



Gila Regional Medical Center
(A Component Unit of Grant County)
2009 Financial Statements,
Supplementary Information and
Independent Auditors' Reports

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, 2009

Board of Trustees

Don White	Chairperson
Ray C. Baca	Vice Chairperson
Jim Leidich	Secretary/Treasurer
Michael Harris	Member
Greg Koury, MD	Member
Terry Trujillo	Member
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 years ended June 30, 2009 and 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 years ended June 30, 2009 and 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 audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Medical Center as of June 30, 2009 and 2008, and the changes in its financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the supplementary schedules referred to above present fairly, in all material respects, the respective budgetary comparison of the Medical Center for the years ended June 30, 2009 and 2008, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2009, 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 opinions 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.

REDWLLC

September 22, 2009

Required Supplementary Information
Management's Discussion and Analysis

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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, 2009. 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 \$591,000 in 2009 and by \$1,029,000 in 2008, or 3.5% and 6.4%, respectively.
- ◆ The Medical Center's net assets increased by \$5,772,000 in 2009 and by \$2,576,000 in 2008, or 11.5% and 5.4%, respectively.
- ◆ The Medical Center reported operating income in 2009 of \$2,423,000, which represents an increase of \$718,000 or 42%, compared to the operating income reported in 2008.
- ◆ Net nonoperating revenues decreased by \$22,000 or 3% in 2009, compared to an increase of \$307,000 or 54.4% in 2008. In 2009, the Medical Center received \$2,498,862 in grant funds from the State of New Mexico, which were used to fund the building of the cancer center and an emergency medical services (EMS) building.
- ◆ The debt service coverage ratio for 2009 (using the current year's debt service requirements) was 4.15 compared to 3.77 in 2008. 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.

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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, is 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 economic 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.

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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 2009 by \$5,772,000 or 11.5% and in 2008 by \$2,576,000 or 5.4%, as shown in the following table:

ASSETS, LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Cash and cash equivalents	\$ 3,370,058	\$ 3,416,376	\$ 4,141,736
Patient accounts receivable, net	9,902,070	8,917,475	10,857,096
Certificates of deposit and other current assets	21,550,418	18,461,874	15,005,392
Capital assets, net	31,338,985	29,948,982	29,493,898
Other noncurrent assets	<u>380,724</u>	<u>623,042</u>	<u>3,528,983</u>
Total assets	<u>\$ 66,542,255</u>	<u>\$ 61,367,749</u>	<u>\$ 63,027,105</u>
Liabilities			
Long-term debt, including current maturities	\$ 4,874,397	\$ 6,320,662	\$ 7,691,569
Other current and noncurrent liabilities	<u>5,705,374</u>	<u>4,856,326</u>	<u>7,721,090</u>
Total liabilities	<u>10,579,771</u>	<u>11,176,988</u>	<u>15,412,659</u>
Net Assets			
Invested in capital assets, net of related debt	26,464,588	23,628,320	23,281,643
Restricted-expendable for debt service	550,473	841,416	831,785
Unrestricted	<u>28,947,423</u>	<u>25,721,025</u>	<u>23,501,018</u>
Total net assets	<u>55,962,484</u>	<u>50,190,761</u>	<u>47,614,446</u>
Total liabilities and net assets	<u>\$ 66,542,255</u>	<u>\$ 61,367,749</u>	<u>\$ 63,027,105</u>

In 2009, the increase in net assets of \$5,772,000 was due primarily to an increase in net patient service revenue, resulting in increased operating income, and state grant monies utilized to build the cancer center and an emergency medical services (EMS) building. In 2008, the increase in net assets of \$2,576,000 was due primarily to an 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, 2009

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

The Medical Center's operating income in 2009 was approximately \$2,423,000, a 42% increase compared to 2008 results. In 2008, operating income was \$1,705,000, which included \$369,000 in prior-year cost report recoveries. This compares to 2007 operating income of \$3,063,000, which included \$600,000 in prior year cost report recoveries. These results are shown in the following table:

OPERATING RESULTS AND CHANGE IN NET ASSETS

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues			
Net patient service revenue	\$ 64,266,689	\$ 60,865,549	\$ 58,005,705
Other operating revenues	<u>701,560</u>	<u>504,938</u>	<u>525,616</u>
Total operating revenues	<u>64,968,249</u>	<u>61,370,487</u>	<u>58,531,321</u>
Operating Expenses			
Salaries, wages and employee benefits	32,134,659	31,890,269	30,448,627
Purchased services and professional fees	11,148,110	8,535,168	6,965,344
Depreciation and amortization	2,738,610	2,495,683	1,935,127
Other operating expenses	<u>16,523,398</u>	<u>16,744,468</u>	<u>16,119,452</u>
Total operating expenses	<u>62,544,777</u>	<u>59,665,588</u>	<u>55,468,550</u>
Operating income	<u>2,423,472</u>	<u>1,704,899</u>	<u>3,062,771</u>
Nonoperating Revenues (Expenses)			
Interest income	484,371	765,316	672,282
Interest expense	(254,038)	(320,199)	(394,442)
Grants and gifts	779,368	426,299	286,373
Loss on sale of asset	<u>(160,312)</u>	<u>-</u>	<u>-</u>
Net nonoperating revenues	<u>849,389</u>	<u>871,416</u>	<u>564,213</u>
Excess of revenues over expenses before capital grant	3,272,861	2,576,315	3,626,984
Capital grant, State of New Mexico funding	<u>2,498,862</u>	<u>-</u>	<u>3,473,988</u>
Change in net assets	<u>\$ 5,771,723</u>	<u>\$ 2,576,315</u>	<u>\$ 7,100,972</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2009

