



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

2010 Financial Statements,
Supplementary Information and
Independent Auditors' Reports

REDW

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

	<u>Page</u>
Board of Trustees and Principal Employees	1
Independent Auditors' Report	2-3
Required Supplementary Information	
Management's Discussion and Analysis	4-10
Basic Financial Statements	
Balance Sheets	11-12
Statements of Revenues, Expenses and Changes in Net Assets	13
Statements of Cash Flows	14-15
Notes to Basic Financial Statements	16-31
Supplementary Information (Audited)	
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual (2010)	32
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual (2009)	33
New Mexico State Auditor's Supplementary Information	
Schedule of Pledged Collateral	34-35
Schedule of Individual Deposit and Investment Accounts	36
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 <i>Government Auditing Standards</i>	37-38
Schedule of Findings and Responses	39
Current Status Schedule of 2009 Audit Findings	40
Other Disclosures	41

Gila Regional Medical Center
(A Component Unit of Grant County)
Board of Trustees and Principal Employees
June 30, 2010

Board of Trustees

Jim Leidich	Chairperson
Ray C. Baca	Vice Chairperson
Michael Harris	Secretary/Treasurer
Pam Archibald	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

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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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, 2010 and 2009, 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 6, 2010, 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 6, 2010

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, 2010

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, 2010. 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 \$4,302,000 in 2010 and by \$591,000 in 2009, or 24% and 3.5%, respectively.
- ◆ The Medical Center's net assets increased by \$4,731,000 in 2010 and by \$5,772,000 in 2009, or 8.4% and 11.5%, respectively.
- ◆ The Medical Center reported operating income in 2010 of \$3,882,000, which represents an increase of \$1,458,000, or 60%, compared to the operating income reported in 2009.
- ◆ Net nonoperating revenues decreased by \$51,000 or 6% in 2010, compared to a decrease of \$22,000 or 3% in 2009. The Medical Center received \$52,000 in 2010 and \$2,500,000 in 2009 in grant funds from the State of New Mexico, which were used to fund the building of the Cancer Center and EMS (Emergency Medical Services) building.
- ◆ The debt service coverage ratio for 2010 (using the current year's debt service requirements) was 6.72 compared to 4.15 in 2009. 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, 2010

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.

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 2010 by \$4,731,000 or 8.4% and in 2009 by \$5,772,000 or 11.5%, as shown in the following table:

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2010

ASSETS, LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets			
Cash and cash equivalents	\$ 5,937,413	\$ 3,370,058	\$ 3,416,376
Certificates of deposit	15,947,608	14,212,857	13,575,484
Patient accounts receivable, net	9,960,644	9,902,070	8,917,475
Other current assets	8,190,000	7,337,561	4,886,390
Capital assets, net	31,163,568	31,338,985	29,948,982
Other noncurrent assets	<u>322,527</u>	<u>380,724</u>	<u>623,042</u>
Total assets	<u>\$ 71,521,760</u>	<u>\$ 66,542,255</u>	<u>\$ 61,367,749</u>
Liabilities			
Long-term debt, including current maturities	\$ 3,345,000	\$ 4,874,397	\$ 6,320,662
Other current and noncurrent liabilities	<u>7,482,887</u>	<u>7,234,771</u>	<u>4,856,326</u>
Total liabilities	<u>10,827,887</u>	<u>12,109,168</u>	<u>11,176,988</u>
Net Assets			
Invested in capital assets, net of related debt	27,347,744	26,464,588	23,628,320
Restricted-expendable for debt service	335,540	550,473	841,416
Unrestricted	<u>33,010,589</u>	<u>28,947,423</u>	<u>25,721,025</u>
Total net assets	<u>60,693,873</u>	<u>55,962,484</u>	<u>50,190,761</u>
Total liabilities and net assets	<u>\$ 71,521,760</u>	<u>\$ 68,071,652</u>	<u>\$ 61,367,749</u>

In 2010, the increase in net assets of \$4,731,000 was due primarily to an increase in net patient service revenue while keeping bad debt and operating expense increases in line, which resulted in operating income increasing by \$1,458,000 as compared to 2009. 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 of \$719,000 as compared to 2008, plus \$2,500,000 in state grant monies utilized to build the cancer center and an emergency medical services (EMS) building.

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

The Medical Center's operating income in 2010 was approximately \$3,882,000, a 60% increase compared to 2009 results. In 2009, operating income was \$2,423,000. This compares to 2008 operating income of \$1,705,000, which included \$369,000 in prior-year cost report recoveries. These results are shown in the following table:

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2010

OPERATING RESULTS AND CHANGE IN NET ASSETS

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues			
Net patient service revenue	\$ 68,503,915	\$ 64,266,689	\$ 60,865,549
Other operating revenues	<u>604,465</u>	<u>701,560</u>	<u>504,938</u>
Total operating revenues	<u>69,108,380</u>	<u>64,968,249</u>	<u>61,370,487</u>
Operating Expenses			
Salaries, wages and employee benefits	33,226,786	32,134,659	31,890,269
Purchased services and professional fees	11,485,140	11,148,110	8,535,168
Depreciation and amortization	3,046,309	2,738,610	2,495,683
Other operating expenses	<u>17,468,616</u>	<u>16,523,398</u>	<u>16,744,468</u>
Total operating expenses	<u>65,226,851</u>	<u>62,544,777</u>	<u>59,665,588</u>
Operating income	<u>3,881,529</u>	<u>2,423,472</u>	<u>1,704,899</u>
Nonoperating Revenues (Expenses)			
Interest income	272,374	484,371	765,316
Interest expense	(181,991)	(254,038)	(320,199)
Grants and gifts	707,386	779,368	426,299
Loss on sale of asset	<u>-</u>	<u>(160,312)</u>	<u>-</u>
Net nonoperating revenues	<u>797,769</u>	<u>849,389</u>	<u>871,416</u>
Excess of revenues over expenses before capital grant	4,679,298	3,272,861	2,576,315
Capital grant, State of New Mexico funding	<u>52,091</u>	<u>2,498,862</u>	<u>-</u>
Change in net assets	<u>\$ 4,731,389</u>	<u>\$ 5,771,723</u>	<u>\$ 2,576,315</u>

