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

*June 30, 2012 and 2011 Financial Statements,*
*Supplementary Information*
*and*
*Independent Auditors' Reports*

REDW LLC
CPAs | Business & Financial Advisors

# Gila Regional Medical Center
### (A Component Unit of Grant County)
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# Gila Regional Medical Center
**(A Component Unit of Grant County)**
## Board of Trustees and Principal Employees
## June 30, 2012


### Board of Trustees

| | |
|---|---|
| Jim Leidich | Chairperson |
| Charles Kelly | Vice Chairperson |
| Pam Archibald | Secretary/Treasurer |
| Darrick Nelson | Member |
| Jeremiah Garcia | Member |
| Robert Carreon | Member |
| Robert Morales | Member |


### Principal Employees

| | |
|---|---|
| Brian Bentley | Chief Executive Officer |
| Craig Stewart | Chief Financial Officer |
| Pam Fulks | 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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, in conformity with accounting principles generally accepted in the United States of America.



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In accordance with *Government Auditing Standards,* we have also issued our report dated September 27, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the basic financial statements and budget and actual comparison that collectively comprise the Medical Center's financial statements as a whole. The accompanying schedules of pledged collateral and individual deposit and investment accounts as listed in the table of contents are presented for purposes of additional analysis and to meet the requirements of the New Mexico Office of the State Auditor, and are not required parts of the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

REDW LLC

Albuquerque, New Mexico
September 27, 2012

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, 2012**

## 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, 2012. 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 $3,489,000 in 2012 and by $3,577,000 in 2011, or 13% and 16%, respectively.

- The Medical Center's net assets increased by $5,419,000 in 2012 and by $5,636,000 in 2011, or 8% and 9%, respectively.

- The Medical Center reported operating income in 2012 of $4,944,000, which represents a decrease of $222,000, or 4%, compared to the operating income reported in 2011.

- Net nonoperating revenues increased by $5,000 or 1% in 2012, compared to a decrease of $328,000 or 41% in 2011. The Medical Center received nothing in 2012 or in 2011 in grant funds from the State of New Mexico. In 2010, $52,000 was received which was used to fund the building of EMS (Emergency Medical Services) building.

- The debt service coverage ratio for 2012 (using the current year's debt service requirements) was 13.54 compared to 14.92 in 2011. The required debt service coverage ratio as outlined in the Medical Center's Revenue Bonds' covenants is 2.35.

## Using This Annual Report

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

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

One of the most important questions asked about any medical center's finances is, "Is the medical center as a whole better or worse off as a result of the year's activities?" The balance sheets and the statements of revenues, expenses and changes in net assets report information about the Medical Center's resources and its activities in a way that helps answer this question.

These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net assets and changes in them. The Medical Center's total net assets, the difference between assets and liabilities, 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 2012 by $5,419,000, or 8%, and in 2011 by $5,636,000, or 9%, as shown in the following table:

### ASSETS, LIABILITIES AND NET ASSETS

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | **$ 10,662,555** | $ 7,290,522 | $ 5,937,413 |
| Certificates of deposit | **18,287,721** | 18,171,088 | 15,947,608 |
| Patient accounts receivable, net | **11,343,749** | 10,955,272 | 9,960,644 |
| Other current assets | **9,286,441** | 7,754,584 | 8,190,000 |
| Capital assets, net | **30,994,473** | 31,304,866 | 31,163,568 |
| Other noncurrent assets | **198,453** | 260,490 | 322,527 |
| Total assets | **$ 80,773,392** | $ 75,736,822 | $ 71,521,760 |

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| **Liabilities** | | | |
| Long-term debt, including current maturities | **$ 1,660,000** | $ 2,260,000 | $ 3,345,000 |
| Other current and noncurrent liabilities | **7,364,639** | 7,147,271 | 7,482,887 |
| Total liabilities | **9,024,639** | 9,407,271 | 10,827,887 |
| **Net Assets** | | | |
| Invested in capital assets, net of related debt | **29,150,565** | 28,795,942 | 27,347,744 |
| Restricted-expendable for debt service | **110,141** | 202,578 | 335,540 |
| Unrestricted | **42,488,047** | 37,331,031 | 33,010,589 |
| Total net assets | **71,748,753** | 66,329,551 | 60,693,873 |
| Total liabilities and net assets | **$ 80,773,392** | $ 75,736,822 | $ 71,521,760 |

The increase in net assets of $5,419,000 in 2012 and $5,636,000 in 2011 was due primarily to an increase in total operating revenue which was greater than the increase in total operating expenses.

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

The Medical Center's operating income in 2012 was approximately $4,944,000, a 4% decrease compared to 2011 results. In 2011, operating income was approximately $5,166,000. This compares to 2010 operating income of approximately $3,882,000. These results are shown in the following table:

**OPERATING RESULTS AND CHANGE IN NET ASSETS**

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| **Operating Revenue** | | | |
| Net patient service revenue | **$ 76,717,930** | $ 73,910,409 | $ 68,503,915 |
| Electronic health record incentive income | **1,301,533** | - | - |
| Other operating revenue | **760,449** | 716,711 | 604,465 |
| Total operating revenue | **78,779,912** | 74,627,120 | 69,108,380 |

# Gila Regional Medical Center
**(A Component Unit of Grant County)**
**Management's Discussion and Analysis**
**For the Year Ended June 30, 2012**

| | **2012** | 2011 | 2010 |
|---|---|---|---|
| **Operating Expenses** | | | |
| Salaries, wages and employee benefits | **38,778,379** | 35,704,503 | 33,226,786 |
| Purchased services and professional fees | **12,147,775** | 12,009,113 | 11,485,140 |
| Depreciation and amortization | **3,382,462** | 3,309,021 | 3,046,309 |
| Other operating expenses | **19,527,090** | 18,438,906 | 17,468,616 |
| Total operating expenses | **73,835,706** | 69,461,543 | 65,226,851 |
| Operating income | **4,944,206** | 5,165,577 | 3,881,529 |
| **Nonoperating Revenue (Expenses)** | | | |
| Interest income | **136,281** | 219,304 | 272,374 |
| Interest expense | **(97,266)** | (136,899) | (181,991) |
| Grants and gifts | **450,596** | 383,895 | 707,386 |
| Gain/(loss) on sale of asset | **(14,615)** | 3,801 | - |
| Net nonoperating revenue | **474,996** | 470,101 | 797,769 |
| Excess of revenue over expenses before capital grant | **5,419,202** | 5,635,678 | 4,679,298 |
| Capital grant, State of New Mexico funding | **-** | - | 52,091 |
| Change in net assets | **$ 5,419,202** | $ 5,635,678 | $ 4,731,389 |

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 2012 of $4,944,000, a decrease of $222,000 compared to the 2011 operating income of $5,166,000. The primary components of the operating results in 2012 are as follows:

- An increase in net patient service revenue of $2,808,000, or 3.8%, due to price increases which had a net impact of 3% 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), and increases in Pharmacy chemotherapy drugs dispensed. Partially offsetting these increases was a decrease in inpatient admissions, a decrease in total ER visits, and a decrease in Outpatient Surgeries. Also, a settlement of $773,000 was received from a health insurer during 2012 to settle outstanding claims which had not been paid and which were owed to the Medical Center for services which had been rendered to their patients.