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 2009 of \$2,423,000, an increase of \$718,000 compared to the 2008 operating income of \$1,705,000. The primary components of the operating results in 2009 are as follows:

- ◆ An increase in net patient service revenue of \$3,401,000 or 5.6% due to outpatient volume increases in the cancer center, lab, MRI and CT scans, and home health. A price increase was implemented July 2008, which positively impacted net patient service revenues approximately 2.5%.
- ◆ Increases in salaries and benefits of \$244,000, an increase of 0.7%, compared to the prior year. Salaries and benefits increased \$1,442,000 or 4.7% in 2008 compared to 2007. In 2009, while there was a 3% across the board wage increase, full time equivalent employees (FTEs) declined by 12 or 2%. Also, man hours per adjusted admission declined from 103.7 in 2008 down to 99.6 in 2009, a 4% improvement in productivity. Overtime also declined by 5% in 2009 as compared to 2008. All of these factors contributed to smaller salary and benefit increases in 2009, as compared to the 2008 increases.
- ◆ A decrease of \$279,000 in supplies and other expenses due to expense controls implemented, lower inpatient volumes and revenues, and improvements in purchasing contracts and pricing in the procurement of supplies. Supply costs as a percentage of total operating revenues declined from 16.2% in 2008 to 14.5% in 2009.
- ◆ An increase in purchased services and professional fees of \$2,613,000, or 30.6%, in 2009 compared to an increase in 2008 of \$1,570,000, or 22.5%. The 2009 increase was due to a \$1,400,000 increase in cancer center management fees (due to the introduction of radiation oncology) and contract wages, including physician fees, hospitalist physician fees of \$840,000 and a \$375,000 increase in ER physician fees.
- ◆ Net patient service revenue increased 5.6% in 2009 compared to 2008. At the same time, total operating expenses increased 4.8% in 2009 compared to 2008 due to the increases in wages, purchased services, and professional fees outlined above.

Net patient service revenue increased 5.6% in 2009 due primarily to the following outpatient volume increases: home health visits increased 17.1% over 2008, total lab procedures increased 6.6% over 2008, cancer center visits increased 34% over 2008, MRI scans increased by 23% over 2008, and CT scans increased by 4% over 2008. Improved case management, a lower length of stay, and a favorable payor mix and reimbursement rates also played a factor in the net patient service revenue increase.

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2009

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consisting primarily of noncapital grants and gifts, interest income, and interest expense decreased by \$22,000, or 3%, in 2009 compared to 2008, due to a loss on sale of asset in 2009, an increase in grants and gifts, and a decrease of interest expense, offset by a decrease in interest income of \$281,000 in 2009 due to lower interest rates on CDs held by the Medical Center.

Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2009, 2008 and 2007 discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2009, the Medical Center had \$31,339,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2009, the Medical Center invested approximately \$2.5 million dollars in state grant monies for the completion of the cancer center and the construction of an emergency medical services (EMS) building. Additionally, the Medical Center invested approximately \$700,000 in new and upgraded information systems technology for both hardware and software, \$480,000 for new surgical equipment, \$245,000 for new cardiac monitors for the ER and new defibrillators for all clinical areas, and \$365,000 for other smaller clinical and other equipment purchases.

Debt

At June 30, 2009, the Medical Center had \$4,865,000 in revenue bonds outstanding. The Medical Center did not issue any new debt in 2009 or 2008. Total debt decreased by approximately \$1,446,000 in 2009. 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, 2009

Budgetary Highlights

There were no budget modifications during fiscal year 2009. Total operating revenue was under budget by \$1,072,000, due to lower than anticipated inpatient, surgical, and ER volumes. Operating expenses were also under budget by \$1,522,000 due to salaries, wages and employee benefits being \$868,000 under budget as outlined previously. Additionally, purchased services and professional fees were under budget by a total of \$262,000, rentals and leases were \$283,000 less than budgeted, and supplies and other were under budget by \$103,000.

