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

June 30, 2013 and 2012, Financial Statements,
Supplementary Information
and
Independent Auditors' Reports

REDW LLC
CPAs | Business & Financial Advisors

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

	Page
Board of Trustees and Principal Employees	1
Independent Auditors' Report	2-4
Required Supplementary Information	
Management's Discussion and Analysis	5-12
Basic Financial Statements	
Balance Sheets	13-14
Statements of Revenues, Expenses and Changes in Net Position	15
Statements of Cash Flows	16-17
Notes to Basic Financial Statements	18-34
Supplementary Information (Audited)	
Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual (2013)	35
Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual (2012)	36
New Mexico State Auditor's Supplementary Information	
Schedule of Pledged Collateral	37-39
Schedule of Individual Deposit and Investment Accounts	40
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*	41-42
Schedule of Findings and Responses	43-45
Current Status Schedule of Prior Years' Audit Findings	46
Other Disclosures	47

Gila Regional Medical Center
(A Component Unit of Grant County)
Board of Trustees and Principal Employees
June 30, 2013

Board of Trustees

Principal Employees

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Gila Regional Medical Center (the "Medical Center"), a component unit of Grant County (the "County"), as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, 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, 2013 and 2012, presented as supplementary information in the schedules of revenues, expenses and changes in net position–budget and actual as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor

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considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Medical Center as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance 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, 2013 and 2012, in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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.

Other Information

As discussed in Note 1, the accompanying financial statements present only the Medical Center and do not purport to, and do not, present fairly the financial position of the County as of June 30, 2013 and 2012, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2013, 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.

REDW LLC

Phoenix, Arizona
October 6, 2013

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, 2013

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, 2013. 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 decreased by $8,029,885 in 2013 and increased by $3,489,000 in 2012, or (28%) and 13%, respectively.
- The Medical Center's net position decreased by $9,021,105 in 2013 and increased by $5,419,000 in 2012, or (13%) and 8%, respectively.
- The Medical Center reported an operating loss in 2013 of $8,956,835, which represents a decrease of $13,901,041, or (281%), compared to the operating income reported in 2012.
- Net nonoperating revenues decreased by $539,000 or (114%) in 2013, compared to an increase of $5,000 or 1% in 2012.

Using This Annual Report

The Medical Center's financial statements consist of three statements: balance sheets; statements of revenues, expenses and changes in net position; 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.

In 2013, the Medical Center adopted the provisions of GASB Statement No. 63. *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result, the difference between assets/deferred outflows and liabilities/deferred inflows, which was formerly referred to as "net assets" is now referred to as "net position." The Medical Center has elected to continue to present its financial position using a balance sheet format as permitted by GASB Statement No. 63.

The balance sheets present information on the Medical Center's financial position. Over time, increases or decreases in net position serve as a useful indicator of whether the financial position of the Medical Center is improving or deteriorating.

The statements of revenues, expenses and changes in net position present information showing how the Medical Center's net position changed. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods.

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

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 position 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 position and changes in them. The Medical Center's total net position, 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 position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Medical Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Medical Center.

The Statements of Cash Flows

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

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2013

The Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the balance sheets. The Medical Center's net position decreased in 2013 by $9,021,105, or (13%), and increased in 2012 by $5,419,000, or 8%, as shown in the following table:

ASSETS, LIABILITIES AND NET POSITION

	2013	2012	2011
Assets			
Cash and cash equivalents	**$ 4,350,936**	$ 10,662,555	$ 7,290,522
Certificates of deposit	**16,569,455**	18,287,721	18,171,088
Patient accounts receivable, net	**13,177,810**	11,343,749	10,955,272
Other current assets	**6,411,742**	9,286,441	7,754,584
Capital assets, net	**29,818,345**	30,994,473	31,304,866
Other noncurrent assets	**136,416**	198,453	260,490
Total assets	**$ 70,464,704**	$ 80,773,392	$ 75,736,822
Liabilities			
Long-term debt, including current maturities	**$ -**	$ 1,660,000	$ 2,260,000
Other current and noncurrent liabilities	**7,737,056**	7,364,639	7,147,271
Total liabilities	**7,737,056**	9,024,639	9,407,271
Net Position			
Net investment in capital assets	**29,703,636**	29,150,565	28,795,942
Restricted-expendable for debt service	**-**	110,141	202,578
Unrestricted	**33,024,012**	42,488,047	37,331,031
Total net position	**62,727,648**	71,748,753	66,329,551
Total liabilities and net position	**$ 70,464,704**	$ 80,773,392	$ 75,736,822

The decrease in net position of $9,021,105 in 2013, as opposed to the increase of $5,419,000 in 2012, was due primarily to a decrease in reimbursement resulting in lower net operating revenue which was less than the increase in total operating expenses.