- The Medical Center received a $1.3 million Electronic Health Record (EHR) "Meaningful Use" payment from Medicare during 2012. This payment was received based on regulations passed by Congress in the HiTech Act and was paid based on the Medical Center meeting the Stage – I "meaningful use" criteria. Further details are outlined in Note 9 to the financial statements.
- Increases in salaries and employee benefits in 2012 of $3,074,000, an increase of 8.6%, compared to the prior year. In 2012, there was a 3% across the board wage increase given to all employees, which cost $900,000, plus $500,000 in equity and market adjustments for the professional and licensed pay grades. Blue Cross Health Insurance premiums also increased 8%, which cost an additional $500,000. Payroll related taxes and workers' compensation costs also increased by $400,000 due to the higher payroll dollars and premium increases. The remaining $800,000 of the increase was due to hiring additional employees, many of whom were replacing outside "contract labor" costs or who were hired to staff an ambulance service in a nearby town.
- Supplies and other operating expenses increased by $1,028,000 in 2012 as compared to 2011, or 6%. This was because of higher drug costs due to the higher amount of outpatient chemotherapy drugs administered, as well as the increased costs to run the Cancer Center. Also, total supply costs increased by 4% due to inflationary price increases, especially for drugs, medical supplies and surgical supplies and implants. The additional expenses for chemotherapy and Cancer Center drugs were more than offset by the additional outpatient revenues generated by these services, which increased net patient service revenues for 2012.
- Purchased services and professional fees increased by $139,000, or 1%, in 2012. This was due to an increase in contract fees for the Cancer Center due to the increased patient volumes offset by a decrease in "contract labor" costs for outside agency personnel used to temporarily fill open professional and licensed positions until regular staff can be recruited and hired.
- Total operating income for 2012 of $4,944,000 was 6.3% of total operating revenue, compared to $5,166,000 and 6.9% in 2011.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses, which consist primarily of noncapital grants and gifts, interest income, and interest expense, increased by $5,000, or 1% in 2012 compared to 2011.

This was due to a decrease of interest expense of $40,000 from the 2004 Bonds, due to the declining amount owed, offset by a decrease in interest income of $83,000 in 2012 caused by lower interest rates on CDs held by the Medical Center, due to the very low rates being paid during 2012. Additionally, grants and gifts increased by $67,000 due to additional grant funds being made available to the Medical Center during 2012.

Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2012, 2011 and 2010 discussed earlier.

## Capital Assets and Debt Administration

Capital Assets

At the end of 2012, the Medical Center had $31.0 million invested in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. In 2012, the Medical Center invested approximately $3.2 million for the purchase of capital equipment and renovation projects. This consisted primarily of approximately $600,000 for new and upgraded information systems technology for both hardware and software, $400,000 for new surgical equipment, $150,000 for new patient beds for the various nursing units, $290,000 to upgrade an X-Ray Room to digital technology and to buy a new digital portable X-Ray unit, $460,000 to upgrade radio towers and radio equipment for Emergency Services to new Federal Government interoperable radio standards, $175,000 to buy a new ambulance and refurbish an existing ambulance, $130,000 for a new chiller to cool the building, and $295,000 for various diagnostic, clinical, and other smaller equipment purchases.

Debt

At June 30, 2012, the Medical Center had $1,660,000 in revenue bonds outstanding. The Medical Center did not issue any new debt in 2012 or 2011, with the exception of a capital lease in 2011. Total debt decreased by approximately $665,000 in 2012. 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, 2012. 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 last two years has decreased substantially. The Medical Center's revenue bonds are subject to limitations imposed by state law. The Medical Center's debt rating by Standard and Poor's improved to BBB for 2011 and 2012 from BBB- for the previous three years.

See the notes to the financial statements for further information about capital assets, long-term debt and capital lease obligations.

## Budgetary Highlights

There were no budget modifications during fiscal year 2012. Total operating revenues exceeded budget by $4,570,000 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. Also, there was $1.3 million dollars of operating income recorded for the Electronic Health Record (EHR) "meaningful use" payment received from Medicare during 2012 which was not budgeted. Additionally, the settlement payment for $773,000 received from a health insurer to settle outstanding unpaid claims was also not included in the 2012 budgeted numbers, as well as $1.3 million in Sole Community Provider supplemental income received during 2012. Operating expenses were also over budget by $2.3 million due to purchased service and supply costs being $1.5 million over budget due to increased costs to operate the Cancer Center and to purchase chemotherapy drugs for which the Medical Center also had an increase in operating revenues. Wages and benefits were over budget by $1.4 million, or 4%, due to increased costs in benefits and payroll taxes along with additional full time equivalents hired to replace "contract labor" costs and to meet new regulatory and safety requirements.

## 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 was estimated to be 63,000 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 2011 and 2012, Freeport has hired back over 600 workers and has reopened all mining operations that were closed. Freeport is currently reporting that both mines are operating at full production. 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 on how fast the national economy continues to recover.

## 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,**

| | 2012 | 2011 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 10,662,555** | $ 7,290,522 |
| Certificates of deposit | **18,287,721** | 18,171,088 |
| Investments held by trustee for debt service | **302,338** | 292,307 |
| Patient accounts receivable, net of allowance: | | |
| 2012 - $3,756,000; 2011 - $3,816,000 | **11,343,749** | 10,955,272 |
| Sole community provider receivable | **3,948,514** | 3,110,232 |
| Estimated third party payor settlement | **441,990** | - |
| Other receivables, net | **1,248,943** | 1,178,331 |
| Inventories | **2,550,257** | 2,725,614 |
| Prepaid expenses and other | **794,399** | 448,100 |
| Total current assets | **49,580,466** | 44,171,466 |
| Noncurrent assets | | |
| Capital assets, net | **30,994,473** | 31,304,866 |
| Other assets | **198,453** | 260,490 |
| Total assets | **$ 80,773,392** | $ 75,736,822 |