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. Due to the recession, parts of the mining operations were shut down, and unemployment has increased significantly. 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:

Chief Financial Officer
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,

	2009	2008
Assets		
Current assets		
Cash and cash equivalents	\$ 3,370,058	\$ 3,416,376
Certificates of deposit	14,212,857	13,575,484
Investments held by trustee for debt service, current	1,474,047	1,730,944
Patient accounts receivable, net of allowance:		
2009 - \$3,688,000; 2008 - \$4,819,000	9,902,070	8,917,475
Sole Community Provider receivable	2,048,170	-
Other receivables, net	832,572	684,646
Inventories	2,302,167	1,717,436
Prepaid expenses and other	680,605	753,364
Total current assets	34,822,546	30,795,725
Noncurrent assets and investments		
Investments held by trustee for debt service	1,474,047	2,221,411
Less amount required to meet current obligations	(1,474,047)	(1,730,944)
	-	490,467
Capital assets, net	31,338,985	29,948,982
Other assets	380,724	132,575
Total assets	\$ 66,542,255	\$ 61,367,749

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,

	<u>2009</u>	<u>2008</u>
Liabilities		
Current liabilities		
Current maturities of long-term debt	\$ 1,529,397	\$ 1,455,662
Accounts payable	3,214,370	2,398,990
Accrued expenses		
Compensated absences	1,652,587	1,517,370
Payroll	729,889	636,460
Interest	97,866	128,506
Estimated third party payor settlement	<u>10,662</u>	<u>175,000</u>
Total current liabilities	7,234,771	6,311,988
Long-term debt, less current maturities	<u>3,345,000</u>	<u>4,865,000</u>
Total liabilities	<u>10,579,771</u>	<u>11,176,988</u>
Net Assets		
Invested in capital assets, net of related debt	26,464,588	23,628,320
Restricted-expendable for debt service	550,473	841,416
Unrestricted	<u>28,947,423</u>	<u>25,721,025</u>
Total net assets	<u>55,962,484</u>	<u>50,190,761</u>
Total liabilities and net assets	<u>\$ 66,542,255</u>	<u>\$ 61,367,749</u>

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,

	2009	2008
Operating Revenues		
Patient service revenue, net of contractual allowances	\$ 70,652,984	\$ 66,281,499
Provision for uncollectible accounts	<u>6,386,295</u>	<u>5,415,950</u>
	64,266,689	60,865,549
Other revenue	<u>701,560</u>	<u>504,938</u>
Total operating revenues	<u>64,968,249</u>	<u>61,370,487</u>
Operating Expenses		
Salaries, wages and employee benefits	32,134,659	31,890,269
Supplies and other	14,582,125	14,861,487
Purchased services and professional fees	11,148,110	8,535,168
Depreciation	2,738,610	2,495,683
Amortization of physician guarantee amounts	-	25,770
Rental and leases	<u>1,941,273</u>	<u>1,857,211</u>
Total operating expenses	<u>62,544,777</u>	<u>59,665,588</u>
Operating income	<u>2,423,472</u>	<u>1,704,899</u>
Nonoperating Revenues (Expenses)		
Interest income	484,371	765,316
Interest expense	(254,038)	(320,199)
Loss on sale of asset	(160,312)	-
Grants and gifts	<u>779,368</u>	<u>426,299</u>
Total nonoperating revenues	<u>849,389</u>	<u>871,416</u>
Excess of revenues over expenses before capital grant	3,272,861	2,576,315
Capital grant from State of New Mexico for Cancer Center and EMS building	<u>2,498,862</u>	<u>-</u>
Change in net assets	5,771,723	2,576,315
Net assets, beginning of year	<u>50,190,761</u>	<u>47,614,446</u>
Net assets, end of year	<u>\$ 55,962,484</u>	<u>\$ 50,190,761</u>

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,

	2009	2008
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 61,623,220	\$ 64,290,331
Cash paid to suppliers and contractors	(27,616,249)	(28,101,892)
Cash paid to employees	<u>(31,936,653)</u>	<u>(31,765,176)</u>
Net cash provided by operating activities	<u>2,070,318</u>	<u>4,423,263</u>
Cash flows from noncapital financing activities		
Grants and gifts	<u>779,368</u>	<u>426,299</u>
Cash flows from capital and related financing activities		
Capital grants	2,498,862	-
Principal paid on long-term debt	(1,440,000)	(1,360,000)
Interest paid on long-term debt	(260,303)	(331,106)
Purchase of capital assets	(4,290,550)	(2,950,767)
Changes in assets limited as to use	747,364	55,987
Other	<u>1,625</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(2,743,002)</u>	<u>(4,585,886)</u>
Cash flows from investing activities		
Purchase of certificates of deposit	(637,373)	(1,754,352)
Interest on investments	<u>484,371</u>	<u>765,316</u>
Net cash used in investing activities	<u>(153,002)</u>	<u>(989,036)</u>
Net decrease in cash and cash equivalents	(46,318)	(725,360)
Cash and cash equivalents, beginning of year	<u>3,416,376</u>	<u>4,141,736</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,370,058</u></u>	<u><u>\$ 3,416,376</u></u>

