

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

2011 and 2010 Financial Statements,
Supplementary Information and
Independent Auditors' Reports



CPAs | Business & Financial Advisors

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 (2011)	32
Schedule of Revenues, Expenses and Changes in Net Assets – Budget and Actual (2010)	33
New Mexico State Auditor's Supplementary Information	
Schedule of Pledged Collateral	34-36
Schedule of Individual Deposit and Investment Accounts	37
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	38-39
Schedule of Findings and Responses	40-42
Current Status Schedule of 2010 Audit Finding	43
Other Disclosures	44

Gila Regional Medical Center
(A Component Unit of Grant County)
Board of Trustees and Principal Employees
June 30, 2011

Board of Trustees

Jim Leidich	Chairperson
Ray C. Baca	Vice Chairperson
Pam Archibald	Secretary/Treasurer
Charles Kelly	Member
Darrick Nelson	Member
Robert Morales	Member
Terry Trujillo	Member

Principal Employees

Brian Bentley	Chief Executive Officer
Craig Stewart	Chief Financial Officer
Wanda True	Interim 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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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 28, 2011, 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 28, 2011

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, 2011

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, 2011. 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 \$3,577,000 in 2011 and by \$4,302,000 in 2010, or 16% and 24%, respectively.
- ◆ The Medical Center's net assets increased by \$5,636,000 in 2011 and by \$4,731,000 in 2010, or 9% and 8%, respectively.
- ◆ The Medical Center reported operating income in 2011 of \$5,166,000, which represents an increase of \$1,284,000, or 33%, compared to the operating income reported in 2010.
- ◆ Net nonoperating revenues decreased by \$328,000 or 41% in 2011, compared to a decrease of \$51,000 or 6% in 2010. The Medical Center received nothing in 2011 and \$52,000 in 2010 in grant funds from the State of New Mexico, which were used to fund the building of EMS (Emergency Medical Services) building.
- ◆ The debt service coverage ratio for 2011 (using the current year's debt service requirements) was 14.92 compared to 6.72 in 2010. 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, 2011

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, 2011

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 2011 by \$5,636,000 or 9% and in 2010 by \$4,731,000 or 8%, as shown in the following table:

ASSETS, LIABILITIES AND NET ASSETS

	<u>2011</u>	2010	2009
Assets			
Cash and cash equivalents	\$ 7,290,522	\$ 5,937,413	\$ 3,370,058
Certificates of deposit	18,171,088	15,947,608	14,212,857
Patient accounts receivable, net	10,955,272	9,960,644	9,902,070
Other current assets	7,754,584	8,190,000	7,337,561
Capital assets, net	31,304,866	31,163,568	31,338,985
Other noncurrent assets	260,490	322,527	380,724
Total assets	<u>\$ 75,736,822</u>	<u>\$ 71,521,760</u>	<u>\$ 66,542,255</u>
Liabilities			
Long-term debt, including current maturities	\$ 2,260,000	\$ 3,345,000	\$ 4,874,397
Other current and noncurrent liabilities	7,147,271	7,482,887	5,705,374
Total liabilities	<u>9,407,271</u>	<u>10,827,887</u>	<u>10,579,771</u>
Net Assets			
Invested in capital assets, net of related debt	28,795,942	27,347,744	26,464,588
Restricted-expendable for debt service	202,578	335,540	550,473
Unrestricted	37,331,031	33,010,589	28,947,423
Total net assets	<u>66,329,551</u>	<u>60,693,873</u>	<u>55,962,484</u>
Total liabilities and net assets	<u>\$ 75,736,822</u>	<u>\$ 71,521,760</u>	<u>\$ 66,542,255</u>

The increase in net assets of \$5,636,000 in 2011 and \$4,731,000 in 2010 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 \$1,284,000 in 2011 and \$1,458,000 in 2010.

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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

The Medical Center's operating income in 2011 was approximately \$5,166,000, a 33% increase compared to 2010 results. In 2010, operating income was \$3,882,000. This compares to 2009 operating income of \$2,423,000. These results are shown in the following table:

OPERATING RESULTS AND CHANGE IN NET ASSETS

	<u>2011</u>	2010	2009
Operating Revenues			
Net patient service revenue	\$ 73,910,409	\$ 68,503,915	\$ 64,266,689
Other operating revenues	<u>716,711</u>	<u>604,465</u>	<u>701,560</u>
Total operating revenues	<u>74,627,120</u>	<u>69,108,380</u>	<u>64,968,249</u>
Operating Expenses			
Salaries, wages and employee benefits	35,704,503	33,226,786	32,134,659
Purchased services and professional fees	12,009,113	11,485,140	11,148,110
Depreciation and amortization	3,309,021	3,046,309	2,738,610
Other operating expenses	<u>18,438,906</u>	<u>17,468,616</u>	<u>16,523,398</u>
Total operating expenses	<u>69,461,543</u>	<u>65,226,851</u>	<u>62,544,777</u>
Operating income	<u>5,165,577</u>	<u>3,881,529</u>	<u>2,423,472</u>
Nonoperating Revenues (Expenses)			
Interest income	219,304	272,374	484,371
Interest expense	(136,899)	(181,991)	(254,038)
Grants and gifts	383,895	707,386	779,368
Gain on sale of asset	<u>3,801</u>	<u>-</u>	<u>(160,312)</u>
Net nonoperating revenues	<u>470,101</u>	<u>797,769</u>	<u>849,389</u>
Excess of revenues over expenses before capital grant	5,635,678	4,679,298	3,272,861
Capital grant, State of New Mexico funding	<u>-</u>	<u>52,091</u>	<u>2,498,862</u>
Change in net assets	<u>\$ 5,635,678</u>	<u>\$ 4,731,389</u>	<u>\$ 5,771,723</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2011