**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,**

| | 2012 | 2011 |
|---|---|---|
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable | **$ 3,775,065** | $ 3,740,872 |
| Accrued expenses | | |
| Compensated absences | **2,048,158** | 1,896,050 |
| Payroll | **1,327,211** | 955,166 |
| Interest | **30,297** | 41,236 |
| Current maturities of long-term debt | **655,000** | 600,000 |
| Current maturities of capital lease obligation | **69,199** | 78,733 |
| Estimated third party payor settlement | **-** | 177,752 |
| Deferred revenue | **-** | 87,271 |
| Total current liabilities | **7,904,930** | 7,577,080 |
| Long-term debt, less current maturities | **1,005,000** | 1,660,000 |
| Capital lease obligation, less current maturities | **114,709** | 170,191 |
| Total liabilities | **9,024,639** | 9,407,271 |
| **Net Assets** | | |
| Invested in capital assets, net of related debt and lease obligation | **29,150,565** | 28,795,942 |
| Restricted-expendable for debt service | **110,141** | 202,578 |
| Unrestricted | **42,488,047** | 37,331,031 |
| Total net assets | **71,748,753** | 66,329,551 |
| Total liabilities and net assets | **$ 80,773,392** | $ 75,736,822 |

**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,**

| | 2012 | 2011 |
|---|---|---|
| **Operating Revenue** | | |
| Net patient service revenue | **$ 76,717,930** | $ 73,910,409 |
| Electronic health record incentive income | **1,301,533** | - |
| Other revenue | **760,449** | 716,711 |
| Total operating revenue | **78,779,912** | 74,627,120 |
| **Operating Expenses** | | |
| Salaries, wages and employee benefits | **38,778,379** | 35,704,503 |
| Supplies and other | **17,531,692** | 16,503,505 |
| Purchased services and professional fees | **12,147,775** | 12,009,113 |
| Depreciation | **3,382,462** | 3,309,021 |
| Rental and leases | **1,995,398** | 1,935,401 |
| Total operating expenses | **73,835,706** | 69,461,543 |
| Operating income | **4,944,206** | 5,165,577 |
| **Nonoperating Revenue (Expenses)** | | |
| Interest income | **136,281** | 219,304 |
| Interest expense | **(97,266)** | (136,899) |
| Gain/(loss) on sale of asset | **(14,615)** | 3,801 |
| Grants and gifts | **450,596** | 383,895 |
| Total nonoperating revenue, net | **474,996** | 470,101 |
| Change in net assets | **5,419,202** | 5,635,678 |
| Net assets, beginning of year | **66,329,551** | 60,693,873 |
| **Net assets,** end of year | **$ 71,748,753** | $ 66,329,551 |

**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,**

| | 2012 | 2011 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash received from patients and third-party payors | **$ 76,775,528** | $ 72,175,080 |
| Cash paid to suppliers and contractors | **(31,749,577)** | (30,033,824) |
| Cash paid to employees | **(38,265,165)** | (35,456,185) |
| Net cash provided by operating activities | **6,760,786** | 6,685,071 |
| **Cash flows from noncapital financing activities** | | |
| Grants and gifts | **450,596** | 383,895 |
| **Cash flows from capital and related financing activities** | | |
| Principal paid on long-term debt | **(600,000)** | (1,085,000) |
| Interest paid on long-term debt | **(111,881)** | (133,098) |
| Purchase of capital assets | **(3,283,499)** | (3,816,744) |
| Changes in assets limited as to use | **(10,031)** | 1,178,636 |
| Retirement of capital assets | **146,414** | 144,525 |
| Net cash used in capital and related financing activities | **(3,858,997)** | (3,711,681) |
| **Cash flows from investing activities** | | |
| Purchase of certificates of deposit | **(116,633)** | (2,223,480) |
| Interest on investments | **136,281** | 219,304 |
| Net cash provided by (used in) investing activities | **19,648** | (2,004,176) |
| Net increase in cash and cash equivalents | **3,372,033** | 1,353,109 |
| Cash and cash equivalents, beginning of year | **7,290,522** | 5,937,413 |
| **Cash and cash equivalents,** end of year | **$ 10,662,555** | $ 7,290,522 |

**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,**

| | 2012 | 2011 |
|---|---|---|
| **Reconciliation of operating income to net cash provided by operating activities** | | |
| Operating income | **$ 4,944,206** | $ 5,165,577 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Depreciation | **3,382,462** | 3,309,021 |
| Provision for uncollectible accounts | **6,370,243** | 6,801,407 |
| Changes in assets and liabilities | | |
| Patient accounts receivable | **(6,758,720)** | (7,796,035) |
| Sole community provider receivable | **(838,282)** | (650,644) |
| Other receivables | **(70,612)** | (246,977) |
| Inventories | **175,357** | 17,301 |
| Prepaid expenses and other assets | **(284,262)** | 199,137 |
| Accounts payable and accrued expenses | **547,407** | 446,075 |
| Deferred revenue | **(87,271)** | 32,217 |
| Estimated third-party payor settlements | **(619,742)** | (592,008) |
| Net cash provided by operating activities | **$ 6,760,786** | $ 6,685,071 |

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

## 1) Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Gila Regional Medical Center (the "Medical Center") is a 68-bed acute care hospital located in Silver City, New Mexico. The Medical Center is a component unit of Grant County (the "County") and the Board of County Commissioners appoints members to the Board of Trustees of the Medical Center. The Medical Center primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in the Grant County area.

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, included in purchased services and professional fees, approximated $435,000 and $409,000 in 2012 and 2011, 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.

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.

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.

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 value.

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 2012 and 2011.

Bond Issuance Costs

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

Compensated Absences

The Medical Center's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits as 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 $1,400,000 and $1,256,000 in 2012 and 2011, respectively.

Income Taxes

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

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 September 27, 2012, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2012, 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 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, 2012 Amount** | June 30, 2012 Status | June 30, 2011 Amount |
|---|---|---|---|
| Medicare | | | |
| 2009 | **$ -** | Final | $ 22,248 |
| 2010 | **328,215** | Filed, desk audit | 50,000 |
| 2011 | **(25,000)** | Filed, tentative settlement | (150,000) |
| 2012 | **150,000** | Estimate, unaudited | - |
| | **453,215** | | (77,752) |
| Medicaid | | | |
| 2010 | **(25,000)** | Filed, pending audit | (50,000) |
| 2011 | **38,775** | Filed, pending audit | (50,000) |
| 2012 | **(25,000)** | Estimate, unaudited | - |
| | **(11,225)** | | (100,000) |
| Estimated third-party payor settlements | **$ 441,990** | | $ (177,752) |

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.