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,

	2009	2008
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,423,472	\$ 1,704,899
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	2,738,610	2,495,683
Amortization	-	25,770
Provision for uncollectible accounts	6,386,295	5,415,950
Changes in assets and liabilities		
Patient accounts receivable	(7,370,890)	(3,476,329)
Sole Community Provider receivable	(2,048,170)	-
Other receivables	(147,926)	985,223
Inventories	(584,731)	213,389
Prepaid expenses and other assets	(175,390)	(76,558)
Accounts payable and accrued expenses	1,013,386	(2,859,764)
Estimated third-party payor settlements	<u>(164,338)</u>	<u>(5,000)</u>
Net cash provided by operating activities	<u>\$ 2,070,318</u>	<u>\$ 4,423,263</u>

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

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

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 was renewed on August 1, 2009 and will expire on August 1, 2013. Management fees approximated \$367,000 and \$355,000 in 2009 and 2008, 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 Governmental 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.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

- 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 from third-party payors, patients, and others. Contractual allowances represent the amounts which reduce patient accounts receivable to amounts that are considered to be collectible from third-party payors based on existing contracts the Medical Center has with these payors.

The allowance for doubtful patient accounts receivable is that amount which, in management's judgment, is adequate to reduce patient accounts receivable to an amount that is considered to be ultimately collectible. The Medical Center calculates both the contractual allowance and allowance for doubtful accounts based on percentages of accounts receivable aging categories that consider historical contractual adjustments and write-offs by major payor categories. Allowances are deducted from gross patient accounts receivable on the balance sheets.

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

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

Gila Regional Medical Center
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Notes to Basic Financial Statements
June 30, 2009 and 2008

- 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 fair value.

Inventories

Supply inventories consist primarily of medical and pharmaceutical supplies and 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:

Gila Regional Medical Center
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Notes to Basic Financial Statements
June 30, 2009 and 2008

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

Capital Assets — continued

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

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 2009 and 2008.

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 three 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

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

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

Net Assets — continued

required by bond indentures, reduced by the outstanding balances of any related borrowings. 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 \$1,041,000 and \$936,000 in 2009 and 2008, respectively.

Income Taxes

As 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.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

2) Net Patient Service Revenue

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

Medicare—Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The 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 several Managed Care Organizations (MCOs). Medicaid beneficiaries are required to enroll with one of the MCOs. The State pays each MCO a per member, per month rate based on their current enrollment. These amounts are allocated by each MCO to separate pools for the hospital, physicians, and ancillary providers. As a result, the MCOs assume the financial risk of providing health care to its members. 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.

Gila Regional Medical Center
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Notes to Basic Financial Statements
June 30, 2009 and 2008

2) Net Patient Service Revenue — continued

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

	June 30, 2009 Amount	June 30, 2009 Status	June 30, 2008 Amount
Medicare			
2006	\$ 80,981	Expected Payment	\$ -
2007	-	Final	(25,000)
2008	133,995	Estimate Unaudited	(50,000)
2009	<u>(50,000)</u>	Estimate Unaudited	<u>-</u>
	<u>164,976</u>		<u>(75,000)</u>
Medicaid			
2004	-	Final	22,760
2005	61,231	Expected Payment	-
2006	(10,440)	Expected Payment	-
2007	-	Final	-
2008	(25,000)	Estimate Unaudited	(122,760)
2009	<u>(201,429)</u>	Estimate Unaudited	<u>-</u>
	<u>(175,638)</u>		<u>(100,000)</u>
Estimated third-party payor settlements	<u>\$ (10,662)</u>		<u>\$ (175,000)</u>

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

Settlements of prior-year cost reports and changes in estimates resulted in a decrease to net patient service revenue of approximately \$2,000 for the year ended June 30, 2009 and an increase to net patient service revenue of \$369,000 for the year ended June 30, 2008.

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 charges and prospectively determined daily rates.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

2) Net Patient Service Revenue — continued

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

	2009	2008
Gross patient revenue		
Inpatient	\$ 38,034,711	\$ 37,133,194
Outpatient	83,723,579	72,752,547
Total gross patient revenue	121,758,290	109,885,741
Less contractual adjustments and provision for uncollectible accounts		
Third-party payor contractual allowances, discounts, and adjustments	51,105,306	43,604,242
Provision for uncollectible accounts	6,386,295	5,415,950
Total contractual adjustments and provision for uncollectible accounts	57,491,601	49,020,192
Net patient service revenue	\$ 64,266,689	\$ 60,865,549

