Medical Center exceeded its budgeted expenses and is not in compliance with state statutes.

Auditors' Recommendations: Due to nature of the Medical Center's business, fluctuations in its expenses is not unusual; however, management should align its expectations with actual business results. Appropriate revisions to the budget should be made and approved by the state.

Management's Response: Because actual revenue is over budgeted revenue, actual expense also exceeded budget as outlined on pages 7 to 9 of the Management's Discussion and Analysis. The Medical Center is not on a fixed budget as are many of the State agencies, so actual revenue and expense items will almost never match budget exactly.

SA 08-2 Asset Capitalization

Criteria or Specific Requirement: New Mexico State Statute Section 12-6-10, NMSA 1978, requires organizations to capitalize equipment that costs over $5,000, which is also the Medical Center's policy.

Condition: One item in the amount of $9,135 for a new water heater was expensed when it should have been capitalized.

Cause: The Medical Center did not catch the water heater during its process of reviewing items for capitalization.

Effect: Although the item we reviewed was not material to the financial statements taken as a whole, failure to capitalize purchases exceeding the capitalization threshold could affect the Medical Center's ability to properly record capital assets.

Auditors' Recommendations: We recommend that periodic reviews be performed of the repairs and maintenance accounts to ensure that all items meeting the Medical Center's capitalization guidelines are appropriately capitalized.

Management's Response: Although we regularly check all repair and maintenance accounts for items which may have been miscoded, we missed the water heater and it was erroneously expensed. We will continue to review monthly and quarterly to avoid missing items in the future.

SA 08-3 Classification and Accounting for Leases

Criteria or Specific Requirement: All significant new leases should be analyzed to determine if they meet the criteria for capitalization under Statement of Financial Accounting Standard (SFAS) No. 13, *Accounting for Leases*.

Condition: We noted that the Medical Center has financed certain equipment acquisitions through the use of leases. We also noted that certain of the leases provided for the purchase of the equipment at the end of the lease term for a bargain purchase price. Because of the purchase options, these assets meet the criteria for capital lease treatment. However, the net effect was not determined to be material to record an audit adjustment.

Cause: The Medical Center does not have a process in place to determine whether significant new leases meet the criteria for capitalization.

Effect: Failure to assess the classification of leases hinders the Medical Center's ability to accurately record capital assets and the associated capital lease payable.

Auditors' Recommendations: We recommend that all significant future equipment leases be analyzed prior to the commencement of the lease term in order to determine the required accounting treatment, based on SFAS No. 13. Doing so will avoid potentially significant unexpected year-end adjustments to the financial statements. Also, it is more efficient to determine the proper accounting at the start than to spend time making adjustments at year-end.

Management's Response: Management agrees to review the criteria and adopt a policy for review of leased items over a set amount, to be determined, which will appropriately place large dollar leased equipment under Capital Lease accounting treatment.

SA 08-4 Documentation of Annual Pay Raises

Criteria or Specific Requirement: All employee pay rate changes should have proper authorization and approval.

Condition: Annual pay increases are not documented in the employee files maintained by human resources.

Cause: The Medical Center does not have a set policy for documenting annual pay increases in employee files. There were several instances where a document detailing the percentage increase and signatures from the CEO, CFO, and HR Director were found in employee files; however, this document was not consistently found in employee files who received the annual pay increase. The annual increases are for all eligible individuals of the Medical Center. In order to be eligible, an employee must have been working during the fiscal year before March 31, and cannot be a per diem employee. This issue is limited to the annual increases. The Medical Center does use personnel action notices for all other related raises/pay cuts such as transfers, new hires, terminations, and new positions. Documentation of the approved annual increases can be found in the board minutes towards the end of the year.

Effect: Pay rates should have proper authorization and approval. Without such documentation, the Medical Center is susceptible to unauthorized pay rate changes.

Auditors' Recommendations: The Medical Center should have a set procedure for documenting the annual increases like any other pay raise. If the annual increases are blanket increases, we recommend that an authoritative memorandum be included in the employee's file to document the annual increase.

Management's Response: Across-the-board cost of living pay increases have not been documented in Caregiver files, which will be done in the future. Documentation approved by Senior Administration will be place in each Caregiver file for any future Cost of Living increases.

SA 08-5 Deposit In Transit

Criteria or Specific Requirement: Cash account reconciliations are a critical component of a strong internal control system.

Condition: In the course of performing our audit, we noted that the cash account reconciliation included an in-transit item for a lost deposit. The item we reviewed was not material to the financial statements taken as a whole.

Cause: In the June 30, 2008, bank reconciliation for the operating account, there was a "lost" deposit in transit used to reconcile the bank balance. The deposit in transit was received by the accounting department and credit was given to the customer, but the check was subsequently lost before deposited. The Medical Center is waiting on a replacement check from the customer instead of voiding the deposit in transit until the replacement check is received.

Effect: Without proper review, in-transit items could be placed in the bank reconciliations and misstate the cash accounts. This also presents a fraud risk to the Medical Center if proper oversight and review is not completed.

Auditors' Recommendations: Management should review and approve reconciling items in the bank reconciliations to ensure the items are appropriate. Extra care should be taken to protect all checks received.

Management's Response: This was an unusual circumstance where a check had been issued to the Medical Center, but mailed to the attention of a Department Director who had it in his desk and had not followed up with either Finance or the Business Department to get it deposited. In the meantime, both Finance and the Business Office Director were working with the payer as the remittance advice had been received and the patient account credited, but we had not located the check. Reconciling items will be extensively reviewed by the AVP/Finance and patient accounts adjusted as necessary to prevent this from happening again.

Gila Regional Medical Center
(A Component Unit of Grant County)
Current Status Schedule of 2007 Audit Findings
For the Year Ended June 30, 2008

Prior-Year Number	Description	Current-Year Number
Repeated Findings		
07-04	Segregation of Duties	FS 08-4
07-08	Actual vs. Budgeted Expenditures	SA 08-1
Resolved Findings		
07-01	Unrecorded Audit Adjustments	N/A
07-02	Recorded Audit Adjustments	N/A
07-03	Audit Report Due Date	N/A
07-05	Recording of Lease Agreements	N/A
07-06	Compliance With Credit Card Policy	N/A
07-07	Accounting for Investments	N/A

Gila Regional Medical Center
(A Component Unit of Grant County)
Other Disclosures
For the Year Ended June 30, 2008

Exit Conference
A closed meeting exit conference was held with the Medical Center on September 24, 2008, in Silver City, New Mexico with the following attending:

Gila Regional Medical Center Board

Don White	Chairperson
Ray C. Baca	Vice Chairperson
Jim Leidich	Secretary/Treasurer
Michael Harris	Member
Greg Koury, MD	Member
Donald Montoya, MD	Member
Brian Bentley	Chief Executive Officer
Craig Stewart	Chief Financial Officer
Ruth Wasmer	Administrative Assistant
Jean Remillard, MD	Chief Medical Officer

REDW LLC

Chris Tyhurst, CPA	Principal

Financial Statement Preparation
The Medical Center’s independent public accountants prepared the accompanying financial statements; however, the Medical Center is responsible for the financial statement and disclosure content.