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 2010 of \$3,882,000, an increase of \$1,458,000 compared to the 2009 operating income of \$2,423,000. The primary components of the operating results in 2010 are as follows:

- ◆ An increase in net patient service revenue of \$4,237,000, or 6.6%, due to a price increase which had a net impact of 3% on net patient service revenue, plus outpatient volume increases in the Cancer Center, Emergency Services, MRI scans, Pharmacy drugs dispensed, and Infusion Services.

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2010

- ◆ Increases in salaries and benefits in 2010 of \$1,092,000, an increase of 3.4%, compared to the prior year. Salaries and benefits increased \$244,000 or 0.7% in 2009 compared to 2008. In 2010, there was a 2% across the board wage increase given to all employees, plus \$200,000 in equity adjustments given to the lower wage scales. Wages and employee benefits as a percentage of total operating revenues declined from 52% in 2008 to 49.5% in 2009, and 48% in 2010. This resulted in lower labor costs for each dollar of operating revenue generated. Overtime declined from 4.2% in 2009 to 3.3% in 2010.
- ◆ Other operating expenses increased by \$945,000 in 2010 as compared to 2009. This was due to the higher amount of outpatient drug prescriptions filled, as well as the increased volumes and revenues in the Cancer Center, especially for chemotherapy drugs and the drugs administered in Infusion Services. These additional expenses were more than offset by the additional outpatient revenue generated by these services, which also helped increase operating income during 2010.
- ◆ Purchased services and professional fees increased by \$337,000, or 3%, in 2010 compared to an increase in 2009 of \$2,613,000, or 30.6%. The 2010 increase was due to an increase in contract wages and labor used to fill critical clinical positions where there are nationwide shortages and staff is hard to find and recruit in rural areas. These hard to fill positions include physical therapists, occupational therapists, and specialty RN positions for ICU, Emergency Services and Home Health.
- ◆ Net patient service revenue increased by 6.6% in 2010 compared to 2009. At the same time, total operating expenses increased by 4.3% in 2010 compared to 2009 due to the increase in wages, supplies, purchased services, and professional fees outlined above.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses, which consist primarily of noncapital grants and gifts, interest income, and interest expense, decreased by \$52,000, or 6% in 2010 compared to 2009.

This was due to a decrease of interest expense of \$72,000, offset by a decrease in interest income of \$212,000 in 2010 caused by lower interest rates on CDs held by the Medical Center. The lower interest rates were due to the effects of the recession, low CPI inflationary increases, and slow economic recovery during the first six months of 2010.

Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2010, 2009 and 2008 discussed earlier.

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2010

Capital Assets and Debt Administration

Capital Assets

At the end of 2010, the Medical Center had \$31.2 million invested in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. In 2010, the Medical Center invested approximately \$2.9 million for the purchase of capital equipment, capital leases, and additional land and buildings. This consisted of approximately \$610,000 in new and upgraded information systems technology for both hardware and software, \$480,000 for new surgical equipment, \$174,000 for new patient beds for the various nursing units, \$130,000 for two new washers for the Laundry, \$509,968 for a capitalized lease for a new chemistry analyzer for the Lab and \$427,000 for other smaller clinical and other equipment purchases and building renovation projects. Additionally, the Medical Center purchased two acres of land and two 3,500 square foot buildings adjacent to the current Medical Center campus for \$518,000. These two new buildings are in the process of being renovated with additional parking capacity being added. These two new buildings will house the Business Office and Home Health / Hospice which are currently located off-site at leased space in the main Grant County Office Building.

Debt

At June 30, 2010, the Medical Center had \$3,345,000 in revenue bonds outstanding. The Medical Center did not issue any new debt in 2010 or 2009, with the exception of the capital lease described above. Total debt decreased by approximately \$1,529,000 in 2010. The series 2000 Bonds with a remaining principal balance of \$700,000 were paid off in August 2010, which will leave only the series 2004 Revenue Bonds as outstanding long-term debt. The payoff of the series 2000 Bonds is a major reason that the debt service coverage ratio has increased as the amount of debt service payments due in the coming year has decreased. 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 the notes to the financial statements for further information about long-term debt and capital lease obligations.