Settlements of prior-year cost reports and changes in estimates resulted in increases to net patient service revenue of approximately $412,000 and $344,000 for the years ended June 30, 2012 and 2011, 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 2012 and 2011 totaled $15.7 million and $12.4 million, respectively. Approximately $1.3 million and $2.2 million for the years ended June 30, 2012 and 2011, 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:

| | **2012** | 2011 |
|---|---|---|
| Gross patient revenue | | |
| Inpatient | **$ 49,274,725** | $ 45,940,564 |
| Outpatient | **115,045,083** | 106,610,321 |
| Total gross patient revenue | **164,319,808** | 152,550,885 |
| Less contractual adjustments and provision for uncollectible accounts | | |
| Third-party payor contractual allowances, discounts, and adjustments | **81,231,635** | 71,839,069 |
| Provision for uncollectible accounts | **6,370,243** | 6,801,407 |
| Total contractual adjustments and provision for uncollectible accounts | **87,601,878** | 78,640,476 |
| Net patient service revenue | **$ 76,717,930** | $ 73,910,409 |

## 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 and 102 percent for repurchase agreements. The Medical Center's policy is to require collateral in accordance with state statutes. As of June 30, 2012, the Medical Center was in compliance with the State collateralization requirements. 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, 2012, the Medical Center had deposits with a bank balance of $20,042,561, of which $3,842,038 was uninsured and uncollateralized, and therefore subject to custodial credit risk. As of June 30, 2011, the Medical Center had deposits with a bank balance of $19,270,996, of which $6,045,206 was 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.

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, 2012, is as follows:

| | | | |
|---|---|---|---|
| June 30, 2012 | | | |
| *New MexiGrow* LGIP | AAAm rated | $1,056 | 55-day WAM |

At June 30, 2012 and 2011, the Medical Center had the following investments, reported as cash equivalents, and maturities:

| | June 30, 2012 | | | | |
|---|---|---|---|---|---|
| | | Maturities in Years | | | |
| **Type** | **Fair Value** | **Less Than 1** | **1-5** | **6-10** | **More Than 10** |
| **U.S. Treasury securities and money market** | **$ 301,282** | **$ 301,282** | **$ -** | **$ -** | **$ -** |
| **Repurchase agreement** | **9,344,489** | **9,344,489** | **-** | **-** | **-** |
| **State Treasurer's investment pool** | **1,056** | **1,056** | **-** | **-** | **-** |
| | **$ 9,646,827** | **$ 9,646,827** | **$ -** | **$ -** | **$ -** |

| | June 30, 2011 | | | | |
|---|---|---|---|---|---|
| | | Maturities in Years | | | |
| Type | Fair Value | 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 | - | - | - |
| | $ 6,672,131 | $ 6,672,131 | $ - | $ - | $ - |

The repurchase agreement was fully collateralized at June 30, 2012 and 2011, 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.

Reconciliation to Balance Sheets

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

| | 2012 | 2011 |
|---|---|---|
| Carrying value | | |
| Deposits | **$ 19,605,787** | $ 19,081,786 |
| Investments | **9,646,827** | 6,672,131 |
| | **$ 29,252,614** | $ 25,753,917 |
| Included in the following balance sheets captions | | |
| Cash and cash equivalents | **$ 10,662,555** | $ 7,290,522 |
| Certificates of deposit | **18,287,721** | 18,171,088 |
| Investments held by trustee for debt service | **302,338** | 292,307 |
| | **$ 29,252,614** | $ 25,753,917 |

## 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, 2012 and 2011, consisted of the items shown below:

| | 2012 | 2011 |
|---|---|---|
| Medicare | **$ 9,493,622** | $ 8,428,150 |
| Medicaid | **4,658,993** | 4,787,120 |
| Other third-party payers | **8,180,195** | 6,414,299 |
| Patients | **5,646,945** | 5,820,769 |
| | **27,979,755** | 25,450,338 |
| Less allowance for contractual adjustments | **12,880,437** | 10,678,946 |
| | **15,099,318** | 14,771,392 |
| Less allowance for uncollectible accounts | **3,755,569** | 3,816,120 |
| | **$ 11,343,749** | $ 10,955,272 |

## 5) Capital Assets

Capital asset activity of the Medical Center for the years ended June 30, 2012 and 2011, was as follows:

| | June 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Disposals and Retirements | Transfers | Ending Balance |
| *Capital assets not being depreciated* | | | | | |
| Land | $ 806,200 | $ - | $ - | $ - | $ 806,200 |
| Construction in progress | 631,360 | 483,357 | (1,276) | (634,309) | 479,132 |
| Total capital assets not being depreciated | 1,437,560 | 483,357 | (1,276) | (634,309) | 1,285,332 |
| *Capital assets being depreciated* | | | | | |
| Land improvements | 85,399 | 120,596 | - | 335,198 | 541,193 |
| Buildings | 31,442,224 | - | (25,830) | 258,100 | 31,674,494 |
| Equipment | 34,591,988 | 2,614,530 | (626,722) | 41,011 | 36,620,807 |
| Total capital assets being depreciated | 66,119,611 | 2,735,126 | (652,552) | 634,309 | 68,836,494 |
| Less accumulated depreciation | | | | | |
| Land improvements | 20,100 | 26,835 | - | - | 46,935 |
| Buildings | 11,836,940 | 857,923 | (11,214) | - | 12,683,649 |
| Equipment | 24,395,265 | 2,497,704 | (496,200) | - | 26,396,769 |
| | 36,252,305 | 3,382,462 | (507,414) | - | 39,127,353 |
| Capital assets, net | $ 31,304,866 | $ (163,979) | $ (146,414) | $ - | $ 30,994,473 |

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

## 6) Long-Term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended June 30, 2012 and 2011:

| | June 30, 2012 | | | | |
|---|---|---|---|---|---|
| | Beginning Balance | Additions | Deductions | Ending Balance | Due Within One Year |
| Long-term debt | | | | | |
| Revenue bonds | | | | | |
| Series 2004 | 2,260,000 | - | 600,000 | 1,660,000 | 655,000 |
| Total long-term debt | 2,260,000 | - | 600,000 | 1,660,000 | 655,000 |
| Capital lease obligation | 248,925 | - | 65,017 | 183,908 | 69,199 |
| Other long-term liabilities | | | | | |
| Accrued compensated absences | 1,896,050 | 2,048,158 | 1,896,050 | 2,048,158 | 2,048,158 |
| Total long-term obligations | $ 4,404,975 | $ 2,048,158 | $ 2,561,067 | $ 3,892,066 | $ 2,772,357 |

| | 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 | $ 5,544,173 | $ 1,896,050 | $ 3,035,248 | $ 4,404,975 | $ 2,574,783 |

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 secured by net revenues.