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

The Medical Center's operating loss in 2013 was approximately ($8,957,000), a 281% decrease compared to 2012 results. In 2012, operating income was approximately $4,944,000. This compares to 2011 operating income of approximately $5,166,000. These results are shown in the following table:

OPERATING RESULTS AND CHANGE IN NET POSITION

	2013	2012	2011
Operating Revenue			
Net patient service revenue	**$ 63,822,341**	$ 76,717,930	$ 73,910,409
Electronic health record incentive income	**294,861**	1,301,533	-
Other operating revenue	**598,440**	760,449	716,711
Total operating revenue	**64,715,642**	78,779,912	74,627,120
Operating Expenses			
Salaries, wages and employee benefits	**39,177,487**	38,778,379	35,704,503
Purchased services and professional fees	**11,443,343**	12,147,775	12,009,113
Depreciation and amortization	**3,434,086**	3,382,462	3,309,021
Other operating expenses	**19,617,561**	19,527,090	18,438,906
Total operating expenses	**73,672,477**	73,835,706	69,461,543
Operating (loss)/ income	**(8,956,835)**	4,944,206	5,165,577
Nonoperating Revenue (Expenses)			
Interest income	**68,534**	136,281	219,304
Interest expense	**(237,117)**	(97,266)	(136,899)
Grants and gifts	**701,837**	450,596	383,895
Loss on disposal of assets	**(597,524)**	(14,615)	3,801
Net nonoperating revenue (expenses)	**(64,270)**	474,996	470,101
Change in net position	**$ (9,021,105)**	$ 5,419,202	$ 5,635,678

Gila Regional Medical Center
(A Component Unit of Grant County)
Management's Discussion and Analysis
For the Year Ended June 30, 2013

<u>Operating Income</u>

The first component of the overall change in the Medical Center's net position 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 an operating loss in 2013 of $8,957,000, a decrease of $13,901,000 compared to the 2012 operating income of $4,944,000. The primary components of the operating results in 2013 are as follows:

- A decrease in net patient service revenue of $12,896,000, or (17%), was due in a large part to the loss of Sole Community Provider (SCP) funding, which had been approved at $18 million for regular quarterly payments, but was reduced by almost half, with a shortfall of $7,637,000 for the year. Additionally, the SCP Supplemental payment, which had been $2 to $3 million in past years, was suspended and not paid during 2013. This resulted in a SCP and Charity Care write off of $7.8 million more than expected due to the funding deficit. Other cutbacks in reimbursement contributed to higher than expected contractual adjustments for Medicare, Medicaid and Commercial insurances, for a total of $20,334,000 more in adjustments in 2013 than in 2012.The decrease in net patient service revenue was also due to a decrease in volumes across the board, particularly a decrease in inpatient admissions, a decrease in total emergency room visits, a decrease in both In and Outpatient Surgeries and a decrease in Cancer Center medical and radiation oncology visits.

- The Medical Center received a $294,861 Electronic Health Record (EHR) "Meaningful Use" payment from Medicare during 2013 compared to a receipt of $1.3 million in 2012. The payments were 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.

- Salaries and employee benefits increased $399,108, or 1%, compared to the prior year. In 2013, there was a 2% across the board wage increase given to all employees, which cost $487,000, plus $204,000 in equity and market adjustments for the professional and licensed pay grades. Some of the increase in cost was offset by a reduction in 5,000 hours of overtime and an increase in positions which were not filled.

- Supplies and other operating expenses increased by $326,883 in 2013 or 2%, due to supply price increases.

- Purchased services and professional fees decreased by $704,432, or (6%), in 2013. This was due to a decrease in contract fees for the Cancer Center due to decreased patient volumes, as well as a decrease in "contract labor" costs for outside agency personnel used to temporarily fill open professional and licensed positions until regular staff could be recruited and hired.

- Total operating (loss) income for 2013 of ($8,956,835) was (14%) of total operating revenue, compared to $4,944,000 and 6.3% in 2012.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses, which consist primarily of noncapital grants and gifts, interest income, and interest expense, decreased by ($539,266), or (114%) in 2013 compared to 2012.

This was due to a decrease of interest income caused by lower interest rates on CDs held by the Medical Center, due to the very low rates being paid during 2013, an increase in interest expense due to the payment of the 2004 Bonds with the technical defeasance, establishing an escrow account so the bonds are prepaid. Additionally, there was a concerted effort to clean up the Capital Equipment schedule, which resulted in a write off of approximately $8 million of old, outdated, disposed of equipment, and the loss on the disposal and write-off of construction in progress work of $597,524. This was offset by an increase in grants and gifts of $251,241 over the amount received in 2012.

Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2013, 2012 and 2011 discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2013, the Medical Center had $29.8 million invested in capital assets, net of accumulated depreciation, as detailed in the notes to the financial statements. In 2013, the Medical Center invested approximately $2.9 million for the purchase of capital equipment and renovation projects. This consisted primarily of approximately $978,262 for new and upgraded information systems technology for both hardware and software, $50,000 for new surgical equipment, $157,000 for new monitors and defibrillators for the various nursing units, $87,000 for lab equipment upgrade, $131,000 for a new chiller to cool the building, $258,000 for fetal monitors and $942,000 for various diagnostic, clinical, and other smaller equipment purchases.