Budgetary Highlights

There were no budget modifications during fiscal year 2010. Total operating revenues exceeded budget by \$4,716,000, due to higher than budgeted net revenues from both inpatient and outpatient services and lower than budgeted bad debts due to a higher number of patients qualifying for the Grant County Health Plan. Additionally, \$1.8 million in Sole Community Provider supplemental income was received in 2010 that wasn't included in the budget. Operating expenses were also over budget by \$2,391,000 due in part to salaries, wages, and employee benefits being \$144,000 over budget as outlined previously. Additionally, purchased services and professional fees were over budget by a total of \$583,000 due to contract labor

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2010

expenses that were substantially over budget as previously mentioned. Depreciation expense was \$289,000 higher than budgeted. Supplies and other expenses were \$1,466,000 over budget due to the higher amount of drug expenditures related to the Cancer Center and Infusion Therapy as previously mentioned, which also produced additional net revenues plus increased medical supply costs due to the higher Emergency Service volumes. Additionally, repairs and maintenance costs, utilities, insurance and other expenses combined were \$528,000 over budget, which is a part of the \$1,466,000 variance mentioned above.

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 combined is estimated to be 66,072 in 2009. In 2013, the total population is estimated to be 69,328, an increase of 4.9%. These population figures & estimates were compiled by the Bureau of Business and 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. Freeport has announced that during 2011 it intends to reopen some parts of the mining operations that were closed. Silver City is a tourist destination and many local businesses are involved in the tourism industry. Silver City also has been a destination for retirees due to its good climate and rural location. Future Medical Center growth will be driven in part by population growth, including the increase 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,

	2010	2009
Assets		
Current assets		
Cash and cash equivalents	\$ 5,937,413	\$ 3,370,058
Certificates of deposit	15,947,608	14,212,857
Investments held by trustee for debt service, current	1,470,943	1,474,047
Patient accounts receivable, net of allowance: 2010 - \$4,605,000; 2009 - \$3,688,000	9,960,644	9,902,070
Sole Community Provider receivable	2,459,588	2,048,170
Other receivables, net	931,354	832,572
Inventories	2,742,915	2,302,167
Prepaid expenses and other	585,200	680,605
Total current assets	40,035,665	34,822,546
Noncurrent assets		
Capital assets, net	31,163,568	31,338,985
Other assets	322,527	380,724
Total assets	\$ 71,521,760	\$ 66,542,255

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>2010</u>	<u>2009</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 3,543,115	\$ 3,214,370
Accrued expenses		
Compensated absences	1,728,349	1,652,587
Payroll	854,333	729,889
Interest	61,452	97,866
Current maturities of long-term debt	1,085,000	1,529,397
Current maturities of capital lease obligation	91,573	-
Estimated third party payor settlement	769,760	10,662
Deferred Revenue	<u>55,054</u>	<u>-</u>
Total current liabilities	8,188,636	7,234,771
Long-term debt, less current maturities	2,260,000	3,345,000
Capital lease obligation, less current maturities	<u>379,251</u>	<u>-</u>
Total liabilities	<u>10,827,887</u>	<u>10,579,771</u>
Net Assets		
Invested in capital assets, net of related debt	27,347,744	26,464,588
Restricted-expendable for debt service	335,540	550,473
Unrestricted	<u>33,010,589</u>	<u>28,947,423</u>
Total net assets	<u>60,693,873</u>	<u>55,962,484</u>
Total liabilities and net assets	<u>\$ 71,521,760</u>	<u>\$ 66,542,255</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,

	<u>2010</u>	<u>2009</u>
Operating Revenue		
Net patient service revenue	\$ 68,503,915	\$ 64,266,689
Other revenue	<u>604,465</u>	<u>701,560</u>
Total operating revenue	<u>69,108,380</u>	<u>64,968,249</u>
Operating Expenses		
Salaries, wages and employee benefits	33,226,786	32,134,659
Supplies and other	15,572,185	14,582,125
Purchased services and professional fees	11,485,140	11,148,110
Depreciation	3,046,309	2,738,610
Rental and leases	<u>1,896,431</u>	<u>1,941,273</u>
Total operating expenses	<u>65,226,851</u>	<u>62,544,777</u>
Operating income	<u>3,881,529</u>	<u>2,423,472</u>
Nonoperating Revenue (Expenses)		
Interest income	272,374	484,371
Interest expense	(181,991)	(254,038)
Loss on sale of asset	-	(160,312)
Grants and gifts	<u>707,386</u>	<u>779,368</u>
Total nonoperating revenue	<u>797,769</u>	<u>849,389</u>
Excess of revenue over expenses before capital grant	4,679,298	3,272,861
Capital grant from State of New Mexico for Cancer Center and EMS building	<u>52,091</u>	<u>2,498,862</u>
Change in net assets	4,731,389	5,771,723
Net assets, beginning of year	<u>55,962,484</u>	<u>50,190,761</u>
Net assets, end of year	<u>\$ 60,693,873</u>	<u>\$ 55,962,484</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,

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 69,353,758	\$ 61,623,220
Cash paid to suppliers and contractors	(28,912,157)	(27,616,249)
Cash paid to employees	<u>(33,062,994)</u>	<u>(31,936,653)</u>
Net cash provided by operating activities	<u>7,378,607</u>	<u>2,070,318</u>
Cash flows from noncapital financing activities		
Grants and gifts	<u>707,386</u>	<u>779,368</u>
Cash flows from capital and related financing activities		
Capital grants	52,091	2,498,862
Principal paid on long-term debt	(1,520,000)	(1,440,000)
Interest paid on long-term debt	(191,388)	(260,303)
Purchase of capital assets	(2,400,068)	(4,290,550)
Changes in assets limited as to use	3,104	747,364
Other	<u>-</u>	<u>1,625</u>
Net cash used in capital and related financing activities	<u>(4,056,261)</u>	<u>(2,743,002)</u>
Cash flows from investing activities		
Purchase of certificates of deposit	(1,734,751)	(637,373)
Interest on investments	<u>272,374</u>	<u>484,371</u>
Net cash used in investing activities	<u>(1,462,377)</u>	<u>(153,002)</u>
Net increase (decrease) in cash and cash equivalents	2,567,355	(46,318)
Cash and cash equivalents, beginning of year	<u>3,370,058</u>	<u>3,416,376</u>
Cash and cash equivalents, end of year	<u>\$ 5,937,413</u>	<u>\$ 3,370,058</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,