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 \$250,000. The Medical Center's policy is to require collateral in accordance with state statutes. As of June 30, 2009, the Medical Center was short of the state collateralization requirements at one financial institution by \$17,009. As of June 30, 2008, the Medical Center was in compliance with the state collateralization requirements. As of June 30, 2009, the Medical Center had deposits with a bank balance of \$15,188,619, of which \$4,107,189 was uninsured and uncollateralized, and therefore subject to custodial credit risk. As of June 30, 2008, the Medical Center had deposits with a bank balance of \$14,669,530, of which \$4,779,183 were uninsured and uncollateralized, and therefore subject to custodial credit risk.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

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, 2009, is as follows:

June 30, 2009			
<i>New MexiGrow</i> LGIP	AAAm rated	\$1,052	24-day WAM

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

3) Deposits and Investments — continued

Investments — continued

At June 30, 2009 and 2008, the Medical Center had the following investments and maturities:

Type	June 30, 2009				
	Fair Value	Maturities in Years			More Than 10
		Less Than 1	1-5	6-10	
U.S. Treasury securities and money market	\$ 1,472,995	\$ 1,140,915	\$ 332,080	\$ -	\$ -
Repurchase agreement	2,761,814	2,761,814	-	-	-
State Treasurer's investment pool	1,052	1,052	-	-	-
	<u>\$ 4,235,861</u>	<u>\$ 3,903,781</u>	<u>\$ 332,080</u>	<u>\$ -</u>	<u>\$ -</u>

Type	June 30, 2008				
	Fair Value	Maturities in Years			More Than 10
		Less Than 1	1-5	6-10	
U.S. Treasury securities and money market	\$ 2,220,371	\$ 1,874,578	\$ 345,793	\$ -	\$ -
Repurchase agreement	2,782,613	2,782,613	-	-	-
State Treasurer's investment pool	1,040	1,040	-	-	-
	<u>\$ 5,004,024</u>	<u>\$ 4,658,231</u>	<u>\$ 345,793</u>	<u>\$ -</u>	<u>\$ -</u>

The repurchase agreement was fully collateralized at June 30, 2009 and 2008 by U.S. government agency securities.

- ◆ *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 and repurchase agreements with maturities of less than one year, except for funds held by a trustee for debt service.
- ◆ *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.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

3) Deposits and Investments — continued

Reconciliation to Balance Sheets

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

	<u>2009</u>	<u>2008</u>
Carrying value		
Deposits	\$ 14,821,101	\$ 14,209,247
Investments	<u>4,235,861</u>	<u>5,004,024</u>
	<u>\$ 19,056,962</u>	<u>\$ 19,213,271</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 3,370,058	\$ 3,416,376
Certificates of deposit, current	14,212,857	13,575,484
Investments held by trustee for debt service, current	1,474,047	1,730,944
Investments held by trustee for debt service, noncurrent	-	490,467
	<u>\$ 19,056,962</u>	<u>\$ 19,213,271</u>

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, 2009 and 2008, consisted of the items shown below:

	<u>2009</u>	<u>2008</u>
Medicare	\$ 8,907,421	\$ 6,595,512
Medicaid	3,105,390	3,798,894
Other third-party payers	4,124,706	4,236,999
Patients	<u>5,738,036</u>	<u>5,714,925</u>
	21,875,553	20,346,330
Less allowance for contractual adjustments	<u>8,285,770</u>	<u>6,609,983</u>
	13,589,783	13,736,347
Less allowance for uncollectible accounts	<u>3,687,713</u>	<u>4,818,872</u>
	<u>\$ 9,902,070</u>	<u>\$ 8,917,475</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

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.

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, 2009, are as follows:

<u>Year Ending June 30,</u>	<u>Total to</u>	<u>Principal</u>	<u>Interest</u>
	<u>be Paid</u>		
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	696,989	660,000	36,989
2015	352,590	345,000	7,590
	<u>\$ 5,415,473</u>	<u>\$ 4,865,000</u>	<u>\$ 550,473</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

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 Met Life. 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 \$650,000 and \$633,000 for the years ended June 30, 2009 and 2008, respectively. Employee contributions to the plan were approximately \$942,000 and \$1,358,000 for 2009 and 2008, 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 believes that the Medical Center is in compliance with all applicable provisions of HIPAA.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2009 and 2008

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 \$1,941,000 and \$1,857,000 for 2009 and 2008, respectively. Future minimum lease payments for noncancelable operating leases with lease terms exceeding one year at June 30, 2009, were as follows:

2010	\$ 1,597,530
2011	813,223
2012	562,098
2013	<u>252,501</u>
Future minimum lease payments	<u>\$ 3,225,352</u>

