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

Financial Statements, Supplementary Information
and
Independent Auditor's Reports

June 30, 2015 and 2014

REDW LLC
CPAs | Business & Financial Advisors

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

Gila Regional Medical Center
(A Component Unit of Grant County)
Board of Trustees and Principal Employees
June 30, 2015

Independent Auditor's Report

Board of Trustees and Management of
Gila Regional Medical Center
and
Mr. Tim Keller, 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, 2015 and 2014, 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, 2015 and 2014, 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.

Auditor's 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 auditor's 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 considers internal control relevant to the entity's preparation and fair presentation of the financial

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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 financial position of the Medical Center as of June 30, 2015 and 2014, and the changes in financial position and its cash flows and the budget comparison schedules for the years then ended in accordance 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

Our audit was conducted for the purpose of forming opinions on the basic financial statements and budget comparison schedules. The accompanying schedules of pledged collateral, individual deposit and investment accounts and vendor information, as required by Section 2.2.2 NMAC, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 2, 2015, 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* in considering the Medical Center's internal control over financial reporting and compliance.

REDW LLC

Phoenix, Arizona
October 2, 2015

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, 2015

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, 2015. This section presents comparative information and balances for the years ended June 30, 2015, 2014 and 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 increased by $4,616,143 in 2015 and increased by $1,458,333 in 2014, or 20.6% and 7.0%, respectively.

- The Medical Center's net position increased by $734,319 in 2015 and increased by $1,255,409 in 2014, or 1.1% and 2.0%, respectively.

- The Medical Center reported an operating loss in 2015 of $80,605, which represents an improvement of $1,569,644, or 95%, compared to the operating loss reported in 2014.

- Net nonoperating revenues increased by $159,266 or 24.3% in 2015, compared to an increase of $719,928 or 1,120% in 2014.

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.

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.

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 increased in 2015 by $734,319, or 1.1%, and increased in 2014 by $1,255,409, or 2.0%, as shown in the following table:

ASSETS, LIABILITIES AND NET POSITION

	June 30, 2015	June 30, 2014	June 30, 2013
Assets			
Cash and cash equivalents	**$ 10,300,425**	$ 5,735,937	$ 4,350,936
Certificates of deposit	**16,694,442**	16,642,787	16,569,455
Patient accounts receivable, net	**9,657,642**	9,994,071	13,177,810
Other current assets	**5,939,689**	8,192,376	6,411,742
Capital assets, net	**30,070,340**	30,267,136	29,818,345
Other noncurrent assets	**136,416**	136,416	136,416
Total assets	**$ 72,798,954**	$ 70,968,723	$ 70,464,704
Liabilities			
Other current and noncurrent liabilities	**$ 8,081,578**	$ 6,985,666	$ 7,737,056
Total liabilities	**8,081,578**	6,985,666	7,737,056
Net Position			
Net investment in capital assets	**30,070,340**	30,267,136	29,703,636
Unrestricted	**34,647,036**	33,715,921	33,024,012
Total net position	**64,717,376**	63,983,057	62,727,648
Total liabilities and net position	**$ 72,798,954**	$ 70,968,723	$ 70,464,704

The increase in net position was $734,319 in 2015, compared to the increase in net position of $1,255,409 in 2014. Fiscal year 2014's increase in net position included a one-time capital grant from the State of New Mexico for $2,250,000. Fiscal year 2015 was a building year, with a comprehensive Information Systems upgrade in progress and new physician clinics opened during the year, as well as extensive revenue cycle management.