Debt

At June 30, 2013, the Medical Center had no in revenue bonds outstanding. The Medical Center did not issue any new debt in 2013 or 2012, with the exception of a capital lease in 2012. Total debt decreased by approximately $1,660,000 in 2013. The series 2000 Bonds with a remaining principal balance of $700,000 were paid off in August 2010, and the Medical Center completed a defeasance on the series 2004 Revenue Bonds. 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 2012 and 2013 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 2013. Total operating revenues were less than budget by $12,897,666 due to lower 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 $294,861 of operating income recorded for the Electronic Health Record (EHR) "meaningful use" payment received from Medicare during 2013, which was not budgeted. There was no Sole Community Provider supplemental income received during 2013. Operating expenses were under budget by $1.6 million due to salaries, purchased service and supply costs being $1.5 million under budget due to decreased volumes and an effort to reduce expense during the last quarter.

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 2012. In 2013, 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 2012 and 2013, 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.

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 State stopped the Sole Community Provider funding in December 2012, and no payments were received for the remainder of FY13 until June and July 2013 when approximately $3.85 million was received. Future funding of this program is uncertain.

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,

	2013	2012
Assets		
Current assets		
Cash and cash equivalents	**$ 4,350,936**	$ 10,662,555
Certificates of deposit	**16,569,455**	18,287,721
Investments held by trustee for debt service	**1,058**	302,338
Patient accounts receivable, net of allowance:		
2013 - $4,375,000; 2012 - $3,756,000	**13,177,810**	11,343,749
Sole community provider receivable	**2,460,191**	3,948,514
Estimated third party payor settlement	**-**	441,990
Other receivables, net	**919,548**	1,248,943
Inventories	**2,409,694**	2,550,257
Prepaid expenses and other	**621,251**	794,399
Total current assets	**40,509,943**	49,580,466
Noncurrent assets		
Capital assets, net	**29,818,345**	30,994,473
Other assets	**136,416**	198,453
Total assets	**$ 70,464,704**	$ 80,773,392

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,

	2013	2012
Liabilities		
Current liabilities		
Accounts payable	**$ 3,227,031**	$ 3,775,065
Accrued expenses		
Compensated absences	**2,108,133**	2,048,158
Payroll	**1,408,699**	1,327,211
Interest	**-**	30,297
Current maturities of long-term debt	**-**	655,000
Current maturities of capital lease obligation	**73,650**	69,199
Estimated third party payor settlement	**878,484**	-
Total current liabilities	**7,695,997**	7,904,930
Long-term debt, less current maturities	**-**	1,005,000
Capital lease obligation, less current maturities	**41,059**	114,709
Total liabilities	**7,737,056**	9,024,639
Net Position		
Net investment in capital assets	**29,703,636**	29,150,565
Restricted-expendable for debt service	**-**	110,141
Unrestricted	**33,024,012**	42,488,047
Total net position	**62,727,648**	71,748,753
Total liabilities and net position	**$ 70,464,704**	$ 80,773,392

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 Position
For the Years Ended June 30,

	2013	2012
Operating Revenue		
Net patient service revenue	**$ 63,822,341**	$ 76,717,930
Electronic health record incentive income	**294,861**	1,301,533
Other revenue	**598,440**	760,449
Total operating revenue	**64,715,642**	78,779,912
Operating Expenses		
Salaries, wages and employee benefits	**39,177,487**	38,778,379
Supplies and other	**17,858,575**	17,531,692
Purchased services and professional fees	**11,443,343**	12,147,775
Depreciation	**3,434,086**	3,382,462
Rental and leases	**1,758,986**	1,995,398
Total operating expenses	**73,672,477**	73,835,706
Operating (loss) income	**(8,956,835)**	4,944,206
Nonoperating Revenue (Expenses)		
Interest income	**68,534**	136,281
Interest expense	**(237,117)**	(97,266)
Loss on disposal of assets	**(597,524)**	(14,615)
Grants and gifts	**701,837**	450,596
Total nonoperating revenue (expenses), net	**(64,270)**	474,996
Change in net position	**(9,021,105)**	5,419,202
Net position, beginning of year	**71,748,753**	66,329,551
Net position, end of year	**$ 62,727,648**	$ 71,748,753

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,

	2013	2012
Cash flows from operating activities		
Cash received from patients and third-party payors	**$ 66,019,773**	$ 76,775,528
Cash paid to suppliers and contractors	**(31,233,190)**	(31,749,577)
Cash paid to employees	**(39,066,321)**	(38,265,165)
Net cash (used) provided by operating activities	**(4,279,738)**	6,760,786
Cash flows from noncapital financing activities		
Grants and gifts	**701,837**	450,596
Cash flows from capital and related financing activities		
Principal paid on long-term debt	**(1,660,000)**	(600,000)
Interest paid on long-term debt	**(306,316)**	(111,881)
Purchase of capital assets	**(2,855,482)**	(3,283,499)
Changes in assets limited as to use	**301,280**	(10,031)
Retirement of capital assets, net	**-**	146,414
Net cash used in capital and related financing activities	**(4,520,518)**	(3,858,997)
Cash flows from investing activities		
Sale (purchase) of certificates of deposit	**1,718,266**	(116,633)
Interest on investments	**68,534**	136,281
Net cash provided by investing activities	**1,786,800**	19,648
Net (decrease) increase in cash and cash equivalents	**(6,311,619)**	3,372,033
Cash and cash equivalents, beginning of year	**10,662,555**	7,290,522
Cash and cash equivalents, end of year	**$ 4,350,936**	$ 10,662,555