	2010	2009
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 3,881,529	\$ 2,423,472
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,046,309	2,738,610
Provision for uncollectible accounts	6,710,434	6,386,295
Changes in assets and liabilities		
Patient accounts receivable	(6,769,008)	(7,370,890)
Sole Community Provider receivable	(411,418)	(2,048,170)
Other receivables	(98,782)	(147,926)
Inventories	(440,748)	(584,731)
Prepaid expenses and other assets	153,602	(175,390)
Accounts payable and accrued expenses	492,537	1,013,386
Deferred revenue	55,054	-
Estimated third-party payor settlements	759,098	(164,338)
Net cash provided by operating activities	\$ 7,378,607	\$ 2,070,318
Noncash capital and related financing activities		
Equipment acquired through capital lease	\$ 509,968	\$ -

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, 2010 and 2009

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.

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 \$372,000 and \$367,000 in 2010 and 2009, 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, 2010 and 2009

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 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.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

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:

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 2010 and 2009.

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.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

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 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 \$1,219,000 and \$1,041,000 in 2010 and 2009, respectively.

Income Taxes

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

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

Budget Process

The Medical Center's budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), using an estimate of the anticipated revenues and expenditures. Budgets are approved and amended by the Finance Committee and the Board of Directors.

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.

Subsequent Events

Subsequent events through October 5, 2010, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2010, financial statements.

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

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

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.

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

	June 30, 2010 Amount	June 30, 2010 Status	June 30, 2009 Amount
Medicare			
2006	\$ -	Final	\$ 80,981
2008	-	Final	133,995
2009	(49,760)	Final	(50,000)
2010	<u>(420,000)</u>	Estimate, Unaudited	<u>-</u>
	<u>(469,760)</u>		<u>164,976</u>
Medicaid			
2005	-	Final	61,231
2006	-	Final	(10,440)
2008	(50,000)	Filed, Unaudited	(25,000)
2009	(50,000)	Filed, Unaudited	(201,429)
2010	<u>(200,000)</u>	Estimate, Unaudited	<u>-</u>
	<u>(300,000)</u>		<u>(175,638)</u>
Estimated third-party payor settlements	<u>\$ (769,760)</u>		<u>\$ (10,662)</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.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

Settlements of prior-year cost reports and changes in estimates resulted in a decrease to net patient service revenue of approximately \$137,000 and \$2,000 for the years ended June 30, 2010 and 2009, respectively.

Sole Community Provider Indigent Care Program—The Medical Center, due to its isolated location and service to indigent patients, participates in a sole community provider indigent care program that is administered by the State of New Mexico. The program is funded by Grant County which pays the County share amount to the State that is required to draw down federal monies. New Mexico’s federal and state shares are approximately 71% and 29%, respectively. The program consists of two components, the regular quarterly payments and a supplemental payment. The supplemental payments are based on service to indigent and Medicaid patients as well as consideration of the Medical Center’s Medicaid contractual write-offs. Revenues from the quarterly payments in 2010 and 2009 totaled \$9.8 million and \$8.1 million, respectively. Approximately \$2.0 million and \$1.5 million for the years ended June 30, 2010 and 2009, respectively, are included in patient revenue for the supplemental payments.

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

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

	<u>2010</u>	<u>2009</u>
Gross patient revenue		
Inpatient	\$ 42,553,369	\$ 38,034,711
Outpatient	<u>92,014,349</u>	<u>83,723,579</u>
Total gross patient revenue	<u>134,567,718</u>	<u>121,758,290</u>
Less contractual adjustments and provision for uncollectible accounts		
Third-party payor contractual allowances, discounts, and adjustments	59,353,369	51,105,306
Provision for uncollectible accounts	<u>6,710,434</u>	<u>6,386,295</u>
Total contractual adjustments and provision for uncollectible accounts	<u>66,063,803</u>	<u>57,491,601</u>
Net patient service revenue	<u>\$ 68,503,915</u>	<u>\$ 64,266,689</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

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, 2010, the Medical Center was in compliance with the State collateralization requirements. 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, 2010, the Medical Center had deposits with a bank balance of \$17,096,517, of which \$3,814,201 were uninsured and uncollateralized, and therefore subject to custodial credit risk. As of June 30, 2009, the Medical Center had deposits with a bank balance of \$15,188,619, of which \$4,107,189 were uninsured and uncollateralized, and therefore subject to custodial credit risk.