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

The Medical Center's operating loss in 2015 was approximately $81,000, a 95% improvement in the operating loss compared to 2014 results. In 2014, the operating loss was approximately $1,650,000. These results are shown in the following table:

OPERATING RESULTS AND CHANGE IN NET POSITION

	2015	2014	2013
Operating Revenue			
Net patient service revenue	**$ 64,216,220**	$ 61,434,706	$ 55,336,010
Safety net care pool	**7,308,148**	3,777,521	-
Sole community provider	**-**	-	8,486,331
Other revenue	**362,000**	1,284,388	893,301
Total operating revenue	**71,886,368**	66,496,615	64,715,642
Operating Expenses			
Salaries, wages and employee benefits	**37,082,306**	36,055,183	39,177,487
Purchased services and professional fees	**12,703,055**	10,673,347	11,443,343
Depreciation and amortization	**3,434,202**	3,343,335	3,434,086
Other operating expenses	**18,747,410**	18,074,999	19,617,561
Total operating expenses	**71,966,973**	68,146,864	73,672,477
Operating (loss)/income	**(80,605)**	(1,650,249)	(8,956,835)
Nonoperating Revenue (Expenses)			
Interest income	**111,173**	78,769	68,534
Interest expense	**-**	-	(237,117)
Grants and gifts	**739,762**	795,893	701,837
Loss on disposal of assets	**(36,011)**	(219,004)	(597,524)
Net nonoperating revenue (expenses)	**814,924**	655,658	(64,270)
Capital grant from State of New Mexico for Cancer Center	**-**	2,250,000	-
Change in net position	**734,319**	1,255,409	(9,021,105)
Net position, beginning of year	**63,983,057**	62,727,648	71,748,753
Net position, end of year	**$ 64,717,376**	$ 63,983,057	$ 62,727,648

Operating Income

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

2015 of $80,605, an improvement of $1,569,644 compared to the 2014 operating loss of $1,650,249. The primary components of the operating results in 2015 are as follows:

- An increase in net patient service revenue of $2,781,514, or 4.5%, was due in large part to selected increases in rates and the case mix during the year as well as volume increases in surgeries and in the Chemotherapy Department, which experienced 20.7% higher total volumes in medical and in radiation oncology related to the new linear accelerator.
- The Medical Center lost the Sole Community Provider (SCP) funding when the program ended on December 31, 2013. SCP was replaced with the Safety Net Care Pool Program that was created to offset some of the loss from the SCP Program. Revenue related to this new program was $7,308,148 during the year ended June 30, 2015.
- Salaries and employee benefits increased $1,027,123, or 2.9%, compared to the prior year. There was a 2% across the board wage increase and selected market increases in 2015 and there was a strategic assessment of service lines and associated positions resulting in 5 fewer positions at June 30, 2015 than at June 30, 2014. Man hours declined by approximately 0.9% but with open, unfilled positions, overtime increased by approximately 25% and overall full time equivalent employees declined from 546 to 541. Contract salaries rose by $1,440,329 or 188.9% from 2014 with higher utilization of contract staff filling open positions.
- Purchased services and professional fees and other operating expenses increased by $2,702,119 in 2015, or 9.4%, due in part to higher volumes in Operating Room and Chemotherapy services, but also due to higher purchased services, medical specialist fees, legal, recruiting and other contract fees associated with a growth year.
- Total operating loss for 2015 of $80,605 was (0.1%) of total operating revenue, compared to $1,650,249 was (2.5%) in 2014.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses, which consist primarily of noncapital grants and gifts, interest income, and interest expense, increased by $159,266, or 24.3% in 2015 compared to 2014. The increase was mostly due to a decrease in loss on disposal of capital assets.

Capital Grant

During 2014, the Medical Center received a State of New Mexico legislative allocation from the Cigarette Tax Fund of $2,250,000 for the purchase of a new, state-of-the-art linear accelerator for the Cancer Center. This was placed into service on June 11, 2014 and the funds were received during 2015, increasing days cash on hand.