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, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Favorable (Unfavorable)
Operating Revenues	<u>\$ 66,040,496</u>	<u>\$ 66,040,496</u>	<u>\$ 64,968,249</u>	<u>\$ (1,072,247)</u>
Operating Expenses				
Salaries, wages and employee benefits	33,002,497	33,002,497	32,134,659	867,838
Supplies and other	14,684,682	14,684,682	14,582,125	102,557
Purchased services and professional fees	11,410,118	11,410,118	11,148,110	262,008
Depreciation	2,744,472	2,744,472	2,738,610	5,862
Rental and leases	<u>2,224,535</u>	<u>2,224,535</u>	1,941,273	<u>283,262</u>
Total operating expenses	<u>64,066,304</u>	<u>64,066,304</u>	62,544,777	<u>1,521,527</u>
Operating income	1,974,192	1,974,192	2,423,472	449,280
Nonoperating Revenues (Expenses)	<u>158,000</u>	<u>158,000</u>	849,389	<u>691,389</u>
Change in net assets	<u>\$ 2,132,192</u>	<u>\$ 2,132,192</u>	3,272,861	<u>\$ 1,140,669</u>
Capital grant from State of New Mexico for Cancer Center and EMS building			2,498,862	
Net assets, beginning of year			<u>50,190,761</u>	
Net assets, end of year			<u>\$ 55,962,484</u>	

Note to Schedule

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

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

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		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenues	<u>\$ 59,208,387</u>	<u>\$ 59,833,743</u>	<u>\$ 61,370,487</u>	<u>\$ 1,536,744</u>
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	<u>2,049,039</u>	<u>2,049,039</u>	<u>1,857,211</u>	<u>191,828</u>
Total operating expenses	<u>57,030,617</u>	<u>58,079,770</u>	<u>59,665,588</u>	<u>(1,585,818)</u>
Operating income	2,177,770	1,753,973	1,704,899	(49,074)
Nonoperating Revenues (Expenses)	<u>509,239</u>	<u>639,239</u>	<u>871,416</u>	<u>232,177</u>
Change in net assets	<u>\$ 2,687,009</u>	<u>\$ 2,393,212</u>	<u>2,576,315</u>	<u>\$ 183,103</u>
Net assets, beginning of year			<u>47,614,446</u>	
Net assets, end of year			<u>\$ 50,190,761</u>	

Note to Schedule

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

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

New Mexico State Auditor's Supplementary Information

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Pledged Collateral
For the Year Ended June 30, 2009