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.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

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, 2010, is as follows:

June 30, 2010
New MexiGrow LGIP AAAM rated \$1,054 55-day WAM

At June 30, 2010 and 2009, the Medical Center had the following investments and maturities:

June 30, 2010					
Maturities in Years					
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. Treasury securities and money market	\$ 1,469,889	\$ 1,469,889	\$ -	\$ -	\$ -
Repurchase agreement	5,034,711	5,034,711	-	-	-
State Treasurer's investment pool	1,054	1,054	-	-	-
	<u>\$ 6,505,654</u>	<u>\$ 6,505,654</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2009					
Maturities in Years					
Type	Fair Value	Less Than 1	1-5	6-10	More Than 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>

The repurchase agreement was fully collateralized at June 30, 2010 and 2009, 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, 2010 and 2009

Reconciliation to Balance Sheets

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

	<u>2010</u>	<u>2009</u>
Carrying value		
Deposits	\$ 16,850,310	\$ 14,821,101
Investments	<u>6,505,654</u>	<u>4,235,861</u>
	<u>\$ 23,355,964</u>	<u>\$ 19,056,962</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 5,937,413	\$ 3,370,058
Certificates of deposit, current	15,947,608	14,212,857
Investments held by trustee for debt service, current	<u>1,470,943</u>	<u>1,474,047</u>
	<u>\$ 23,355,964</u>	<u>\$ 19,056,962</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, 2010 and 2009, consisted of the items shown below:

	<u>2010</u>	<u>2009</u>
Medicare	\$ 8,323,888	\$ 8,907,421
Medicaid	3,569,623	3,105,390
Other third-party payers	4,828,553	4,124,706
Patients	<u>6,618,432</u>	<u>5,738,036</u>
	23,340,496	21,875,553
Less allowance for contractual adjustments	<u>8,775,003</u>	<u>8,285,770</u>
	14,565,493	13,589,783
Less allowance for uncollectible accounts	<u>4,604,849</u>	<u>3,687,713</u>
	<u>\$ 9,960,644</u>	<u>\$ 9,902,070</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

5) Capital Assets

Capital asset activity of the Medical Center for the years ended June 30, 2010 and 2009, was as follows:

	June 30, 2010				
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 642,700	\$ 163,500	\$ -	\$ -	\$ 806,200
Construction in progress	<u>1,609,056</u>	<u>380,428</u>	<u>-</u>	<u>(1,567,106)</u>	<u>422,378</u>
Total capital assets not being depreciated	<u>2,251,756</u>	<u>543,928</u>	<u>-</u>	<u>(1,567,106)</u>	<u>1,228,578</u>
<i>Capital assets being depreciated</i>					
Land improvements	85,399	-	-	-	85,399
Buildings	29,242,335	13,004	-	1,567,106	30,822,445
Equipment	<u>29,825,084</u>	<u>2,313,960</u>	<u>-</u>	<u>-</u>	<u>32,139,044</u>
Total capital assets being depreciated	<u>59,152,818</u>	<u>2,326,964</u>	<u>-</u>	<u>1,567,106</u>	<u>63,046,888</u>
Less accumulated depreciation					
Land improvements	10,870	5,185	-	-	16,055
Buildings	10,189,530	819,397	-	-	11,008,927
Equipment	<u>19,865,189</u>	<u>2,221,727</u>	<u>-</u>	<u>-</u>	<u>22,086,916</u>
	<u>30,065,589</u>	<u>3,046,309</u>	<u>-</u>	<u>-</u>	<u>33,111,898</u>
Capital assets, net	<u>\$ 31,338,985</u>	<u>\$ (175,417)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,163,568</u>
June 30, 2009					
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 642,700	\$ -	\$ -	\$ -	\$ 642,700
Construction in progress	<u>342,216</u>	<u>1,499,287</u>	<u>-</u>	<u>(232,447)</u>	<u>1,609,056</u>
Total capital assets not being depreciated	<u>984,916</u>	<u>1,499,287</u>	<u>-</u>	<u>(232,447)</u>	<u>2,251,756</u>
<i>Capital assets being depreciated</i>					
Land improvements	82,560	2,839	-	-	85,399
Buildings	29,118,422	123,913	-	-	29,242,335
Equipment	<u>27,672,030</u>	<u>2,664,511</u>	<u>(743,904)</u>	<u>232,447</u>	<u>29,825,084</u>
Total capital assets being depreciated	<u>56,873,012</u>	<u>2,791,263</u>	<u>(743,904)</u>	<u>232,447</u>	<u>59,152,818</u>
Less accumulated depreciation					
Land improvements	7,046	3,824	-	-	10,870
Buildings	9,413,507	776,023	-	-	10,189,530
Equipment	<u>18,488,393</u>	<u>1,958,763</u>	<u>(581,967)</u>	<u>-</u>	<u>19,865,189</u>
	<u>27,908,946</u>	<u>2,738,610</u>	<u>(581,967)</u>	<u>-</u>	<u>30,065,589</u>
Capital assets, net	<u>\$ 29,948,982</u>	<u>\$ 1,551,940</u>	<u>\$ (161,937)</u>	<u>\$ -</u>	<u>\$ 31,338,985</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

The Medical Center received capital grants from the State of New Mexico totaling approximately \$52,000 and \$2.5 million during 2010 and 2009 respectively for construction of the cancer center and an emergency medical services (EMS) building.