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 2011 of \$5,166,000, an increase of \$1,284,000 compared to the 2010 operating income of \$3,882,000. The primary components of the operating results in 2011 are as follows:

- ◆ An increase in net patient service revenue of \$5,406,000, or 7.9%, due to price increases which had a net impact of 4% on net patient service revenue, plus outpatient volume increases in Cancer Center medical and radiation oncology visits, increases in diagnostic imaging procedures (especially CT scans), increases in Pharmacy chemotherapy drugs dispensed, increases in Home Health and Hospice visits and increases in Infusion Services visits.
- ◆ Increases in salaries and employee benefits in 2011 of \$2,478,000, an increase of 7.5%, compared to the prior year. In 2011, there was a 3% across the board wage increase given to all employees, which cost \$800,000, plus \$500,000 in equity adjustments for the professional and licensed pay grades. Blue Cross Health Insurance premiums also increased 13%, which cost an additional \$600,000. The remaining amount of the increase was due to additional employees. Wages and employee benefits as a percentage of total operating revenues declined from 49.5% in 2009 to 48% in 2010, and 47.8% in 2011. 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 to 3.0% in 2011.
- ◆ Other operating expenses increased by \$970,000 in 2011 as compared to 2010. This was due to higher drug costs due to the higher amount of outpatient chemotherapy drugs administered, as well as the increased costs to run the Cancer Center plus higher drug costs for the drugs administered in Infusion Services. There were also increased supply costs for Diagnostic Imaging and Home Health and Hospice due to their volume increases. Also, total supply costs increased by 3.5% due to inflationary price increases. These additional expenses were more than offset by the additional outpatient revenues generated by these services, which increased net patient service revenues and operating income during 2011.
- ◆ Purchased services and professional fees increased by \$524,000, or 4.6%, in 2011. This was due to implementation of "pay for call" for physician call coverage for Emergency Room patients needing specialty services and physician consultations for obstetrics and gynecology, surgery and anesthesia, pediatrics, ENT, podiatry, and pulmonary services.
- ◆ Net patient service revenue increased by 7.9% in 2011 compared to 2010. At the same time, total operating expenses increased by 6.5% in 2011 compared to 2010 due to the increase in wages and employee benefits, supplies, purchased services, and professional fees outlined above.

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses, which consist primarily of noncapital grants and gifts, interest income, and interest expense, decreased by \$328,000, or 41% in 2011 compared to 2010.

This was due to a decrease of interest expense of \$45,000 from the 2000 Series Bond being paid off, offset by a decrease in interest income of \$53,000 in 2011 caused by lower interest rates on CDs held by the Medical Center due to the low CPI inflationary increases during 2011. Additionally, grants and gifts decreased by \$323,000 because there was less grant money being made available to hospitals during 2011 due to government cutbacks and fewer gifts and donations due to the slow economic recovery.

Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2011, 2010 and 2009 discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2011, the Medical Center had \$31.3 million invested in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. In 2011, the Medical Center invested approximately \$3.6 million for the purchase of capital equipment, hospital wide renovation projects, and parking lot repaving and remodeling. This consisted of approximately \$750,000 for new and upgraded information systems technology for both hardware and software, \$575,000 for new surgical equipment, \$155,000 for new patient beds for the various nursing units, \$350,000 for a new digital mammography machine for Diagnostic Imaging, \$550,000 for various renovation projects hospital-wide, \$325,000 for repaving and remodeling of patient parking areas and landscaping, \$150,000 for a new mobile fluoroscopy unit, \$95,000 for upgrading of the campus wide security camera system, and \$650,000 for various diagnostic, clinical, and other smaller equipment purchases.

Debt

At June 30, 2011, the Medical Center had \$2,260,000 in revenue bonds outstanding. The Medical Center did not issue any new debt in 2011 or 2010, with the exception of a capital lease in 2010. Total debt decreased by approximately \$1,307,000 in 2011. The series 2000 Bonds with a remaining principal balance of \$700,000 were paid off in August 2010, which leaves only the series 2004 Revenue Bonds as outstanding long-term debt as of June 30, 2011. 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 substantially. The Medical Center's revenue bonds are subject to limitations imposed by state law. The Medical Center's debt ratings improved to BBB for 2011 from BBB- for the previous three years. See the notes to the financial statements for further information about long-term debt and capital lease obligations.

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2011

Budgetary Highlights

There were no budget modifications during fiscal year 2011. Total operating revenues exceeded budget by \$5,343,000 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. Operating revenues included \$2.2 million in Sole Community Provider supplemental income received in 2011 that wasn't included in the budget. Operating expenses were also over budget by \$2.3 million due in part to supplies and other expenses being \$1.6 million over budget as outlined previously. Additionally, salaries, wages and employee benefits were over budget by a total of \$893,000 due to higher labor costs and FTEs than was budgeted due to regulatory changes and increased outpatient volumes and revenues.