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,

	2013	2012
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ (8,956,835)**	$ 4,944,206
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	**3,434,086**	3,382,462
Provision for uncollectible accounts	**6,346,226**	6,370,243
Changes in assets and liabilities		
Patient accounts receivable	**(8,180,287)**	(6,758,720)
Sole community provider receivable	**1,488,323**	(838,282)
Other receivables	**329,395**	(70,612)
Inventories	**140,563**	175,357
Prepaid expenses and other assets	**235,185**	(284,262)
Accounts payable and accrued expenses	**(436,868)**	547,407
Deferred revenue	**-**	(87,271)
Estimated third-party payor settlements	**1,320,474**	(619,742)
Net cash (used in) provided by operating activities	**$ (4,279,738)**	$ 6,760,786

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 $408,000 and $435,000 in 2013 and 2012, 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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position 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.

In 2013, the Medical Center implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Accordingly, the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is referred to as net position. Previously, this difference was referred to as net assets. The Medical Center has elected to continue to present its financial position using a balance sheet format.

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 include 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 2013 and 2012.

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 Position
Net position of the Medical Center is classified in three components. Net investment in capital assets consists 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 position is 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 position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets 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 $9,250,000 and $1,400,000 in 2013 and 2012, 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 October 6, 2013, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2013, financial statements.

In July 2013, the Medical Center renewed the agreement with QHR that expired on August 1, 2013. According to the new agreement, QHR will provide minimal consulting services and, via Quorum Purchasing Advantage LLC (QPA), will offer unlimited access to Group Purchasing Organizations (GPO), currently HealthTrust Purchasing Group (HPG). The Medical Center will pay QPA an annual fee of $45,000 paid in advance in monthly installments. The fee will be adjusted annually by a greater of 5% or the percentage increase in the medical component of the Consumer Price Index (CPI) for urban wage earners and clerical workers. The Medical Center will reimburse QPA for incurred travel-related expenses, which should not to exceed $2,500 without prior written approval.

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.

For Medicaid program billing, in 2013, the Medical Center started billing all outpatient services based on Ambulatory Payment Classifications (APC’s) rather than cost and a liability or receivable is no longer deemed necessary because significant adjustments are not anticipated. Previously, the majority of settlement amounts were a result of adjustments to the outpatient reimbursable costs.

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

	June 30, 2013 Amount	June 30, 2013 Status	June 30, 2012 Amount
Medicare			
2010	**$ 328,215**	Final	$ 328,215
2011	**(50,000)**	Filed, desk audit	(25,000)
2012	**(50,000)**	Filed, tentative settlement	150,000
2013	**(1,201,795)**	Estimate, unaudited	-
	(973,580)		453,215
Medicaid			
2010	**25,000**	Filed, pending audit	(25,000)
2011	**38,775**	Filed, pending audit	38,775
2012	**31,321**	Filed, pending audit	(25,000)
2013	**-**	Estimate, unaudited	-
	95,096		(11,225)
Estimated third-party payor settlements	**$ (878,484)**		$ 441,990

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 $218,000 and $412,000 for the years ended June 30, 2013 and 2012, 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 2013 and 2012 totaled $8.2 million and $15.7 million, respectively. Approximately $300,000 and $1.3 million for the years ended June 30, 2013 and 2012, respectively, are included in patient revenue for the supplemental payments.

The State stopped the Sole Community Provider funding in December 2012, and no payments were received for the remainder of FY13 until June and July 2013 when approximately $3.85 million was received. This resulted in a reduction of expected revenues of approximately $7.64 million for FY13.

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:

	2013	2012
Gross patient revenue		
Inpatient	**$ 51,575,881**	$ 49,274,725
Outpatient	**122,163,482**	115,045,083
Total gross patient revenue	**173,739,363**	164,319,808
Less contractual adjustments and provision for uncollectible accounts		
Third-party payor contractual allowances, discounts, and adjustments	**103,570,796**	81,231,635
Provision for uncollectible accounts	**6,346,226**	6,370,243
Total contractual adjustments and provision for uncollectible accounts	**109,917,022**	87,601,878
Net patient service revenue	**$ 63,822,341**	$ 76,717,930

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, 2013 and 2012, the Medical Center was in compliance with the State collateralization requirements.

As of June 30, 2013, the Medical Center had deposits with a bank balance of $19,430,137, of which $7,114,608 was uninsured and uncollateralized, and therefore subject to custodial credit risk. 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.

On November 21, 2012, the Medical Center obtained a Line-of-Credit (LOC) in the amount of $1,700,000 to secure uninsured deposits. As of June 30, 2013, the LOC has not been drawn on.