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:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|---|---|---|---|
| 2013 | $ 720,562 | $ 655,000 | $ 65,562 |
| 2014 | 696,989 | 660,000 | 36,989 |
| 2015 | 352,590 | 345,000 | 7,590 |
| | $ 1,770,141 | $ 1,660,000 | $ 110,141 |

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 $181,120 and $120,343 at June 30, 2012 and 2011, 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:

| Year Ending June 30, | |
|---|---|
| 2013 | $ 78,733 |
| 2014 | 78,733 |
| 2015 | 41,856 |
| Total minimum lease payments | 199,322 |
| Less amount representing interest | 15,414 |
| Present value of future minimum lease payments | $ 183,908 |

## 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 $727,000 and $692,000 for the years ended June 30, 2012 and 2011, respectively. Employee contributions to the plan were approximately $1,766,000 and $1,275,000 for 2012 and 2011, respectively. There are no stand-alone financial reports available to the public for the plan.

## 8) Commitments and Contingencies

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

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

The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to assure health insurance portability, guarantee security and privacy of health information, enforce standards for health information and establish administrative simplification provisions. 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.

*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 2016. Total rent expense for all operating leases was approximately $1,995,000 and $1,935,000 for 2012 and 2011, respectively. Future minimum lease payments for noncancelable operating leases with lease terms exceeding one year at June 30, 2012, are as follows:

| | |
|---|---|
| 2013 | $ 1,124,157 |
| 2014 | 707,839 |
| 2015 | 183,188 |
| 2016 | 10,646 |
| Total future minimum lease payments | $ 2,025,830 |

## 9) Electronic Health Record Incentive Payment

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments beginning in 2011 for eligible hospitals and professionals that adopt and meaningfully use certified electronic health record (EHR) technology. Income related to Medicare and Medicaid incentive payments is recognized using a gain contingency model that is based upon when an eligible hospital has demonstrated meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

Medicare EHR incentive calculations and related initial payment amounts are based upon the most current filed cost report information available at the time eligible hospitals demonstrate meaningful use of certified EHR technology for the applicable period. This initial payment amount will be adjusted based upon an updated calculation using the annual cost report information for the cost report period that began during the applicable payment year. Thus, incentive income recognition occurs at the point eligible hospitals demonstrate meaningful use of certified EHR technology for the applicable period and the cost report information for the full cost report year that will determine the final calculation of the incentive payment is available.

The Medical Center recognized $1,301,533 of electronic health record incentive income related to Medicare incentive programs during the year ended June 30, 2012. At June 30, 2012, the Medical Center has $243,414 of receivable EHR incentive income, which represents incentive payments not received as of year-end and is included in the line item "Other receivables, net" in the Balance Sheet for the year ended June 30, 2012. The Medical Center reported the EHR incentives program revenue in the line item "Electronic health record incentive income" in the Statements of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2012.

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, 2012

| | Budgeted Amounts | | | Variance with Final Budget - Favorable |
|---|---|---|---|---|
| | Original | Final | **Actual** | (Unfavorable) |
| **Operating Revenue** | $ 74,209,738 | $ 74,209,738 | **$ 78,779,912** | $ 4,570,174 |
| **Operating Expenses** | | | | |
| Salaries, wages and employee benefits | 37,387,944 | 37,387,944 | **38,778,379** | (1,390,435) |
| Supplies and other | 16,034,549 | 16,034,549 | **17,531,692** | (1,497,143) |
| Purchased services and professional fees | 12,303,938 | 12,303,938 | **12,147,775** | 156,163 |
| Depreciation | 3,573,848 | 3,573,848 | **3,382,462** | 191,386 |
| Rental and leases | 2,218,478 | 2,218,478 | **1,995,398** | 223,080 |
| Total operating expenses | 71,518,757 | 71,518,757 | **73,835,706** | (2,316,949) |
| Operating income | 2,690,981 | 2,690,981 | **4,944,206** | 2,253,225 |
| **Nonoperating Net Revenue** | 112,916 | 112,916 | **474,996** | 362,080 |
| Change in net assets | $ 2,803,897 | $ 2,803,897 | **5,419,202** | $ 2,615,305 |
| Net assets, beginning of year | | | **66,329,551** | |
| **Net assets,** end of year | | | **$ 71,748,753** | |

### 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, 2011

| | Budgeted Amounts | | | Variance with Final Budget - Favorable |
|---|---|---|---|---|
| | Original | Final | **Actual** | (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 | 67,139,786 | 67,139,786 | **69,461,543** | (2,321,757) |
| Operating income | 2,144,115 | 2,144,115 | **5,165,577** | 3,021,462 |
| **Nonoperating Net Revenue** | 192,789 | 192,789 | **470,101** | 277,312 |
| Change in net assets | $ 2,336,904 | $ 2,336,904 | **5,635,678** | $ 3,298,774 |
| Net assets, beginning of year | | | **60,693,873** | |
| **Net assets,** end of year | | | **$ 66,329,551** | |

### 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, 2012

| Account | Account Number | Account Type | Wells Fargo Bank, NA | Ambank | Western Bank | First Savings Bank | First NM Bank | Total |
|---|---|---|---|---|---|---|---|---|
| General Account | 230-0050091 | Checking | $ 1,721,808 | $ - | $ - | $ - | $ - | $ 1,721,808 |
| Payroll Account | 230-0003131 | Checking | - | - | - | - | - | - |
| Employee Assistance Account | 230-0051543 | Checking | 33,032 | - | - | - | - | 33,032 |
| Certificate of Deposit | 9917067671 | CD | 1,535,857 | - | - | - | - | 1,535,857 |
| Certificate of Deposit | 8684280798 | CD | 1,172,223 | - | - | - | - | 1,172,223 |
| Certificate of Deposit | 9917067689 | CD | 1,092,361 | - | - | - | - | 1,092,361 |
| Certificate of Deposit | 9917068844 | CD | 1,774,446 | - | - | - | - | 1,774,446 |
| Certificate of Deposit | 7132 | CD | - | 1,545,371 | - | - | - | 1,545,371 |
| Certificate of Deposit | 7143 | CD | - | 1,750,034 | - | - | - | 1,750,034 |
| Certificate of Deposit | 7346 | CD | - | 1,032,048 | - | - | - | 1,032,048 |
| Certificate of Deposit | 7366 | CD | - | 1,019,915 | - | - | - | 1,019,915 |
| Certificate of Deposit | 124570 | CD | - | - | 2,282,666 | - | - | 2,282,666 |
| Certificate of Deposit | 124580 | CD | - | - | 897,189 | - | - | 897,189 |
| Certificate of Deposit | 124870 | CD | - | - | 1,089,396 | - | - | 1,089,396 |
| Certificate of Deposit | 13305997 | CD | - | - | - | 1,036,105 | - | 1,036,105 |
| Certificate of Deposit | 13299685 | CD | - | - | - | 1,051,724 | - | 1,051,724 |
| Certificate of Deposit | 3038826435 | CD | - | - | - | - | 1,008,386 | 1,008,386 |
| Total amount of deposit in bank | | | 7,329,727 | 5,347,368 | 4,269,251 | 2,087,829 | 1,008,386 | 20,042,561 |
| Less FDIC insurance | | | 1,971,808 | 250,000 | 250,000 | 250,000 | 250,000 | 2,971,808 |
| Total uninsured public funds | | | $ 5,357,919 | $ 5,097,368 | $ 4,019,251 | $ 1,837,829 | $ 758,386 | $ 17,070,753 |
| Collateral requirement - 50% (Section 6-10-17) | | | $ 2,678,960 | $ 2,548,684 | $ 2,009,626 | $ 918,915 | $ 379,193 | $ 8,535,378 |