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 63,228 in 2010. In 2012, the total population is estimated to be about the same. These population figures were compiled by the Census Bureau. The area's largest employer is Freeport McMoRan (Freeport), an international mining conglomerate, which owns several copper mines in the Medical Center's service area. During the recession, parts of the mining operations were shut down, and unemployment increased significantly. During calendar year 2011, Freeport has hired back 494 workers and has reopened the mining operations that were closed. Freeport currently has 1,350 employees, plus approximately 350 contract employees. 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 an increase in retirees, who are heavy users of hospital services. More retirees relocating to Silver City will be dependent on an improvement in home sales nationwide and how fast the national economy recovers.

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,

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	\$ 7,290,522	\$ 5,937,413
Certificates of deposit	18,171,088	15,947,608
Investments held by trustee for debt service	292,307	1,470,943
Patient accounts receivable, net of allowance: 2011 - \$3,816,000; 2010 - \$4,605,000	10,955,272	9,960,644
Sole community provider receivable	3,110,232	2,459,588
Other receivables, net	1,178,331	931,354
Inventories	2,725,614	2,742,915
Prepaid expenses and other	448,100	585,200
Total current assets	44,171,466	40,035,665
Noncurrent assets		
Capital assets, net	31,304,866	31,163,568
Other assets	260,490	322,527
Total assets	\$ 75,736,822	\$ 71,521,760

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,

	2011	2010
Liabilities		
Current liabilities		
Accounts payable	\$ 3,740,872	\$ 3,543,115
Accrued expenses		
Compensated absences	1,896,050	1,728,349
Payroll	955,166	854,333
Interest	41,236	61,452
Current maturities of long-term debt	600,000	1,085,000
Current maturities of capital lease obligation	78,733	91,573
Estimated third party payor settlement	177,752	769,760
Deferred revenue	87,271	55,054
Total current liabilities	7,577,080	8,188,636
Long-term debt, less current maturities	1,660,000	2,260,000
Capital lease obligation, less current maturities	170,191	379,251
Total liabilities	9,407,271	10,827,887
Net Assets		
Invested in capital assets, net of related debt and lease obligation	28,795,942	27,347,744
Restricted-expendable for debt service	202,578	335,540
Unrestricted	37,331,031	33,010,589
Total net assets	66,329,551	60,693,873
Total liabilities and net assets	\$ 75,736,822	\$ 71,521,760

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>2011</u>	<u>2010</u>
Operating Revenue		
Net patient service revenue	\$ 73,910,409	\$ 68,503,915
Other revenue	<u>716,711</u>	<u>604,465</u>
Total operating revenue	<u>74,627,120</u>	<u>69,108,380</u>
Operating Expenses		
Salaries, wages and employee benefits	35,704,503	33,226,786
Supplies and other	16,503,505	15,572,185
Purchased services and professional fees	12,009,113	11,485,140
Depreciation	3,309,021	3,046,309
Rental and leases	<u>1,935,401</u>	<u>1,896,431</u>
Total operating expenses	<u>69,461,543</u>	<u>65,226,851</u>
Operating income	<u>5,165,577</u>	<u>3,881,529</u>
Nonoperating Revenue (Expenses)		
Interest income	219,304	272,374
Interest expense	(136,899)	(181,991)
Gain on sale of asset	3,801	-
Grants and gifts	<u>383,895</u>	<u>707,386</u>
Total nonoperating revenue, net	<u>470,101</u>	<u>797,769</u>
Excess of revenue over expenses before capital grant	5,635,678	4,679,298
Capital grant from State of New Mexico for Cancer Center and EMS building	<u>-</u>	<u>52,091</u>
Change in net assets	5,635,678	4,731,389
Net assets, beginning of year	<u>60,693,873</u>	<u>55,962,484</u>
Net assets, end of year	<u>\$ 66,329,551</u>	<u>\$ 60,693,873</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>2011</u>	<u>2010</u>
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 72,175,080	\$ 69,353,758
Cash paid to suppliers and contractors	(30,033,824)	(28,912,157)
Cash paid to employees	<u>(35,456,185)</u>	<u>(33,062,994)</u>
Net cash provided by operating activities	<u>6,685,071</u>	<u>7,378,607</u>
Cash flows from noncapital financing activities		
Grants and gifts	<u>383,895</u>	<u>707,386</u>
Cash flows from capital and related financing activities		
Capital grants	-	52,091
Principal paid on long-term debt	(1,085,000)	(1,520,000)
Interest paid on long-term debt	(133,098)	(191,388)
Purchase of capital assets	(3,816,744)	(2,400,068)
Changes in assets limited as to use	1,178,636	3,104
Retirement of capital assets	<u>144,525</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(3,711,681)</u>	<u>(4,056,261)</u>
Cash flows from investing activities		
Purchase of certificates of deposit	(2,223,480)	(1,734,751)
Interest on investments	<u>219,304</u>	<u>272,374</u>
Net cash used in investing activities	<u>(2,004,176)</u>	<u>(1,462,377)</u>
Net increase in cash and cash equivalents	1,353,109	2,567,355
Cash and cash equivalents, beginning of year	<u>5,937,413</u>	<u>3,370,058</u>
Cash and cash equivalents, end of year	<u>\$ 7,290,522</u>	<u>\$ 5,937,413</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,