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, 2013, is as follows:

June 30, 2013			
New MexiGrow LGIP	AAAm rated	$1,058	55-day WAM

At June 30, 2013 and 2012, the Medical Center had the following investments, reported as cash equivalents, and maturities:

	June 30, 2013				
		Maturities in Years			
Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Repurchase agreement	**$ 2,377,023**	**$ 2,377,023**	**$ -**	**$ -**	**$ -**
State Treasurer's investment pool	**1,058**	**1,058**	**-**	**-**	**-**
	$ 2,378,081	**$ 2,378,081**	**$ -**	**$ -**	**$ -**

	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	$ -	$ -	$ -

The repurchase agreement was collateralized at 102% at June 30, 2013 and 2012, 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:

	2013	2012
Carrying value		
Deposits	**$ 18,543,368**	$ 19,605,787
Investments	**2,378,081**	9,646,827
	$ 20,921,449	$ 29,252,614
Included in the following balance sheets captions		
Cash and cash equivalents	**$ 4,350,936**	$ 10,662,555
Certificates of deposit	**16,569,455**	18,287,721
Investments held by trustee for debt service	**1,058**	302,338
	$ 20,921,449	$ 29,252,614

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 consisted of the items shown below:

	2013	2012
Medicare	**$ 15,153,203**	$ 9,493,622
Medicaid	**6,487,520**	4,658,993
Other third-party payers	**8,219,384**	8,180,195
Patients	**6,971,864**	5,646,945
	36,831,971	27,979,755
Less allowance for contractual adjustments	**19,279,161**	12,880,437
	17,552,810	15,099,318
Less allowance for uncollectible accounts	**4,375,000**	3,755,569
	$ 13,177,810	$ 11,343,749

5) Capital Assets

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

	June 30, 2013				
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Land	$ 806,200	$ -	$ -	$ -	$ 806,200
Construction in progress	479,132	854,026	(449,590)	(599,173)	284,395
Total capital assets not being depreciated	1,285,332	854,026	(449,590)	(599,173)	1,090,595
Capital assets being depreciated					
Land improvements	541,193	-	-	36,273	577,466
Buildings	31,674,494	-	-	513,673	32,188,167
Equipment	36,620,807	2,001,456	(8,734,401)	49,227	29,937,089
Total capital assets being depreciated	68,836,494	2,001,456	(8,734,401)	599,173	62,702,722
Less accumulated depreciation					
Land improvements	46,935	36,165	-	-	83,100
Buildings	12,683,649	437,735	-	-	13,121,384
Equipment	26,396,769	2,960,186	(8,586,467)	-	20,770,488
	39,127,353	3,434,086	(8,586,467)	-	33,974,972
Capital assets, net	$ 30,994,473	$ (578,604)	$ (597,524)	$ -	$ 29,818,345

	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

Due to the loss of the Sole Community Provider funding the Medical Center decided to indefinitely halt the expansion project that was started in 2013. As a result $449,591of construction in progress amounts were written off during the year. Additionally, the Medical Center completed an analysis of its capital asset listing and wrote off $8,734,401 of capital assets that were not in use as of June 30, 2013. The net book value of these assets was $147,934.

6) Long-Term Obligations

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

	June 30, 2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Long-term debt					
Revenue bonds					
Series 2004	$ 1,660,000	$ -	$ 1,660,000	$ -	$ -
Total long-term debt	1,660,000	-	1,660,000	-	-
Capital lease obligation	183,908	-	69,199	114,709	73,650
Other long-term liabilities					
Accrued compensated absences	2,048,158	2,108,133	2,048,158	2,108,133	2,108,133
Total long-term obligations	$ 3,892,066	$ 2,108,133	$ 3,777,357	$ 2,222,842	$ 2,181,783

	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

Revenue Bonds

The revenue bonds payable consisted of Subordinated Hospital Revenue Bonds, Series 2004, issued in the amount of $3,850,000 with various maturity dates through August 1, 2014. Interest was 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 were secured by net revenues. On December 20, 2012, the Medical Center entered into an escrow agreement in the amount of $1,110,014 to refund the bonds prior to the maturity date which resulted in an in-substance defeasance. Accordingly, the escrow assets and the liability for the defeased revenue bonds are not included in the Medical Center's financial statements.

Bond Issuance and Repayment
The Medical Center Board of Trustees and administration, as a part of the Facility Master Plan, hired an architectural firm for preliminary design and feasibility studies regarding expansion of the main hospital building. Based on these feasibility studies and the then current financial status, the Board of Trustees and administration, along with the Grant County Commission, entered into an agreement to borrow $10 million to begin the project. Shortly after the funds were borrowed, the State Sole Community Provider funding was halted for an unknown period of time. This change in the Sole Community Provider funding was unexpected. The Board of Trustees then decided to delay the expansion project and immediately repaid the borrowed funds with no prepayment penalty.