| | | Maturity | CUSIP | | Wells Fargo Bank, NA | Ambank | Western Bank | First Savings Bank | First NM Bank | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Pledged securities held by Wells Fargo; held in the name of the Medical Center | | | | | | | | | | |
| FNMS | FNMA | Matures 12/01/2040 | 3138A1AH4 | (2) | 1,475,880 | - | - | - | - | 1,475,880 |
| FNMS | FNMA | Matures 04/01/2041 | 3138A77E2 | (2) | 12,867 | - | - | - | - | 12,867 |
| FNMS | FNMA | Matures 03/01/2042 | 31418AD96 | (2) | 84,060 | - | - | - | - | 84,060 |
| FNMS | FNMA | Matures 10/01/2026 | 31418AAM0 | (2) | 1,211,133 | - | - | - | - | 1,211,133 |

# Gila Regional Medical Center
## (A Component Unit of Grant County)
## Schedule of Pledged Collateral — continued
## For the Year Ended June 30, 2012

| Account | | Account Number | Account Type | | Wells Fargo Bank, NA | Ambank | Western Bank | First Savings Bank | First NM Bank | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Pledged securities held by Ambank; held in the name of the Medical Center | | | | | | | | | | |
| Belen Schools | MUNI | Matures 08/01/2017 | 077581MM5 | (1) | - | 112,268 | - | - | - | 112,268 |
| Bernalillo Schools | MUNI | Matures 08/01/2013 | 085279MS3 | (1) | - | 410,428 | - | - | - | 410,428 |
| Fed Home Loan Bank | MUNI | Matures 09/13/2013 | 313370LB2 | (1) | - | 504,066 | - | - | - | 504,066 |
| Fed Home Loan Bank | FNMA | Matures 09/11/2015 | 313370JB5 | (2) | - | 517,869 | - | - | - | 517,869 |
| Fed Home Loan Bank | MUNI | Matures 12/11/2015 | 313371NW2 | (1) | - | 511,398 | - | - | - | 511,398 |
| Hobbs Schools | MUNI | Matures 04/15/2019 | 433866DB3 | (1) | - | 112,376 | - | - | - | 112,376 |
| Los Lunas, NM | MUNI | Matures 07/15/2018 | 545562PE4 | (1) | - | 443,600 | - | - | - | 443,600 |
| Lovington, NM | MUNI | Matures 09/01/2021 | 547473CZ9 | (1) | - | 106,954 | - | - | - | 106,954 |
| Lovington, NM | MUNI | Matures 10/01/2019 | 547473CK2 | (1) | | 110,572 | - | - | - | 110,572 |
| Roswell ISD | MUNI | Matures 08/01/2014 | 778550FZ1 | (1) | | 267,047 | - | - | - | 267,047 |
| San Juan Cty, NM | MUNI | Matures 08/01/2017 | 798359HP3 | (1) | - | 220,448 | - | - | - | 220,448 |
| So. Sandoval Cnty | MUNI | Matures 08/01/2017 | 843789DW5 | (1) | | 108,018 | - | - | - | 108,018 |
| Taos MUN DIST NO 01 | MUNI | Matures 07/01/2012 | 876014EX5 | (1) | | 200,000 | - | - | - | 200,000 |
| Pledged securities held by Western Bank; held in the name of the Medical Center | | | | | | | | | | |
| Clovis Gross Rcpt | MUNI | Matures 06/01/2017 | 189387BP7 | (1) | - | - | 196,533 | - | - | 196,533 |
| Curry Cnty New Mex | MUNI | Matures 08/01/2013 | 231327BB2 | (1) | - | - | 100,281 | - | - | 100,281 |
| FHLMC 2542E-ES | FNMA | Matures 12/15/2017 | 31393GMH4 | (2) | - | - | 503,889 | - | - | 503,889 |
| FHR 2615 PD | FNMA | Matures 01/15/2032 | 31393QDY5 | (2) | - | - | 1,359,259 | - | - | 1,359,259 |
| FNR 2005-51CI | FNMA | Matures 06/15/2028 | 31394EAC2 | (2) | - | - | 701,213 | - | - | 701,213 |
| Grant Cnty Hosp Rev | MUNI | Matures 08/01/2012 | 387779AH4 | (1) | - | - | 300,627 | - | - | 300,627 |
| Grant Cnty Hosp Rev | MUNI | Matures 08/01/2012 | 387779AJO | (1) | - | - | 179,214 | - | - | 179,214 |
| Roswell New Mexico | MUNI | Matures 08/01/2014 | 778544CD6 | (1) | - | - | 376,279 | - | - | 376,279 |
| Pledged securities held by First Savings Bank; held in the name of the Medical Center | | | | | | | | | | |
| FHR 2841 BJ | FNMA | Matures 04/15/2018 | 31395ES32 | (2) | - | - | - | 344 | - | 344 |
| GNR 2009-55 HC | FNMA | Matures 06/20/2039 | 38374VPS2 | (2) | - | - | - | 75,125 | - | 75,125 |
| GNR 2011-43E | FNMA | Matures 12/20/2040 | 38377UMA3 | (2) | - | - | - | 322,676 | - | 322,676 |
| GNR 2011-4MD | FNMA | Matures 11/20/2038 | 38377TBL4 | (2) | - | - | - | 221,017 | - | 221,017 |
| MBS FNMA 10 yr | FNMA | Matures 07/01/2017 | 31371NGQ2 | (2) | - | - | - | 196,495 | - | 196,495 |
| MBS FNMA 10 yr | FNMA | Matures 10/01/2014 | 31403DHR3 | (2) | - | - | - | 25,499 | - | 25,499 |
| Orono Minn | MUNI | Matures 02/01/2018 | 687119LR6 | (1) | - | - | - | 111,977 | - | 111,977 |
| Springfield TWP | MUNI | Matures 08/15/2014 | 851511KT1 | (1) | - | - | - | 52,413 | - | 52,413 |