	2011	2010
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 5,165,577	\$ 3,881,529
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	3,309,021	3,046,309
Provision for uncollectible accounts	6,801,407	6,710,434
Changes in assets and liabilities		
Patient accounts receivable	(7,796,035)	(6,769,008)
Sole community provider receivable	(650,644)	(411,418)
Other receivables	(246,977)	(98,782)
Inventories	17,301	(440,748)
Prepaid expenses and other assets	199,137	153,602
Accounts payable and accrued expenses	446,075	492,537
Deferred revenue	32,217	55,054
Estimated third-party payor settlements	(592,008)	759,098
Net cash provided by operating activities	<u>\$ 6,685,071</u>	<u>\$ 7,378,607</u>
Noncash capital and related financing activities		
Equipment acquired through capital lease	<u>\$ -</u>	<u>\$ 509,968</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, 2011 and 2010

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 has a management advisory services agreement (MASA) with Quorum Health Resources (QHR), a healthcare management company. The MASA will expire on August 1, 2013. Management fees approximated \$409,000 and \$372,000 in 2011 and 2010, 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). As permitted by GASB, the Medical Center has elected to apply all relevant Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that do not conflict with or contradict GASB pronouncements.

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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, Cash Equivalents and Certificates of Deposit

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. Certificates of deposit have original maturities in excess of three months and are not considered to be cash equivalents.

Patient Accounts Receivable and Allowances

The Medical Center reports patient accounts receivable for services rendered at estimated 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, 2011 and 2010

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 becomes 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 that 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 2011 and 2010.

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, 2011 and 2010

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.

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 \$1,256,000 and \$1,219,000 in 2011 and 2010, 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, 2011 and 2010

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 6, 2011, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2011, 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

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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!". The amounts paid by the State, under the traditional Medicaid program, are the same as amounts paid by the MCOs through the SALUD! program.

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. The Medical Center is reimbursed for certain cost reimbursable items such as depreciation, other capital costs, and bad debts at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare and Medicaid fiscal intermediaries.

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

	June 30, 2011 Amount	June 30, 2011 Status	June 30, 2010 Amount
Medicare			
2009	\$ 22,248	Final	\$ (49,760)
2010	50,000	Filed, tentative settlement	(420,000)
2011	<u>(150,000)</u>	Estimate, unaudited	<u>-</u>
	<u>(77,752)</u>		<u>(469,760)</u>
Medicaid			
2008	-	Final	(50,000)
2009	-	Filed, pending audit report	(50,000)
2010	(50,000)	Filed, tentative settlement	(200,000)
2011	<u>(50,000)</u>	Estimate, unaudited	<u>-</u>
	<u>(100,000)</u>		<u>(300,000)</u>
Estimated third-party payor settlements	<u>\$ (177,752)</u>		<u>\$ (769,760)</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 becomes 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, 2011 and 2010

Settlements of prior-year cost reports and changes in estimates resulted in an increase to net patient service revenue of approximately \$344,000 for the year ended June 30, 2011, and a decrease of \$137,000 for the year ended June 30, 2010.

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 2011 and 2010 totaled \$12.4 million and \$9.8 million, respectively. Approximately \$2.2 million and \$2.0 million for the years ended June 30, 2011 and 2010, 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>2011</u>	<u>2010</u>
Gross patient revenue		
Inpatient	\$ 45,940,564	\$ 42,553,369
Outpatient	<u>106,610,321</u>	<u>92,014,349</u>
Total gross patient revenue	<u>152,550,885</u>	<u>134,567,718</u>
Less contractual adjustments and provision for uncollectible accounts		
Third-party payor contractual allowances, discounts, and adjustments	71,839,069	59,353,369
Provision for uncollectible accounts	<u>6,801,407</u>	<u>6,710,434</u>
Total contractual adjustments and provision for uncollectible accounts	<u>78,640,476</u>	<u>66,063,803</u>
Net patient service revenue	<u>\$ 73,910,409</u>	<u>\$ 68,503,915</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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, 2011, the Medical Center was short of the State collateralization requirements at one financial institution by \$49,596. As of June 30, 2010, the Medical Center was in compliance with the State collateralization requirements.

As of June 30, 2011, the Medical Center had deposits with a bank balance of \$19,270,996, of which \$6,045,206 were uninsured and uncollateralized, and therefore subject to custodial credit risk. 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.

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, 2011 and 2010

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, 2011, is as follows:

June 30, 2011
New MexiGrow LGIP AAAM rated \$1,056 55-day WAM

At June 30, 2011 and 2010, the Medical Center had the following investments and maturities:

Type	June 30, 2011				
	Fair Value	Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasury securities and money market	\$ 291,251	\$ 291,251	\$ -	\$ -	\$ -
Repurchase agreement	6,379,824	6,379,824	-	-	-
State Treasurer's investment pool	1,056	1,056	-	-	-
	<u>\$ 6,672,131</u>	<u>\$ 6,672,131</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Type	June 30, 2010				
	Fair Value	Maturities in Years			
		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>

The repurchase agreement was fully collateralized at June 30, 2011 and 2010, 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, 2011 and 2010

Reconciliation to Balance Sheets

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

	2011	2010
Carrying value		
Deposits	\$ 19,081,786	\$ 16,850,310
Investments	<u>6,672,131</u>	<u>3,505,654</u>
	<u>\$ 25,753,917</u>	<u>\$ 20,355,964</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 7,290,522	\$ 5,937,413
Certificates of deposit	18,171,088	15,947,608
Investments held by trustee for debt service	<u>292,307</u>	<u>1,470,943</u>
	<u>\$ 25,753,917</u>	<u>\$ 23,355,964</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, 2011 and 2010, consisted of the items shown below:

	2011	2010
Medicare	\$ 8,428,150	\$ 8,323,888
Medicaid	4,787,120	3,569,623
Other third-party payers	6,414,299	4,828,553
Patients	<u>5,820,769</u>	<u>6,618,432</u>
	25,450,338	23,340,496
Less allowance for contractual adjustments	<u>10,678,946</u>	<u>8,775,003</u>
	14,771,392	14,565,493
Less allowance for uncollectible accounts	<u>3,816,120</u>	<u>4,604,849</u>
	<u>\$ 10,955,272</u>	<u>\$ 9,960,644</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

5) Capital Assets

Capital asset activity of the Medical Center for the years ended June 30, 2011 and 2010, was as follows:

	June 30, 2011				
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 806,200	\$ -	\$ -	\$ -	\$ 806,200
Construction in progress	<u>422,378</u>	<u>1,005,524</u>	<u>-</u>	<u>(796,542)</u>	<u>631,360</u>
Total capital assets not being depreciated	<u>1,228,578</u>	<u>1,005,524</u>	<u>-</u>	<u>(796,542)</u>	<u>1,437,560</u>
<i>Capital assets being depreciated</i>					
Land improvements	85,399	-	-	-	85,399
Buildings	30,822,445	278,395	-	341,384	31,442,224
Equipment	<u>32,139,044</u>	<u>2,310,925</u>	<u>(313,139)</u>	<u>455,158</u>	<u>34,591,988</u>
Total capital assets being depreciated	<u>63,046,888</u>	<u>2,589,320</u>	<u>(313,139)</u>	<u>796,542</u>	<u>66,119,611</u>
Less accumulated depreciation					
Land improvements	16,055	4,045	-	-	20,100
Buildings	11,008,927	828,013	-	-	11,836,940
Equipment	<u>22,086,916</u>	<u>2,476,963</u>	<u>(168,614)</u>	<u>-</u>	<u>24,395,265</u>
	<u>33,111,898</u>	<u>3,309,021</u>	<u>(168,614)</u>	<u>-</u>	<u>36,252,305</u>
Capital assets, net	<u>\$ 31,163,568</u>	<u>\$ 285,823</u>	<u>\$ (144,525)</u>	<u>\$ -</u>	<u>\$ 31,304,866</u>
	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>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

The Medical Center received capital grants from the State of New Mexico in 2010 totaling approximately \$52,000, 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, 2011 and 2010:

	June 30, 2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Long-term debt					
Revenue bonds					
Series 2004	\$ 2,645,000	\$ -	\$ 385,000	\$ 2,260,000	\$ 600,000
Series 2000	700,000	-	700,000	-	-
Total long-term debt	3,345,000	-	1,085,000	2,260,000	600,000
Capital lease obligation	470,824	-	221,899	248,925	78,733
Other long-term liabilities					
Accrued compensated absences	1,728,349	1,896,050	1,728,349	1,896,050	1,896,050
Total long-term obligations	<u>\$ 5,544,173</u>	<u>\$ 1,896,050</u>	<u>\$ 3,035,248</u>	<u>\$ 4,404,975</u>	<u>\$ 2,574,783</u>
	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	2,050,000	-	1,350,000	700,000	700,000
	4,865,000	-	1,520,000	3,345,000	1,085,000
Plus unamortized bond premium	9,397	-	9,397	-	-
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	-
Other long-term liabilities					
Accrued compensated absences	1,652,587	1,728,349	1,652,587	1,728,349	1,728,349
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>\$ 2,813,349</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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, 2011, are as follows:

<u>Year Ending June 30,</u>	<u>Total to</u>	<u>Principal</u>	<u>Interest</u>
	<u>be Paid</u>		
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>\$ 2,462,578</u>	<u>\$ 2,260,000</u>	<u>\$ 202,578</u>

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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 in 2010 of \$509,969, and a capital lease obligation recorded. In March 2011, the lease was re-negotiated and the value of the capitalized asset and respective capital lease obligation decreased to \$369,269. Accumulated depreciation on the equipment totaled \$120,343 and \$35,414 at June 30, 2011 and 2010, respectively.

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, 2011:

<u>Year Ending June 30,</u>	
2012	\$ 78,733
2013	78,733
2014	78,733
2015	<u>63,386</u>
Total minimum lease payments	299,585
Less: amount representing interest	<u>50,660</u>
Present value of future minimum lease payments	<u><u>\$ 248,925</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 \$692,000 and \$635,000 for the years ended June 30, 2011 and 2010, respectively. Employee contributions to the plan were approximately \$1,275,000 and \$1,036,000 for 2011 and 2010, 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, 2011 and 2010

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

Gila Regional Medical Center
(A Component Unit of Grant County)
Notes to Basic Financial Statements
June 30, 2011 and 2010

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 \$1,935,000 and \$1,896,000 for 2011 and 2010, respectively. Future minimum lease payments for noncancelable operating leases with lease terms exceeding one year at June 30, 2011, are as follows:

2012	\$ 1,619,825
2013	717,520
2014	461,898
2015	<u>123,687</u>
Total future minimum lease payments	<u><u>\$ 2,922,930</u></u>

In April 2011, the Medical Center entered into a 44-month operating lease with Toshiba for a new 160-slice Aquilion CT Scanner with a total value of approximately \$1.1 million. The new CT Scanner is being installed and will be operational in October 2011, at which time the new lease will commence with payments of approximately \$23,128 per month. No asset or obligation has been recorded in the accompanying financial statements.