Capital Lease Obligation
During 2010, the Medical Center entered into 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 2010 in the amount 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 $260,196 and $181,120 at June 30, 2013 and 2012, 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, 2013:

Year Ending June 30,	
2014	$ 78,733
2015	41,856
Total minimum lease payments	120,589
Less amount representing interest	5,880
Present value of future minimum lease payments	$ 114,709

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 $707,000 and $727,000 for the years ended June 30, 2013 and 2012, respectively. Employee contributions to the plan were approximately $1,378,000 and $1,766,000 for 2013 and 2012, 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 $1,759,000 and $1,995,000 for 2013 and 2012, respectively. Future minimum lease payments for noncancelable operating leases with lease terms exceeding one year at June 30, 2013, are as follows:

Year Ending June 30,	
2014	$ 1,305,485
2015	633,916
2016	29,610
Total future minimum lease payments	$ 1,969,011

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 $294,861 and $1,301,533 of electronic health record incentive income related to Medicare incentive programs during the year ended June 30, 2013 and 2012, respectively. The Medical Center reported the EHR incentive program revenue in the line item “Electronic health record incentive income” in the statements of revenues, expenses and changes in net position.

Supplementary Information (Audited)

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Revenues, Expenses and
Changes in Net Position—Budget and Actual
For the Year Ended June 30, 2013

	Budgeted Amounts			Variance with Final Budget - Favorable
	Original	Final	**Actual**	(Unfavorable)
Operating Revenue	$ 77,613,308	$ 77,613,308	**$ 64,715,642**	$ (12,897,666)
Operating Expenses				
Salaries, wages and employee benefits	39,094,162	39,094,162	**39,177,487**	(83,325)
Supplies and other	17,913,605	17,913,605	**17,858,575**	55,030
Purchased services and professional fees	12,988,025	12,988,025	**11,443,343**	1,544,682
Depreciation	3,349,426	3,349,426	**3,434,086**	(84,660)
Rental and leases	1,966,681	1,966,681	**1,758,986**	207,695
Total operating expenses	75,311,899	75,311,899	**73,672,477**	1,639,422
Operating income (loss)	2,301,409	2,301,409	**(8,956,835)**	(11,258,244)
Nonoperating Net Revenue (Expense)	396,907	396,907	**(64,270)**	(461,177)
Change in net position	$ 2,698,316	$ 2,698,316	**(9,021,105)**	$ (11,719,421)
Net position, beginning of year			**71,748,753**	
Net position, end of year			**$ 62,727,648**	

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 Position—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 position	$ 2,803,897	$ 2,803,897	**5,419,202**	$ 2,615,305
Net position, beginning of year			**66,329,551**	
Net position, 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.

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, 2013

Account	Account Type	Wells Fargo Bank, NA	Ambank	Compass Bank	First Savings Bank	First NM Bank	Total
General Account	Checking	$ 2,820,674	$ -	$ -	$ -	$ -	$ 2,820,674
Payroll Account	Checking	-	-	-	-	-	-
Employee Assistance Account	Checking	40,007	-	-	-	-	40,007
Certificate of Deposit	CD	1,539,638	-	-	-	-	1,539,638
Certificate of Deposit	CD	1,038,647	-	-	-	-	1,038,647
Certificate of Deposit	CD	-	1,551,589	-	-	-	1,551,589
Certificate of Deposit	CD	-	1,758,775	-	-	-	1,758,775
Certificate of Deposit	CD	-	1,040,278	-	-	-	1,040,278
Certificate of Deposit	CD	-	1,027,957	-	-	-	1,027,957
Certificate of Deposit	CD	-	-	3,321,327	-	-	3,321,327
Certificate of Deposit	CD	-	-	-	1,093,574	-	1,093,574
Certificate of Deposit	CD	-	-	-	3,187,738	-	3,187,738
Certificate of Deposit	CD	-	-	-	-	1,009,933	1,009,933
Total amount of deposit in bank		5,438,966	5,378,599	3,321,327	4,281,312	1,009,933	19,430,137
Less FDIC insurance		250,000	250,000	250,000	250,000	250,000	1,250,000
Total uninsured public funds		$ 5,188,966	$ 5,128,599	$ 3,071,327	$ 4,031,312	$ 759,933	$ 18,180,137
Collateral requirement - 50% (Section 6-10-17)		$ 2,594,483	$ 2,564,300	$ 1,535,664	$ 2,015,656	$ 379,967	$ 9,090,070

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Pledged Collateral — continued
For the Year Ended June 30, 2013