6) Long-Term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended June 30, 2010 and 2009:

	June 30, 2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Long-term debt					
Revenue bonds					
Series 2004	\$ 2,815,000	\$ -	\$ 170,000	\$ 2,645,000	\$ 385,000
Series 2000	<u>2,050,000</u>	<u>-</u>	<u>1,350,000</u>	<u>700,000</u>	<u>700,000</u>
	4,865,000	-	1,520,000	3,345,000	1,085,000
Plus unamortized bond premium	<u>9,397</u>	<u>-</u>	<u>9,397</u>	<u>-</u>	<u>-</u>
Total long-term debt	4,874,397	-	1,529,397	3,345,000	1,085,000
Capital lease obligation	-	509,968	39,144	470,824	91,573
Other long-term liabilities					
Accrued compensated absences	<u>1,652,587</u>	<u>1,728,349</u>	<u>1,652,587</u>	<u>1,728,349</u>	<u>1,728,349</u>
Total long-term obligations	<u>\$ 6,526,984</u>	<u>\$ 2,238,317</u>	<u>\$ 3,221,128</u>	<u>\$ 5,544,173</u>	<u>\$ 2,904,922</u>
	June 30, 2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Long-term debt					
Revenue bonds					
Series 2004	\$ 2,980,000	\$ -	\$ 165,000	\$ 2,815,000	\$ 170,000
Series 2000	<u>3,325,000</u>	<u>-</u>	<u>1,275,000</u>	<u>2,050,000</u>	<u>1,350,000</u>
	6,305,000	-	1,440,000	4,865,000	1,520,000
Plus unamortized bond premium	<u>15,662</u>	<u>-</u>	<u>6,265</u>	<u>9,397</u>	<u>9,397</u>
Total long-term debt	6,320,662	-	1,446,265	4,874,397	1,529,397
Other long-term liabilities					
Accrued compensated absences	<u>1,517,370</u>	<u>1,652,587</u>	<u>1,517,370</u>	<u>1,652,587</u>	<u>1,652,587</u>
Total long-term obligations	<u>\$ 7,838,032</u>	<u>\$ 1,652,587</u>	<u>\$ 2,963,635</u>	<u>\$ 6,526,984</u>	<u>\$ 3,181,984</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

Revenue Bonds Payable

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 4.40%.

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 bond issue 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, 2010, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
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>\$ 3,680,540</u>	<u>\$ 3,345,000</u>	<u>\$ 335,540</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

Capital Lease Obligation

During 2010, the Medical Center entered in to a capital lease agreement for a blood chemistry analyzer for the lab. The terms of the lease agreement provide an option to purchase the equipment at a price substantially less than fair market value, which qualifies it as a capital lease. Capital assets, acquired by lease, have been capitalized in the amount of \$509,968, and a capital lease obligation recorded. Accumulated depreciation on the equipment totaled \$35,414 at June 30, 2010.

The following schedule presents the future minimum lease payments required under the capital lease and the present value of the minimum lease payments as of June 30, 2010:

<u>Year Ending June 30,</u>	
2011	\$ 118,405
2012	118,405
2013	118,405
2014	118,405
2015	<u>69,070</u>
Total minimum lease payments	542,690
Less: amount representing interest	<u>71,866</u>
Present value of future minimum lease payments	<u><u>\$ 470,824</u></u>

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. Beginning the fifth year of employment, 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 \$635,000 and \$650,000 for the years ended June 30, 2010 and 2009, respectively. Employee contributions to the plan were approximately \$1,036,000 and \$942,000 for 2010 and 2009, respectively. There are no stand-alone financial reports available to the public for the plan.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

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. Under the Health Information Technology for Economic and Clinical Health (HITECH) Act, several of the HIPAA security and privacy requirements have been expanded, including business associates being subject to civil and criminal penalties and enforcement proceedings for violations of HIPAA. Management believes that the Medical Center is in compliance with all applicable provisions of HIPAA and HITECH.

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.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2010 and 2009

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 \$1,896,000 and \$1,941,000 for 2010 and 2009, respectively. Future minimum lease payments for noncancelable operating leases with lease terms exceeding one year at June 30, 2010, are as follows:

2011	\$ 1,212,587
2012	756,195
2013	<u>432,506</u>
Future minimum lease payments	<u><u>\$ 2,401,288</u></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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenue	<u>\$ 64,392,149</u>	<u>\$ 64,392,149</u>	<u>\$ 69,108,380</u>	<u>\$ 4,716,231</u>
Operating Expenses				
Salaries, wages and employee benefits	33,082,386	33,082,386	33,226,786	(144,400)
Supplies and other	14,106,050	14,106,050	15,572,185	(1,466,135)
Purchased services and professional fees	10,902,060	10,902,060	11,485,140	(583,080)
Depreciation	2,757,467	2,757,467	3,046,309	(288,842)
Rental and leases	<u>1,987,910</u>	<u>1,987,910</u>	<u>1,896,431</u>	<u>91,479</u>
Total operating expenses	<u>62,835,873</u>	<u>62,835,873</u>	<u>65,226,851</u>	<u>(2,390,978)</u>
Operating income	1,556,276	1,556,276	3,881,529	2,325,253
Nonoperating Revenue (Expenses)	<u>253,803</u>	<u>253,803</u>	<u>797,769</u>	<u>543,966</u>
Change in net assets before capital grant	<u>\$ 1,810,079</u>	<u>\$ 1,810,079</u>	<u>4,679,298</u>	<u>\$ 2,869,219</u>
Capital grant from State of New Mexico for Cancer Center and EMS building			52,091	
Net assets, beginning of year			<u>55,962,484</u>	
Net assets, end of year			<u>\$ 60,693,873</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, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Favorable (Unfavorable)
Operating Revenue	\$ 66,040,496	\$ 66,040,496	\$ 64,968,249	\$ (1,072,247)
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	2,224,535	2,224,535	1,941,273	283,262
Total operating expenses	<u>64,066,304</u>	<u>64,066,304</u>	<u>62,544,777</u>	<u>1,521,527</u>
Operating income	1,974,192	1,974,192	2,423,472	449,280
Nonoperating Revenue (Expenses)	<u>158,000</u>	<u>158,000</u>	<u>849,389</u>	<u>691,389</u>
Change in net assets before capital grant	<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.