# Gila Regional Medical Center
## (A Component Unit of Grant County)
## Schedule of Pledged Collateral — continued
## For the Year Ended June 30, 2012

| Account | | Account Number | Account Type | | Wells Fargo Bank, NA | Ambank | Western Bank | First Savings Bank | First NM Bank | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Maturity | CUSIP | | | | | | | |
| 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 |
| Corona NM Muni School | MUNI | Matures 08/01/2014 | 219762BA8 | (1) | - | - | - | - | 60,000 | 60,000 |
| Total pledged collateral | | | | | 2,783,940 | 3,625,044 | 3,717,295 | 1,005,546 | 1,910,000 | 13,041,825 |
| Amount over collateralized for 50% requirement | | | | | $ 104,980 | $ 1,076,360 | $ 1,707,669 | $ 86,631 | $ 1,530,807 | $ 4,506,447 |
| **Repurchase Agreement** | | | | | | | | | | |
| Amount of repurchase agreement | | | | | $ 9,344,489 | | | | | |
| Required collateralization - 102% of uninsured portion | | | | | 9,531,379 | | | | | |
| Pledged securities held by Wells Fargo Bank, NA held in the name of the Medical Center | FNMA | Matures 02/01/2039 | 36202E2A6 | (2) | 9,531,379 | | | | | |
| 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, 2012

| Depository | Account Name | Account Type | Bank Balance | Deposits in Transit | Outstanding Checks | Book Balance |
|---|---|---|---|---|---|---|
| **Deposit Accounts** | | | | | | |
| Wells Fargo | 230-0050091 | Checking | $ 1,721,808 | $ 6,034 | $ 442,633 | $ 1,285,209 |
| Wells Fargo | 230-0003131 | Checking | - | - | 1,975 | (1,975) |
| Wells Fargo | 230-0051543 | Checking | 33,032 | - | - | 33,032 |
| | | | $ 1,754,840 | $ 6,034 | $ 444,608 | 1,316,266 |
| Cash on hand | | Petty cash | | | | 1,800 |
| | | | | | | $ 1,318,066 |
| **Certificates of Deposit** | | | | | | |
| Wells Fargo | GRMC | Certificates of Deposit | $ 5,574,887 | $ - | $ - | $ 5,574,887 |
| AM Bank | GRMC | Certificates of Deposit | 5,347,368 | - | - | 5,347,368 |
| Western Bank | GRMC | Certificates of Deposit | 4,269,251 | - | - | 4,269,251 |
| First Savings Bank | GRMC | Certificates of Deposit | 2,087,829 | - | - | 2,087,829 |
| First New Mexico Bank | GRMC | Certificates of Deposit | 1,008,386 | - | - | 1,008,386 |
| | | | 18,287,721 | - | - | 18,287,721 |
| **Investments** | | | | | | |
| Bank of Albuquerque | GRMC-2004 Bond P and I Fund | U.S. Treasury bill | 301,282 | - | - | 301,282 |
| | | | 301,282 | - | - | 301,282 |
| State Treasurer's Local Government Investment Pool | | Investment pool | 1,056 | - | - | 1,056 |
| | | | 302,338 | - | - | 302,338 |
| **Repurchase Agreement** | | | | | | |
| Wells Fargo | Sweep | Repurchase | 9,344,489 | - | - | 9,344,489 |
| Total deposits and investments | | | $ 29,689,388 | | | $ 29,252,614 |

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# 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, 2012, which collectively comprise the Medical Center's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2012, presented as supplementary information, and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## *Internal Control over Financial Reporting*

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weakness and other deficiencies that we consider to be significant deficiencies.



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*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. We consider the deficiency described in the accompanying schedule of findings and responses as item FS 12-1 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item FS 12-2 to be a significant deficiency.

## *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 certain matters that are required to be reported under *Government Auditing Standards* paragraphs 5.14 and 5.16, and Section 12-6-5 NMSA 1978, which are described in the accompanying schedule of findings and responses as items SA 12-1 through SA 12-4.

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

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

REDW LLC

Albuquerque, New Mexico
September 27, 2012

# Gila Regional Medical Center

**(A Component Unit of Grant County)**
**Schedule of Findings and Responses**
**For the Year Ended June 30, 2012**

## Section I — Financial Statement Findings

### FS 12-1 — Supplies Inventory — Material Weakness

---

*Criteria or Specific Requirement:* Consigned inventory is the property of the seller, not the buyer, until it is sold by the buyer. The buyer does not own the inventory but agrees to exercise due diligence in holding and selling consigned merchandise. Consequently, goods on consignment should be excluded from the buyer's inventory balance at year-end.

*Condition:* Consignment inventories were included in entity's inventory balances as of year-end.

*Cause:* The Medical Center did not exclude the consignment items from its inventory balance.

*Effect:* Inventory was overstated and related expense was understated.

*Auditors' Recommendations:* Separate recording of consignments from inventory items and improve the review of inventory listing to ensure that year-end inventory balance does not include consignments.

*Management's Response:* A consultant has been hired and is in the process of fixing the Operating Room inventory module software so that all inventory items are set up properly and that a separate consignment inventory is set up instead of all of the inventory items being co-mingled. A quarterly physical inventory will be performed of surgical supply items which will be reconciled to the general ledger balance. Additionally, a stock status report will be run on a monthly basis and reviewed jointly by the Assistant Vice President of Finance and the Materials Manager to make sure that no consignment items are being added into the inventory totals and being reflected in the inventory balance on the general ledger. The physical inventory reconciliation to the general ledger will be performed on a quarterly basis and will also be reviewed and verified for accuracy by the Chief Financial Officer. The consultant will also be brought back several months after all of the fixes have been put in place to audit how the new processes are working and to make sure that everything in the software is working as it should.

Section I — Financial Statement Findings — continued

**FS 12-2 — Accounts Payable — Significant Deficiency**

---

*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:* One invoice related to goods and services received in fiscal year 2012 was not recorded in the correct period.

*Cause:* The Medical Center did not record expenses into the correct fiscal year.

*Effect:* Accounts payable and related expenses were understated.

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

*Management's Response:* A list is being developed of all accrual items that have a value of $25,000 or greater. On a monthly basis, the Assistant Vice President of Finance will review each of these items and prepare a reconciliation to make sure that both the monthly and the year-to-date expense amounts have been properly recorded through either an actual payment or the recording of an accrued invoice for each unpaid month. This list and the supporting documentation will also be reviewed by the Chief Financial Officer on a monthly basis and verified that it is accurate.