Account		Maturity	CUSIP		Wells Fargo Bank, NA	Ambank	First Savings Bank	First NM Bank	Total
Pledged securities held by Wells Fargo; held in the name of the Medical Center									
FNMS	FNMA	Matures 03/01/2041	3138AAYX3	(2)	$ 59,802	$ -	$ -	$ -	$ 59,802
FNMS	FNMA	Matures 08/01/2041	3138ANHX4	(2)	1,693,045	-	-	-	1,693,045
FNMS	FNMA	Matures 11/01/2026	3138AXSK8	(2)	148,544	-	-	-	148,544
FNMS	FNMA	Matures 12/01/2026	3138E2EW1	(2)	975,219	-	-	-	975,219
FNMS	FNMA	Matures 10/01/2026	31418AAM0	(2)	764,058	-	-	-	764,058
FNMS	FNMA	Matures 12/01/2039	31419AGZ4	(2)	7,659	-	-	-	7,659
FNMS	FNMA	Matures 10/01/2026	31419BCT0	(2)	463,201	-	-	-	463,201
Pledged securities held by Ambank; held in the name of the Medical Center									
Belen Schools	MUNI	Matures 08/01/2017	077581MM5	(1)	-	108,111	-	-	108,111
Bernalillo Schools	MUNI	Matures 08/01/2013	085279NR4	(1)	-	400,796	-	-	400,796
Fed Home Loan Bank	MUNI	Matures 09/12/2014	313370JS8	(1)	-	506,633	-	-	506,633
Fed Home Loan Bank	FNMA	Matures 09/13/2013	313370LB2	(2)	-	500,858	-	-	500,858
Fed Home Loan Bank	MUNI	Matures 10/30/2017	3133796R5	(1)	-	98,874	-	-	98,874
Hobbs Schools	MUNI	Matures 04/15/2019	433866DB3	(1)	-	108,222	-	-	108,222
Los Lunas, NM	MUNI	Matures 07/15/2018	545562PE4	(1)	-	431,076	-	-	431,076
Lovington, NM	MUNI	Matures 10/01/2019	547473CK2	(1)	-	106,448	-	-	106,448
Lovington, NM	MUNI	Matures 09/01/2021	547473CZ9	(1)	-	104,308	-	-	104,308
Roswell ISD	MUNI	Matures 08/01/2014	778550FZ1	(1)	-	259,533	-	-	259,533
San Juan Cty, NM	MUNI	Matures 08/01/2017	798359HP3	(1)	-	214,626	-	-	214,626
So. Sandoval Cnty	MUNI	Matures 08/01/2017	843789DW5	(1)	-	105,112	-	-	105,112

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Pledged Collateral — continued
For the Year Ended June 30, 2013

Account		Maturity	CUSIP		Wells Fargo Bank, NA	Ambank	First Savings Bank	First NM Bank	Total
Pledged securities held by First Savings Bank; held in the name of the Medical Center									
Springfield TWP NJ-XLCA	MUNI	Matures 08/15/2014	851511KT1	(2)	-	-	51,400	-	51,400
MBS FNMA 10 yr	FNMA	Matures 07/01/2017	31371NGQ2	(2)	-	-	130,510	-	130,510
Orono Minn	MUNI	Matures 02/01/2018	687119LR6	(2)	-	-	108,340	-	108,340
MBS FNMA 15 yr	FNMA	Matures 02/21/2027	3138E4X71	(2)	-	-	1,085,128	-	1,085,128
GNR 2010-115 QG	FNMA	Matures 11/20/2038	38377KKM1	(2)	-	-	121,000	-	121,000
GNR 2011-4MD	FNMA	Matures 11/20/2038	38377TBL4	(2)	-	-	179,785	-	179,785
GNR 2009-55 HC	MUNI	Matures 06/20/2039	38374VPS2	(1)	-	-	53,585	-	53,585
FNR 2010-135 CH	MUNI	Matures 04/25/2040	31398SN66	(1)	-	-	142,744	-	142,744
GNR 2011-43E	MUNI	Matures 12/20/2040	38377UMA3	(1)	-	-	226,912	-	226,912
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					4,111,528	2,944,597	2,099,404	1,910,000	11,065,529
Amount over collateralized for 50% requirement					$ 1,517,045	$ 380,297	$ 83,748	$ 1,530,033	$ 1,975,459

					Wells Fargo Bank, NA
Repurchase Agreement					
Amount of repurchase agreement					$ 2,377,023
Required collateralization - 102% of uninsured portion					2,424,563
Pledged securities held by Wells Fargo Bank, NA held in the name of the Medical Center	FNMA	Matures 02/01/2039	36202E2A6	(2)	2,424,563
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, 2013

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Deposit Accounts						
Wells Fargo	GRMC	Checking	$ 2,820,674	$ 3,337	$ 892,055	$ 1,931,956
Wells Fargo	GRMC	Checking	40,007	-	-	40,007
			2,860,681	3,337	892,055	1,971,963
Cash on hand		Petty cash	-	-	-	1,950
			2,860,681	3,337	892,055	1,973,913
Certificates of Deposit						
Wells Fargo	GRMC	Certificates of Deposit	2,578,285	-	-	2,578,285
AM Bank	GRMC	Certificates of Deposit	5,378,599	-	-	5,378,599
Compass Bank	GRMC	Certificates of Deposit	3,321,327	-	-	3,321,327
First Savings Bank	GRMC	Certificates of Deposit	4,281,312	-	-	4,281,311
First New Mexico Bank	GRMC	Certificates of Deposit	1,009,933	-	-	1,009,933
			16,569,456	-	-	16,569,455
Investments						
State Treasurer's Local Government Investment Pool		Investment pool	1,058	-	-	1,058
			1,058	-	-	1,058
Repurchase Agreement						
Wells Fargo	Sweep	Repurchase	2,377,023	-	-	2,377,023
Total deposits and investments			$ 21,808,218	$ 3,337	$ 892,055	$ 20,921,449

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

We have audited, in accordance with the 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, the financial statements of Gila Regional Medical Center (the "Medical Center"), a component unit of Grant County, as of and for the year ended June 30, 2013, which collectively comprise the Medical Center's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2013, presented as supplementary information, and have issued our report thereon dated October 6, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

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. 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.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items SA 2012-002, SA 2013-001 and SA 2013-002.