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, 2010

Account	Account Number	Account Type	Wells Fargo Bank, NA	Western Bank	Ambank	First NM Bank	First Savings Bank	Total	
General Account	230-0050091	Checking	\$ 1,063,420	\$ -	\$ -	\$ -	\$ -	\$ 1,063,420	
Payroll Account	230-0003131	Checking	42,656	-	-	-	-	42,656	
Employee Assistance Account	230-0051543	Checking	25,877	-	-	-	-	25,877	
Cafeteria Account	230-0031591	Checking	16,956	-	-	-	-	16,956	
Certificate of Deposit	12166	CD	-	1,170,742	-	-	-	1,170,742	
Certificate of Deposit	11976	CD	-	2,216,129	-	-	-	2,216,129	
Certificate of Deposit	11986	CD	-	886,821	-	-	-	886,821	
Certificate of Deposit	6590	CD	-	-	1,505,084	-	-	1,505,084	
Certificate of Deposit	5391	CD	-	-	1,727,499	-	-	1,727,499	
Certificate of Deposit	3038826432	CD	-	-	-	1,019,193	-	1,019,193	
Certificate of Deposit	3038826433	CD	-	-	-	1,007,498	-	1,007,498	
Certificate of Deposit	3038826434	CD	-	-	-	1,079,075	-	1,079,075	
Certificate of Deposit	13279705	CD	-	-	-	-	1,709,634	1,709,634	
Certificate of Deposit	13299403	CD	-	-	-	-	1,512,667	1,512,667	
Certificate of Deposit	13298137	CD	-	-	-	-	1,075,632	1,075,632	
Certificate of Deposit	13299685	CD	-	-	-	-	1,037,634	1,037,634	
Total amount of deposit in bank			1,148,909	4,273,692	3,232,583	3,105,766	5,335,567	17,096,517	
Less FDIC insurance			250,000	250,000	250,000	250,000	250,000	1,250,000	
Total uninsured public funds			<u>\$ 898,909</u>	<u>\$ 4,023,692</u>	<u>\$ 2,982,583</u>	<u>\$ 2,855,766</u>	<u>\$ 5,085,567</u>	<u>\$ 15,846,517</u>	
Collateral requirement - 50% (Section 6-10-17)			<u>\$ 449,455</u>	<u>\$ 2,011,846</u>	<u>\$ 1,491,292</u>	<u>\$ 1,427,883</u>	<u>\$ 2,542,784</u>	<u>\$ 7,923,260</u>	
		<u>Maturity</u>	<u>CUSIP</u>						
Pledged securities held by Wells Fargo Bank, NA; held in the name of the Medical Center									
FNMA Pool #867437	FNMA	Matures 05/01/2036	31409CV69	(2)	2,110,638	-	-	-	2,110,638
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
Portales	MUNI	Matures 07/01/2011	736151BZ3	(1)	-	-	50,000	-	50,000
Lovington, NM	MUNI	Matures 07/01/2019	547473CK2	(1)	-	-	100,000	-	100,000
Roswell	MUNI	Matures 08/01/2014	778550FZ1	(1)	-	-	250,000	-	250,000

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Pledged Collateral — continued
For the Year Ended June 30, 2010

Account		Account Number	Account Type		Wells Fargo Bank, NA	Western Bank	Ambank	First NM Bank	First Savings Bank	Total
Pledged securities held by Western Bank; held in the name of the Medical Center										
FHLMC 2745C-JE	MUNI	Matures 06/15/2028	31394PZA4	(1)	-	1,056,898	-	-	-	1,056,898
Grant Cnty Hosp Rev	MUNI	Matures 08/01/2012	387779AH4	(1)	-	310,950	-	-	-	310,950
Grant Cnty Hosp Rev	MUNI	Matures 08/01/2013	387779AJO	(1)	-	182,313	-	-	-	182,313
Grant & Cibola Cntys	MUNI	Matures 10/01/2015	388240CY7	(1)	-	147,122	-	-	-	147,122
Curry Cnty New Mex	MUNI	Matures 08/01/2013	231327BB2	(1)	-	100,463	-	-	-	100,463
Roswell New Mexico	MUNI	Matures 06/15/2028	778544CD6	(1)	-	376,091	-	-	-	376,091
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 Cty	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
Roswell NM Indpt School	MUNI	Matures 08/01/2018	778550FS7	(1)	-	-	-	250,000	-	250,000
Univ of NM Gallup	MUNI	Matures 08/01/2017	914684BM6	(1)	-	-	-	485,000	-	485,000
Dulce NM Indpt School	MUNI	Matures 03/01/2020	264430HL6	(1)	-	-	-	250,000	-	250,000
Coma NM Muni School	MUNI	Matures 08/01/2014	219762BA8	(1)	-	-	-	60,000	-	60,000
Pledged securities held by First Savings Bank, held in the name of the Medical Center										
Carson City School	MUNI	Matures 06/01/2011	145814KW8	(1)	-	-	-	-	774,218	774,218
Springfield TWP	FNMA	Matures 08/15/2014	851511KT1	(2)	-	-	-	-	52,745	52,745
FHR 2841 BJ	FNMA	Matures 04/15/2018	31395ES32	(2)	-	-	-	-	113,032	113,032
MBS FNMA 10 yr	FNMA	Matures 10/01/2014	31371NGQ2	(2)	-	-	-	-	434,643	434,643
MBS FNMA 10 yr	FNMA	Matures 04/15/2018	31403DHR3	(2)	-	-	-	-	418,748	418,748
FNR 2005-30 CU	FNMA	Matures 04/25/2029	31394C6V9	(2)	-	-	-	-	1,559,455	1,559,455
Total pledged collateral					2,110,638	2,173,837	1,500,000	2,895,000	3,352,841	12,032,316
Amount over (under) collateralized for 50% requirement					\$ 1,661,183	\$ 161,991	\$ 8,708	\$ 1,467,117	\$ 810,057	\$ 4,109,056
Repurchase Agreement										
Amount of repurchase agreement						\$ 5,034,711				
Required collateralization - 102% of uninsured portion						5,135,405				
Pledged securities held by Wells Fargo Bank, NA	FNMA	Matures 03/01/2036	31408JJZ5	(2)		5,135,405				
Amount over collateralized for 102% requirement						\$ -				