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, 2011

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Favorable (Unfavorable)
Operating Revenue	\$ 69,283,901	\$ 69,283,901	\$ 74,627,120	\$ 5,343,219
Operating Expenses				
Salaries, wages and employee benefits	34,811,239	34,811,239	35,704,503	(893,264)
Supplies and other	14,914,757	14,914,757	16,503,505	(1,588,748)
Purchased services and professional fees	11,894,505	11,894,505	12,009,113	(114,608)
Depreciation	3,263,275	3,263,275	3,309,021	(45,746)
Rental and leases	2,256,010	2,256,010	1,935,401	320,609
Total operating expenses	<u>67,139,786</u>	<u>67,139,786</u>	<u>69,461,543</u>	<u>(2,321,757)</u>
Operating income	2,144,115	2,144,115	5,165,577	3,021,462
Nonoperating Net Revenue	<u>192,789</u>	<u>192,789</u>	<u>470,101</u>	<u>277,312</u>
Change in net assets	<u>\$ 2,336,904</u>	<u>\$ 2,336,904</u>	<u>5,635,678</u>	<u>\$ 3,298,774</u>
Net assets, beginning of year			<u>60,693,873</u>	
Net assets, end of year			<u>\$ 66,329,551</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, 2010

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenue	\$ 64,392,149	\$ 64,392,149	\$ 69,108,380	\$ 4,716,231
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	10,905,060	10,902,060	11,485,140	(583,080)
Depreciation	2,757,467	2,757,467	3,046,309	(288,842)
Rental and leases	198,791	1,987,510	1,896,431	91,079
Total operating expenses	61,049,754	62,835,473	65,226,851	(2,391,378)
Operating income	3,342,395	1,556,676	3,881,529	2,324,853
Nonoperating Net Revenue	253,803	253,803	797,769	543,966
Change in net assets before capital grant	\$ 3,596,198	\$ 1,810,479	4,679,298	\$ 2,868,819
Capital grant from State of New Mexico for Cancer Center and EMS building			52,091	
Change in net assets			4,731,389	
Net assets, beginning of year			55,962,484	
Net assets, end of year			\$ 60,693,873	

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, 2011

Account	Account Number	Account Type	Wells Fargo Bank, NA	Western Bank	Ambank	First NM Bank	First Savings Bank	Total		
General Account	230-0050091	Checking	\$ 1,037,637	\$ -	\$ -	\$ -	\$ -	\$ 1,037,637		
Payroll Account	230-0003131	Checking	24,116	-	-	-	-	24,116		
Employee Assistance Account	230-0051543	Checking	30,054	-	-	-	-	30,054		
Cafeteria Account	230-0031591	Checking	8,101	-	-	-	-	8,101		
Certificate of Deposit	12422	CD	-	1,171,456	-	-	-	1,171,456		
Certificate of Deposit	12223	CD	-	2,280,009	-	-	-	2,280,009		
Certificate of Deposit	12228	CD	-	896,478	-	-	-	896,478		
Certificate of Deposit	12263	CD	-	1,087,926	-	-	-	1,087,926		
Certificate of Deposit	7132	CD	-	-	1,524,035	-	-	1,524,035		
Certificate of Deposit	6917	CD	-	-	1,009,231	-	-	1,009,231		
Certificate of Deposit	7068	CD	-	-	1,753,264	-	-	1,753,264		
Certificate of Deposit	7143	CD	-	-	1,727,482	-	-	1,727,482		
Certificate of Deposit	6885	CD	-	-	1,021,180	-	-	1,021,180		
Certificate of Deposit	3038826435	CD	-	-	-	1,003,511	-	1,003,511		
Certificate of Deposit	3038826434	CD	-	-	-	1,088,449	-	1,088,449		
Certificate of Deposit	13305997	CD	-	-	-	-	1,029,281	1,029,281		
Certificate of Deposit	13299403	CD	-	-	-	-	1,531,276	1,531,276		
Certificate of Deposit	13299685	CD	-	-	-	-	1,047,510	1,047,510		
Total amount of deposit in bank			1,099,908	5,435,869	7,035,192	2,091,960	3,608,067	19,270,996		
Less FDIC insurance			1,099,908	250,000	250,000	250,000	250,000	2,099,908		
Total uninsured public funds			\$ -	\$ 5,185,869	\$ 6,785,192	\$ 1,841,960	\$ 3,358,067	\$ 17,171,088		
Collateral requirement - 50% (Section 6-10-17)			\$ -	\$ 2,592,935	\$ 3,392,596	\$ 920,980	\$ 1,679,034	\$ 8,585,545		
		<u>Maturity</u>		<u>CUSIP</u>						
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
Bernalillo Schools	MUNI	Matures 08/01/2013	085279MS3	(1)	-	-	135,000	-	-	135,000
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
Belen Schools	MUNI	Matures 08/01/2017	077581MM5	(1)	-	-	100,000	-	-	100,000
Hobbs Schools	MUNI	Matures 04/15/2019	433866DB3	(1)	-	-	100,000	-	-	100,000

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Pledged Collateral — continued
For the Year Ended June 30, 2011