Account	Account Number	Account Type	Wells Fargo Bank, NA	Western Bank	Ambank	First NM Bank	First Savings Bank	Total	
General Account	230-0050091	Checking	\$ 908,502	\$ -	\$ -	\$ -	\$ -	\$ 908,502	
Payroll Account	230-0003131	Checking	23,955	-	-	-	-	23,955	
Employee Assistance Account	230-0051543	Checking	27,616	-	-	-	-	27,616	
Cafeteria Account	230-0031591	Checking	15,689	-	-	-	-	15,689	
Certificate of Deposit	8072290771	CD	2,040,446	-	-	-	-	2,040,446	
Certificate of Deposit	11749	CD	-	1,020,216	-	-	-	1,020,216	
Certificate of Deposit	11667	CD	-	868,728	-	-	-	868,728	
Certificate of Deposit	5391	CD	-	-	1,693,822	-	-	1,693,822	
Certificate of Deposit	3038826430	CD	-	-	-	1,008,843	-	1,008,843	
Certificate of Deposit	3038826431	CD	-	-	-	1,068,676	-	1,068,676	
Certificate of Deposit	13290469	CD	-	-	-	-	1,476,093	1,476,093	
Certificate of Deposit	13279717	CD	-	-	-	-	1,149,836	1,149,836	
Certificate of Deposit	13283935	CD	-	-	-	-	2,209,802	2,209,802	
Certificate of Deposit	13279705	CD	-	-	-	-	1,676,395	1,676,395	
Total amount of deposit in bank			3,016,208	1,888,944	1,693,822	2,077,519	6,512,126	15,188,619	
Less FDIC insurance			250,000	250,000	250,000	250,000	250,000	1,250,000	
Total uninsured public funds			\$ 2,766,208	\$ 1,638,944	\$ 1,443,822	\$ 1,827,519	\$ 6,262,126	\$ 13,938,619	
Collateral requirement - 50% (Section 6-10-17)			\$ 1,383,104	\$ 819,472	\$ 721,911	\$ 913,760	\$ 3,131,063	\$ 6,969,310	
				Maturity	CUSIP				
Pledged securities held by Wells Fargo Bank, NA; held in the name of the Medical Center									
Wells Fargo Bank	FNMA	Matures 06/01/2036	31410MQ29	(2)	405,159	-	-	-	405,159
Wells Fargo Bank	FNMA	Matures 05/01/2036	31409UJ26	(2)	122,148	-	-	-	122,148
Wells Fargo Bank	FNMA	Matures 06/01/2037	3128MS7G9	(2)	587,434	-	-	-	587,434
Wells Fargo Bank	FNMA	Matures 05/01/2036	31409CV69	(2)	2,885,842	-	-	-	2,885,842
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									
Belen NM School Dist	MUNI	Matures 08/01/2014	077581KF2	(1)	-	300,458	-	-	300,458
Grant Cnty Hosp Rev	MUNI	Matures 08/01/2012	387779AH4	(1)	-	304,314	-	-	304,314
Grant Cnty Hosp Rev	MUNI	Matures 08/01/2013	387779AJO	(1)	-	174,580	-	-	174,580
Grant & Cibola Cntys	MUNI	Matures 10/01/2015	388240CY7	(1)	-	142,596	-	-	142,596
Curry Cnty New Mex	MUNI	Matures 08/01/2013	231327BB2	(1)	-	101,701	-	-	101,701
Pledged securities held by First NM Bank; held in the name of the Medical Center									
Lovington NM Mun School	MUNI	Matures 10/01/2018	547473CJ5	(1)	-	-	200,000	-	200,000
Dulce NM Indpt School	MUNI	Matures 09/01/2017	264430HB8	(1)	-	-	200,000	-	200,000
Bernalillo NM Mun School	MUNI	Matures 08/01/2018	085279MX2	(1)	-	-	375,000	-	375,000
Gallup McKinley Cnty	MUNI	Matures 08/01/2022	364010PJ1	(1)	-	-	300,000	-	300,000
Las Vegas NM Cnty	MUNI	Matures 08/01/2017	51778FAY5	(1)	-	-	270,000	-	270,000
Hobbs NM School Dist	MUNI	Matures 04/15/2023	433866CN8	(1)	-	-	250,000	-	250,000
Bloomfield NM	MUNI	Matures 08/01/2016	0904072BS3	(1)	-	-	115,000	-	115,000
Grants & Cibola Cntys	MUNI	Matures 10/01/2016	388240CZ4	(1)	-	-	140,000	-	140,000
Pledged securities held by First Savings Bank; held in the name of the Medical Center									
Springfield TWP	FNMA	Matures 08/15/2014	851511KT1	(2)	-	-	-	50,477	50,477
FHR 2841 BJ	FNMA	Matures 04/15/2018	31395ES32	(2)	-	-	-	156,146	156,146
MBS FNMA 10 yr	FNMA	Matures 10/01/2014	31403DHR3	(2)	-	-	-	826,811	826,811
FNR 2005-30 CU	FNMA	Matures 04/25/2029	31394C6V9	(2)	-	-	-	2,080,620	2,080,620
Total pledged collateral			4,000,583		1,023,649	1,100,000	1,850,000	3,114,054	11,088,286
Amount over (under) collateralized for 50% requirement			\$ 2,617,479		\$ 204,177	\$ 378,089	\$ 936,240	\$ (17,009)	\$ 4,118,976
Repurchase Agreement									
Amount of repurchase agreement			\$ 2,761,814						
Required collateralization - 102% of uninsured portion			2,817,050						
Pledged securities held by Wells Fargo Bank, NA	FNMA	Matures 03/01/2036	31408JJZ5	(2)	2,841,390				
Amount over collateralized for 102% requirement			\$ 24,340						
(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, 2009

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Deposit Accounts						
Wells Fargo	230-0050091	Checking	\$ 908,502	\$ 2,792	\$ 357,122	\$ 554,172
Wells Fargo	230-0003131	Checking	23,955	-	10,018	13,937
Wells Fargo	230-0051543	Checking	27,616	-	-	27,616
Wells Fargo	230-0031591	Checking	15,689	-	4,721	10,968
			<u>\$ 975,762</u>	<u>\$ 2,792</u>	<u>\$ 371,861</u>	606,693
Cash on hand		Petty cash				1,551
						<u>\$ 608,244</u>
Certificates of Deposit						
Wells Fargo	GRMC	Certificates of Deposit	\$ 2,040,446	\$ -	\$ -	\$ 2,040,446
Western Bank	GRMC	Certificates of Deposit	1,888,944	-	-	1,888,944
AM Bank	GRMC	Certificates of Deposit	1,693,822			1,693,822
First New Mexico Bank	GRMC	Certificates of Deposit	2,077,519	-	-	2,077,519
First Savings Bank	GRMC	Certificates of Deposit	6,512,126	-	-	6,512,126
			<u>14,212,857</u>	<u>-</u>	<u>-</u>	<u>14,212,857</u>
Investments						
Bank of Albuquerque	GRMC-2004 Bond P and I Fund	U.S. Treasury bill	97,904	-	-	97,904
		Money market	24,873	-	-	24,873
			<u>122,777</u>	<u>-</u>	<u>-</u>	<u>122,777</u>
Wells Fargo	GRMC-1996 and 2000 Debt Service Reserve Fund	U.S. Treasury cash	388,313	-	-	388,313
		U.S. Treasury note	345,793	-	-	345,793
			<u>734,106</u>	<u>-</u>	<u>-</u>	<u>734,106</u>
Wells Fargo	GRMC-2000 Bond Fund	U.S. Treasury cash	616,112	-	-	616,112
State Treasurer's Local Government Investment Pool		Investment pool	1,052	-	-	1,052
			<u>1,474,047</u>	<u>-</u>	<u>-</u>	<u>1,474,047</u>
Repurchase Agreement						
Wells Fargo	Sweep	Repurchase	2,761,814	-	-	2,761,814
Total deposits and investments			<u>\$ 19,424,480</u>	<u>-</u>	<u>-</u>	<u>\$ 19,056,962</u>

Independent Auditors' Report on Internal Control
Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards*

Board of 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, 2009, which collectively comprise the Medical Center's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2009 presented as supplementary information, and have issued our report thereon dated September 22, 2009. 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.