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 12-1 — Segregation of Duties — Other**

---

*Criteria or Specific Requirement:* Management should ensure appropriate segregation of duties to prevent the Accounts Payable personnel from having access and capability to create a new vendor or modify vendor information in vendor management system.

*Condition:* Accounts payable staff had access to create new vendors in the vendor management module of the system.

*Cause:* The Medical Center did not have proper controls surrounding access to the vendor management module.

*Effect:* This creates an opportunity to create a fictitious vendor and make payments on goods or services not received.

*Auditors' Recommendations:* Improve controls surrounding access to the vendor management module to ensure proper segregation of duties.

*Management's Response:* The staff did have the access but it was never used to create a new vendor. Once this issue was pointed out to us, it was fixed immediately. We also audited all of the other accounting related computer accesses in all areas and made other changes that were necessary to ensure that a clear segregation of duties was in place regarding who has access to each accounting function set up in the Meditech financial software modules. The Assistant Vice President of Finance will be reviewing and approving all future requests to change computer access to any accounting related software module to ensure that a segregation of duties is maintained.

## SA 12-2 — Payroll Timesheets — Other

---

*Criteria or Specific Requirement:* Time reported on employees' timesheets should be verified and timesheets should be approved before payroll is processed for payment.

*Condition:* Payroll timesheets can be processed without proper approval of the time recorded.

*Cause:* The Medical Center did not have proper controls over the approval of timesheets.

*Effect:* Employees can be paid for time which was not approved.

*Auditors' Recommendations:* Improve controls related to the approval of timesheets and use the payroll system's capabilities to prevent timesheets from being processed, if not approved.

*Management's Response:* All time being paid for is for time that has been recorded on the API time system time clocks. Legally, all time that is recorded must be paid. There are times when a supervisor is not available and payroll is being processed that the time recorded is paid without a supervisor's review and approval. When supervisors are absent or unavailable, an appropriate backup needs to be designated, so that all time sheets are reviewed prior to their being paid. Inconsistencies between an employees scheduled work time and the time recorded need to be investigated and reconciled between the employee and their supervisor. The Medical Center is in the process of putting steps in place to ensure that all time sheets are reviewed and approved prior to being paid.

## SA 12-3 — Capital Asset Inventory — Other

*Criteria or Specific Requirement:* In accordance with Section 2.2.2.10(2), State Audit Rule 2012, the Medical Center is required to conduct an annual physical inventory of equipment that cost over $5,000 and on the inventory list at the end of each fiscal year.

*Condition:* The Medical Center conducted a physical inventory of equipment with a net book value (NBV) over $25,000, not all inventory on the inventory list.

*Cause:* The Medical Center was under the impression that only equipment items with NBV over $25,000 needed to be inventoried on a yearly basis.

*Effect:* The Medical Center has not been in compliance with the State Audit Rule regarding annual physical inventory of capital assets.

*Auditors' Recommendations:* In future years, conduct an annual physical inventory of all equipment that cost over $5,000 and on the inventory list to ensure compliance with the State Audit Rule.

*Management's Response:* Management was under the impression that only equipment items with a residual value of $25,000 needed to be audited on an annual basis.

The Medical Center will comply with the State Audit Rule and do a physical inventory of all items not fully depreciated with a cost of greater than $5,000 as required. This will be done on an annual basis.

**SA 12-4 — Dormant Checks — Other**

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*Criteria or Specific Requirement:* In accordance with Section 7 [7-8A-7 NMSA 1978] of the Uniform Unclaimed Property Act (1995), a holder of property presumed abandoned shall make a report to the administrator concerning the property.

*Condition:* The Medical Center did not report the abandoned property to the State Taxation and Revenue Department.

*Cause:* The Medical Center has been told in the past that it did not need to report dormant checks because it is a government entity.

*Effect:* The Medical Center is not in compliance with the Uniform Unclaimed Property Act (1995).

*Auditors' Recommendations:* Report the abandoned property to the State Taxation and Revenue Department in accordance with the Uniform Unclaimed Property Act (1995).

*Management's Response:* The Medical Center has been putting unclaimed and outstanding payroll and accounts payable checks back into the fund from which they came after attempts have been made and documented to find out why the checks were never cashed. If the checks had been lost then a stop payment was issued and a new check was issued and sent. In past audits this practice has always been viewed as acceptable. Now that this has been brought to our attention as being unacceptable, we will make the report to the State Taxation and Revenue Department on all dormant checks as required in the regulations.

# Gila Regional Medical Center
### (A Component Unit of Grant County)
### Current Status Schedule of Prior Years' Audit Findings
### For the Year Ended June 30, 2012

| Prior-Year Number | Description | Current Status |
|---|---|---|
| FS 10-1 & SA 11-1 | Capital Lease | Resolved. The Medical Center has improved its process for reviewing material new leases. |
| SA 11-2 | Cash Collateralization | Resolved. The Medical Center was in compliance with the State collateralization requirements as of June 30, 2012. |
| SA 11-3 | Accounts Payable | Repeat. Several invoices related to goods and services received in fiscal year 2011 were not recorded in the correct period. This was upgraded to a significant deficiency during the current year and is included as a current year finding at FS 12-2. |

# Gila Regional Medical Center
**(A Component Unit of Grant County)**
**Other Disclosures**
**For the Year Ended June 30, 2012**

Exit Conference
A closed meeting exit conference was held with the Medical Center on September 28, 2012, in Silver City, New Mexico with the following attending:

**Gila Regional Medical Center**

| | |
|---|---|
| Jim Leidich | Chair of the Board of Trustees |
| Charles Kelly via phone | Vice Chair of the Board of Trustees |
| Pam Archibald | Secretary/Treasurer of the Board of Trustees |
| Roberto Carreon, MD | Board Member |
| Jeremiah Garcia | Board Member |
| Robert Morales, Sr. | Board Member |
| Darrick Nelson, MD | Board Member |
| Brian Bentley | Chief Executive Officer |
| Craig Stewart | Chief Financial Officer |
| David Furnas | Chief Information Officer |
| Wanda True | Associate Vice President of Nursing Administration |
| Victor Nwachuku, MD | Chief of Staff |
| Elizabeth Allred | Associate Vice President of Finance/Controller |
| Ruth Giegerich | Executive Assistant to the CEO |
| Tom McCall | Regional Vice President, Quorum Health Resources |
| Mary Ann Buckley | Special Projects Consultant |

**REDWLLC**

| | |
|---|---|
| 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.