Account		Account Number	Account Type		Wells Fargo Bank, NA	Western Bank	Ambank	First NM Bank	First Savings Bank	Total
		Maturity	CUSIP							
Pledged securities held by Ambank; held in the name of the Medical Center - continued										
Fed Home Loan Bank	MUNI	Matures 09/13/2013	313370LB2	(1)	-	-	500,000	-	-	500,000
Fed Home Loan Bank	MUNI	Matures 09/11/2015	313370JB5	(1)	-	-	500,000	-	-	500,000
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
Fed Home Loan Bank	MUNI	Matures 12/11/2015	313371NW2	(1)	-	-	500,000	-	-	500,000
FNMA	MUNI	Matures 02/23/2016	3136FP7B7	(1)	-	-	500,000	-	-	500,000
Portales	MUNI	Matures 07/01/2011	736151BZ3	(1)	-	-	50,000	-	-	50,000
Lovington, NM	MUNI	Matures 10/01/2019	547473CK2	(1)	-	-	100,000	-	-	100,000
Roswell	MUNI	Matures 08/01/2014	778550FZ1	(1)	-	-	250,000	-	-	250,000
Pledged securities held by Western Bank; held in the name of the Medical Center										
Grant Cnty Hosp Rev	MUNI	Matures 08/01/2012	387779AH4	(1)	-	300,000	-	-	-	300,000
Curry Cnty New Mex	MUNI	Matures 08/01/2013	231327BB2	(1)	-	100,000	-	-	-	100,000
FHLMC 2745C-JE	FNMA	Matures 06/15/2028	31394PZA4	(2)	-	1,009,329	-	-	-	1,009,329
Roswell New Mexico	MUNI	Matures 08/01/2014	778544CD6	(1)	-	375,000	-	-	-	375,000
FHLMC 2542E-ES	FNMA	Matures 12/15/2017	3193GMH4	(2)	-	759,010	-	-	-	759,010
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 04/25/2023	433866CN8	(1)	-	-	-	250,000	-	250,000
Bloomfield NM	MUNI	Matures 08/01/2016	0904072BS3	(1)	-	-	-	115,000	-	115,000
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
Grants & Cibola Cntys	MUNI	Matures 10/01/2016	388240CZ4	(1)	-	-	-	140,000	-	140,000
Corona NM Muni School	MUNI	Matures 08/01/2014	219762BA8	(1)	-	-	-	60,000	-	60,000
Bloomfield NM	MUNI	Matures 08/01/2016	0904072BS3	(1)	-	-	-	-	-	-

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Pledged Collateral — continued
For the Year Ended June 30, 2011

Account		Account Number	Account Type		Wells Fargo Bank, NA	Western Bank	Ambank	First NM Bank	First Savings Bank	Total
		Maturity	CUSIP							
Pledged securities held by First Savings Bank, held in the name of the Medical Center										
Orono Minn	MUNI	Matures 02/01/2018	687119LR6	(1)	-	-	-	-	109,738	109,738
Springfield TWP	FNMA	Matures 08/15/2014	851511KT1	(2)	-	-	-	-	52,634	52,634
FHR 2841 BJ	FNMA	Matures 04/15/2018	31395ES32	(2)					48,265	48,265
MBS FNMA 10 yr	FNMA	Matures 04/15/2018	31371NGQ2	(2)					295,098	295,098
MBS FNMA 10 yr	FNMA	Matures 10/01/2014	31403DHR3	(2)	-	-	-	-	155,740	155,740
FNR 2005-30 CU	FNMA	Matures 04/25/2029	31394C6V9	(2)	-	-	-	-	801,166	801,166
GNR 2011-43E	FNMA	Matures 12/20/2040	38377UMA3	(2)	-	-	-	-	255,054	255,054
GNR 2011-4MD	FNMA	Matures 11/20/2038	38377TBL4	(2)	-	-	-	-	259,848	259,848
Total pledged collateral					<u>-</u>	<u>2,543,339</u>	<u>3,710,000</u>	<u>2,895,000</u>	<u>1,977,543</u>	<u>11,125,882</u>
Amount over (under) collateralized for 50% requirement					<u>\$ -</u>	<u>\$ (49,596)</u>	<u>\$ 317,404</u>	<u>\$ 1,974,020</u>	<u>\$ 298,509</u>	<u>\$ 2,540,337</u>
Repurchase Agreement										
Amount of repurchase agreement					\$ 6,379,824					
Required collateralization - 102% of uninsured portion					6,507,420					
Pledged securities held by Wells Fargo Bank, NA held in the name of the Medical Center										
	FNMA	Matures 03/01/2036	31408JJZ5	(2)	<u>6,507,420</u>					
Amount over collateralized for 102% requirement					<u>\$ -</u>					