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 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.

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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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. We noted two 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 09-1 and SA 09-2.

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.

REDWLLC

September 22, 2009

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Findings and Responses
For the Year Ended June 30, 2009

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 09-1 — Cash Collateralization

Criteria or Specific Requirement: In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Medical Center is required to collateralize an amount equal to one-half of the public money in excess of \$250,000 at each financial institution.

Condition: At June 30, 2009, the Medical Center had uninsured bank deposits of \$6,262,126 at one financial institution. State law requires that \$3,131,063 be collateralized. The Medical Center had collateral in place with this bank in the amount of \$3,114,054, which falls short of the required amount by \$17,009.

Cause: The Medical Center's bank did not maintain adequate collateral over the Medical Center's deposits.

Effect: The deposits were not collateralized appropriately, and the Medical Center was not in compliance with the cash collateralization requirements.

Recommendation: Consider either obtaining collateralization for bank deposits in excess of \$250,000 or moving the deposits to multiple banks with less than \$250,000 in each.

Management's Response: When the collateral was assigned by the financial institution, it exceeded the 50% requirement. However, due to changing market conditions, the market value declined, and at June 30, 2009, was \$17,009 (or 0.5%) under the required amount at 49.5% instead of 50%. Management will monitor the market value of the collateral each month and make sure each financial institution has collateral with a market value that meets the 50% requirement.

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Findings and Responses
For the Year Ended June 30, 2009

SA 09-2 — Disposition of Property

Criteria or Specific Requirement: In accordance with Section 13-6-1 and 13-6-2, NMSA 1978 Compilation, the Medical Center is required to provide to the State Auditor, at least 30 days prior to any disposition of property, written notification of the proposed disposition of property duly sworn and subscribed under oath by each member of the authority approving the action.

Condition: During fiscal year 2009, the Medical Center had several property dispositions, but did not provide required written notification to the State Auditor.

Cause: The Medical Center did not provide written notification of property dispositions to the State Auditor.

Effect: The Medical Center was not in compliance with the property disposition requirements of the State Auditor.

Recommendation: Ensure written notification is provided to the State Auditor for all property dispositions at least 30 days prior to any disposition of property.

Management's Response: Management was not aware of the State Auditor requirement of providing written notification of all property disposals. Management will ensure the State Auditor is properly notified of all future property dispositions.

Gila Regional Medical Center
(A Component Unit of Grant County)
Current Status Schedule of 2008 Audit Findings
For the Year Ended June 30, 2009

Prior-Year Number	Description	Current-Year Number
Resolved Findings		
FS 08-01	Capital Asset Itemization — Information Technology Systems	N/A – Resolved
FS 08-02	Capital Asset Inventory	N/A – Resolved
FS 08-03	Allowance for Doubtful Accounts	N/A – Resolved
FS 08-04	Segregation of Duties — Cash Receipts	N/A – Resolved
FS 08-05	Journal Entry Approval	N/A – Resolved
SA 08-01	Budget Compliance	N/A – Resolved
SA 08-02	Asset Capitalization	N/A – Resolved
SA 08-03	Classification and Accounting for Leases	N/A – Resolved
SA 08-04	Documentation of Annual Pay Raises	N/A – Resolved
SA 08-05	Deposit In Transit	N/A – Resolved

Gila Regional Medical Center
(A Component Unit of Grant County)
Other Disclosures
For the Year Ended June 30, 2009

Exit Conference

A closed meeting exit conference was held with the Medical Center on September 30, 2009, in Silver City, New Mexico with the following attending:

Gila Regional Medical Center

Jim Leidich	Board Chairperson
Ray C. Baca	Board Vice Chairperson
Michael Harris	Board Secretary/Treasurer
Terry Trujillo	Board Member
Greg Koury, MD	Board Member
Donald Montoya, MD	Board Member
Jon Saari	Board Member
Brian Bentley	Chief Executive Officer
Craig Stewart	Chief Financial Officer
Beth Allred	AVP Finance
Frank Greene	Director of Finance
Ruth Giegerich	Administrative Assistant
Jean Remillard, MD	Chief Medical Officer
Cathy Woodard, RN	Chief Nursing Officer
Harry Jarvis	Regional Vice President, QHR

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Chris Tyhurst, CPA	Principal
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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.