(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, 2010

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Deposit Accounts						
Wells Fargo	230-0050091	Checking	\$ 1,063,420	\$ 2,934	\$ 242,750	\$ 823,604
Wells Fargo	230-0003131	Checking	42,656	-	6,156	36,500
Wells Fargo	230-0051543	Checking	25,877	-	-	25,877
Wells Fargo	230-0031591	Checking	16,956	-	1,885	15,071
			<u>\$ 1,148,909</u>	<u>\$ 2,934</u>	<u>\$ 250,791</u>	901,052
Cash on hand		Petty cash				1,650
						<u>\$ 902,702</u>
Certificates of Deposit						
Western Bank	GRMC	Certificates of Deposit	\$ 4,273,692	\$ -	\$ -	\$ 4,273,692
AM Bank	GRMC	Certificates of Deposit	3,232,583	-	-	3,232,583
First New Mexico Bank	GRMC	Certificates of Deposit	3,105,766	-	-	3,105,766
First Savings Bank	GRMC	Certificates of Deposit	5,335,567	-	-	5,335,567
			<u>15,947,608</u>	<u>-</u>	<u>-</u>	<u>15,947,608</u>
Investments						
Bank of Albuquerque	GRMC-2004 Bond P and I Fund	U.S. Treasury bill	118,977	-	-	118,977
			<u>118,977</u>	<u>-</u>	<u>-</u>	<u>118,977</u>
Wells Fargo	GRMC-2000 Debt Service Reserve Fund	U.S. Treasury cash	400,270	-	-	400,270
		U.S. Treasury note	345,793	-	-	345,793
			<u>746,063</u>	<u>-</u>	<u>-</u>	<u>746,063</u>
Wells Fargo	GRMC-2000 Bond Fund	U.S. Treasury cash	604,849	-	-	604,849
State Treasurer's Local Government Investment Pool		Investment pool	1,054	-	-	1,054
			<u>1,470,943</u>	<u>-</u>	<u>-</u>	<u>1,470,943</u>
Repurchase Agreement						
Wells Fargo	Sweep	Repurchase	5,034,711	-	-	5,034,711
Total deposits and investments			<u>\$ 23,602,171</u>	<u>-</u>	<u>-</u>	<u>\$ 23,355,964</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, 2010, which collectively comprise the Medical Center's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2010, presented as supplementary information, and have issued our report thereon dated September 6, 2010. 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item FS 10-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

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

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 6, 2010

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Findings and Responses
For the Year Ended June 30, 2010

FS 10-1 — Capital Lease

Criteria or Specific Requirement: The Medical Center is required to account for capital leases according to FASB ASC Section 840-30, Leases.

Condition: At June 30, 2010, the Medical Center had a lease incorrectly classified as an operating lease.

Cause: The Medical Center's controls are not adequate to correctly classify capital leases.

Effect: A material lease was not correctly classified, resulting in the understatement of capital assets and long-term obligations.

Recommendation: Review all material leases for classification in accordance with FASB ASC Section 840-30, Leases.

Management's Response: All material leases will be reviewed to see if they qualify as a capital lease or an operating lease.

Gila Regional Medical Center
(A Component Unit of Grant County)
Current Status Schedule of 2009 Audit Findings
For the Year Ended June 30, 2010

Prior-Year Number	Description	Current-Year Number
Resolved Findings		
SA 09-1	Cash Collateralization	N/A – Resolved
SA 09-2	Disposition of Property	N/A – Resolved

Gila Regional Medical Center
(A Component Unit of Grant County)
Other Disclosures
For the Year Ended June 30, 2010

Exit Conference

A closed meeting exit conference was held with the Medical Center on September 29, 2010, in Silver City, New Mexico with the following attending:

Gila Regional Medical Center

Jim Leidich	Board Chairperson
Ray C. Baca	Board Vice Chairperson
Pam Archibald	Board Secretary/Treasurer
Terry Trujillo	Board Member
Robert Morales, Sr.	Board Member
Brian Bentley	Chief Executive Officer
Craig Stewart	Chief Financial Officer
Beth Allred	AVP Finance/Controller
Ruth Giegerich	Executive Assistant to the CEO
Brian Cunningham	AVP Operations
Ray Goellner	AVP Clinical Services
Holley Hudgins	Director of Marketing
Wanda True	Interim Chief Nursing Officer
Tom McCall	Regional Vice President, QHR

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.