(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, 2011

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Deposit Accounts						
Wells Fargo	230-0050091	Checking	\$ 1,037,637	\$ 10,949	\$ 195,945	\$ 852,641
Wells Fargo	230-0003131	Checking	24,116	-	6,345	17,771
Wells Fargo	230-0051543	Checking	30,054	331	-	30,385
Wells Fargo	230-0031591	Checking	8,101	-	-	8,101
			<u>\$ 1,099,908</u>	<u>\$ 11,280</u>	<u>\$ 202,290</u>	908,898
Cash on hand		Petty cash				1,800
						<u>\$ 910,698</u>
Certificates of Deposit						
Western Bank	GRMC	Certificates of Deposit	\$ 5,435,869	\$ -	\$ -	\$ 5,435,869
AM Bank	GRMC	Certificates of Deposit	7,035,192	-	-	7,035,192
First New Mexico Bank	GRMC	Certificates of Deposit	2,091,960	-	-	2,091,960
First Savings Bank	GRMC	Certificates of Deposit	3,608,067	-	-	3,608,067
			<u>18,171,088</u>	<u>-</u>	<u>-</u>	<u>18,171,088</u>
Investments						
Bank of Albuquerque	GRMC-2004 Bond P and I Fund	U.S. Treasury bill	291,251	-	-	291,251
			<u>291,251</u>	<u>-</u>	<u>-</u>	<u>291,251</u>
State Treasurer's Local Government Investment Pool		Investment pool	1,056	-	-	1,056
			<u>292,307</u>	<u>-</u>	<u>-</u>	<u>292,307</u>
Repurchase Agreement						
Wells Fargo	Sweep	Repurchase	6,379,824	-	-	6,379,824
Total deposits and investments			<u>\$ 25,943,127</u>			<u>\$ 25,753,917</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, 2011, which collectively comprise the Medical Center's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2011, presented as supplementary information, and have issued our report thereon dated September 28, 2011. 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. We noted three 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 11-1 through SA 11-3.

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 28, 2011

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Findings and Responses
For the Year Ended June 30, 2011

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 11-1 — Capital Lease Modification—Other

Criteria or Specific Requirement: The Medical Center is required to account for capital leases according to generally accepted accounting principles, and adjust for any lease modifications.

Condition: At June 30, 2011, the Medical Center had a lease incorrectly valued.

Cause: An existing capital lease was modified during fiscal year 2011, and the Medical Center's internal controls did not identify and account for this modification.

Effect: Capital assets and long-term obligations were misstated.

Recommendation: Strengthen controls to ensure that all lease modifications are appropriately accounted for.

Management's Response: We have one capital lease that was changed because better financial terms were negotiated. The Finance Department was not notified of the change so the appropriate accounting adjustments were not booked prior to year-end. We will set up a notification system so that any contract changes that have financial implication, such as a change in lease terms, are communicated to the AVP of Finance by the Compliance Department, which handles all new contracts, contract changes, and contract renewals.

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2011

SA 11-2 — Cash Collateralization—Other

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, 2010, the Medical Center had uninsured bank deposits of \$5,185,869 at one financial institution. State law requires that \$2,592,935 be collateralized. The Medical Center had collateral in place with this bank in the amount of \$2,543,339, which falls short of the required amount by \$49,596.

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.

Auditors' Recommendations: Obtain and monitor adequate collateralization to cover one-half of the public money in excess of \$250,000.

Management's Response: We had one bank that added a new CD near the end of the fiscal year. When the new CD was added, they forgot to increase their collateralization to cover the additional amount. When we received their month end bank statement, we realized that they were under collateralized, but it was already past June 30th, and too late to fix it before year end. Their CDs are now appropriately collateralized and we have spoken with them to ask them to be more diligent to see that this doesn't happen again. We also check each institution's monthly bank statements to make sure that the correct collateralization is in place.

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Findings and Responses — continued
For the Year Ended June 30, 2011

SA 11-3 — Accounts Payable—Other

Criteria or Specific Requirement: All invoices related to goods and services received should be recorded as expenses or capital assets and included in accounts payable as appropriate.

Condition: Several invoices related to goods and services received in fiscal year 2011 were not recorded in the correct period.

Cause: The Medical Center did not record expenses or capital assets into the correct fiscal year.

Effect: Accounts payable, capital assets and expenses were understated.

Auditors' Recommendations: Improve the review of subsequent disbursements to ensure that amounts are recorded in the correct year.

Management's Response: We have put several new review processes in place to ensure that all expense and capital invoices are appropriately accrued each month end. Many invoices for a prior month are received after accounts payable have been closed in order to complete the monthly book close and financial statement preparation. Review check lists have been set up so that significant estimated accruals can be made even though no invoice has been received prior to closing accounts payable for the month end close. The check lists are being prepared by accounts payable and then being reviewed by both the AVP of Finance and the CFO.

Gila Regional Medical Center
(A Component Unit of Grant County)
Current Status Schedule of 2010 Audit Finding
For the Year Ended June 30, 2011

Prior-Year Number	Description	Current Status
FS 10-1	Capital Lease	Partially resolved. The Medical Center has improved its process for reviewing material new leases. However, a modification to an existing capital lease was not correctly accounted for. See current year finding SA 11-1.

Gila Regional Medical Center
(A Component Unit of Grant County)
Other Disclosures
For the Year Ended June 30, 2011

Exit Conference

A closed meeting exit conference was held with the Medical Center on September 30, 2011, in Silver City, New Mexico with the following attending:

Gila Regional Medical Center

Jim Leidich	Board Chairperson
Pam Archibald	Board Secretary/Treasurer
Terry Trujillo	Board Member
Robert Morales, Sr.	Board Member
Darrick Nelson, MD	Board Member
Brian Bentley	Chief Executive Officer
Craig Stewart	Chief Financial Officer
Pam Fulks	Chief Nursing Officer
Ruth Giegerich	Executive Assistant to the CEO
Brian Cunningham	AVP Operations
Ray Goellner	AVP Clinical Services
Wanda True	AVP Nursing
Holley Hudgins	Director of Marketing
Howie Morales	Planetree Director
Mary Ann Buckley	GRMC Consultant

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.