The Medical Center's Responses to Findings

The Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Medical Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

REDW LLC

Phoenix, Arizona
October 6, 2013

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Findings and Responses
For the Year Ended June 30, 2013

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 2012-002 — 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 could potentially 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 2013-001 — Capital Asset Records — Other

Criteria or Specific Requirement: The capital asset listing should agree to internal accounting records and audited financial statements. Transfers, additions and retirements should be clearly denoted.

Condition: Several issues were identified with the capital asset listing used to record and track capital assets. Specifically, the beginning accumulated depreciation balances in the schedule did not agree to the audited fiscal year 2012 financial statement ending balances, and the depreciation expense amounts in the detailed schedule for fiscal year 2013 did not agree to the trial balance. As a result, an audit adjustment (net impact of $267,033) was needed to true up the accumulated depreciation amounts and increase depreciation expense to align the capital asset detail to the general ledger. Additionally, some of the assets transferred from the construction in progress accounts to the equipment asset group were not clearly identified.

Cause: The Medical Center is in the process of updating their capital asset records to an electronic record keeping system. This system was not fully implemented by the time of the audit. Additionally, the Medical Center disposed of assets that were no longer in use which may have contributed to some of the variances identified.

Effect: Assets may not be properly recorded and disclosed resulting in errors to the financial statements.

Auditors' Recommendations: Improve controls related to capital assets and construction in progress accounts to ensure the detail agrees to financial records. Ensure transfers between asset classes are properly grouped. The new capital asset software will help improve these items and should be implemented as soon as practical.

Management's Response: The new capital asset software is in the process of being implemented and will be fully functional by the end of fiscal year 2014.

SA 2013-002 — Late Submittal of IPA Recommendation Form for FY2013 Audit and Audit Contract to State Auditor — Other

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Criteria or Specific Requirement: According to Paragraph (6) of Subsection G of 2.2.2.8 NMAC, the auditor must include a finding of noncompliance if a completed IPA Recommendation Form and audit contract are not delivered to the State Auditor by the deadline, which is May 1st for the Medical Center.

Condition: Records of the Office of State Auditor indicate that the IPA Recommendation Form and audit contract were not submitted by the Medical Center until May 22, 2013.

Cause: The Medical Center failed to complete and submit the IPA Recommendation Form and audit contract prior to the required May 1, 2013 deadline.

Effect: The Medical Center is out of compliance with statutory requirements to timely submit the IPA Recommendation Form and audit contract to the State Auditor.

Auditors' Recommendations: We recommend that management establish controls to ensure that the required forms are submitted to the State Auditor in a timely manner.

Management's Response: Management will develop and implement the necessary controls to ensure that the required forms are submitted to the State Auditor in a timely manner in the future.

Gila Regional Medical Center
(A Component Unit of Grant County)
Current Status Schedule of Prior Years' Audit Findings
For the Year Ended June 30, 2013

Prior-Year Number	Description	Current Status
FS 12-1	Supplies Inventory – Material Weakness	Resolved. The Medical Center has improved its process for tracking consigned inventory outside of its accounting system.
FS 12-2	Accounts Payable – Significant Deficiency	Resolved. The Medical Center has improved its process for recording its liabilities in the correct period.
SA 12-1	Segregation of Duties – Other	Resolved. Accounts Payable staff no longer has access to the vendor management module of the accounting system.
SA 12-2	Payroll Timesheets – Other	Repeat. The option in the timekeeping system to restrict timecard processing for unapproved timecards was not turned on. This is included as a current year finding at SA 2012-002.
SA 12-3	Capital Asset Inventory – Other	Resolved. The Medical Center conducted its FY13 counts using a $5,000 threshold cost.
SA 12-4	Dormant Checks – Other	Resolved. No dormant checks were identified during the audit.

Gila Regional Medical Center
(A Component Unit of Grant County)
Other Disclosures
For the Year Ended June 30, 2013

Exit Conference

A closed meeting exit conference was held with the Medical Center on September 27, 2013, in Silver City, New Mexico with the following attending:

Gila Regional Medical Center

Charles Kelly	Chair of the Board of Trustees
Pam Archibald	Secretary/Treasurer of the Board of Trustees
Donald Stinar, MD	Board Member
Jeremiah Garcia	Board Member
Freddie Rodriguez	Board Member
Brian Cunningham	Chief Executive Officer
Beth Allred	Chief Financial Officer
Pat Sheyka	Chief Nursing Officer
Ken Stone	Director of Information Systems
Victor Nwachuku, MD	Chief of Staff
Ruth Giegerich	Executive Assistant to the CEO

REDWLLC

Chris Tyhurst, CPA	Principal

Financial Statement Preparation

The Medical Center's independent public accountants assisted in the preparation of the financial statements presented in this report; however, the Medical Center is responsible for the financial statement and disclosure content. The Medical Center's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.