Cash Flows

Changes in the Medical Center's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2015, 2014 and 2013, as discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2015, the Medical Center had $30 million invested in capital assets, net of accumulated depreciation. In 2015, the Medical Center invested approximately $3.4 million for the purchase of capital equipment and renovation projects. This consisted primarily of:

- Approximately $2.0 million for the construction in progress for the Meditech IT upgrade,
- $166,223 for other new and upgraded information systems technology for both hardware and software, $227,197 for new radiology equipment,
- $163,946 for a new, third boiler,
- $214,348 for new patient monitoring equipment,
- $88,558 for infant warmers,
- $50,944 for additional installation costs for the Linear Accelerator,
- $46,555 for various clinical IT start-up costs,
- $36,046 for Fitness Equipment and approximately, and
- $324,000 for various diagnostic, clinical, and other smaller equipment purchases.

Old, outdated equipment of $5.2 million was identified and disposed of during the year.

Debt

At June 30, 2015, the Medical Center had no long-term debt outstanding. The Medical Center did not issue any new debt in 2015 or 2014.

Budgetary Highlights

There were no budget modifications during fiscal year 2015. Total net operating revenues were higher than budget by $1.4 million due to higher encounter numbers and changes to the payor composition. In addition, Safety Net Care Pool funding was not budgeted due to the uncertainty of the program at the time of the budget last year.

Operating expenses were over budget primarily due to the following: approximately $1.2 million over budget due to professional fees and salaries which was offset by approximately $700 thousand under budget in in supplies. Depreciation was approximately $400 thousand over budget offset by $159 thousand under budget in rentals and leases, which were managed to lower costs.

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 2013. In 2014 and 2015, the total population is estimated to have remained stable. 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 2013 and 2014, Freeport hired back over 600 workers and reopened all mining operations that were closed. Freeport is currently reporting that due to the slowdown in the economy and lower copper prices, layoffs are being considered at the Tyrone property. Historically, both mines have been subject to layoffs and shut downs during economic downturns, but eventually return to 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 in 2015.

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
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Basic Financial Statements

Gila Regional Medical Center

(A Component Unit of Grant County)

Balance Sheets

June 30,

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	**$ 10,300,425**	$ 5,735,937
Certificates of deposit	**16,694,442**	16,642,787
Patient accounts receivable, net of allowance 2015 - $5,021,000, 2014 - $5,153,000	**9,657,642**	9,994,071
Safety net care pool receivable	**1,765,313**	1,956,294
Grant receivable	**-**	2,250,000
Other receivables, net	**392,453**	983,150
Inventories	**2,353,567**	2,236,760
Prepaid expenses and other	**1,428,356**	766,172
Total current assets	**42,592,198**	40,565,171
Noncurrent assets		
Capital assets, net	**30,070,340**	30,267,136
Other assets	**136,416**	136,416
Total assets	**$ 72,798,954**	$ 70,968,723
Liabilities		
Current liabilities		
Accounts payable	**$ 3,765,072**	$ 3,240,436
Accrued expenses		
Compensated absences	**1,983,390**	1,860,664
Payroll	**1,594,604**	1,534,566
Estimated third party payor settlement	**738,512**	350,000
Total current liabilities	**8,081,578**	6,985,666
Net Position		
Net investment in capital assets	**30,070,340**	30,267,136
Unrestricted	**34,647,036**	33,715,921
Total net position	**64,717,376**	63,983,057
Total liabilities and net position	**$ 72,798,954**	$ 70,968,723

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,

	2015	2014
Operating Revenue		
Net patient service revenue	**$ 64,216,220**	$ 61,434,706
Safety net care pool	**7,308,148**	3,777,521
Other revenue	**362,000**	1,284,388
Total operating revenue	**71,886,368**	66,496,615
Operating Expenses		
Salaries, wages and employee benefits	**37,082,306**	36,055,183
Supplies and other	**17,120,763**	16,394,160
Purchased services and professional fees	**12,703,055**	10,673,347
Depreciation and amortization	**3,434,202**	3,343,335
Rental and leases	**1,626,647**	1,680,839
Total operating expenses	**71,966,973**	68,146,864
Operating loss	**(80,605)**	(1,650,249)
Nonoperating Revenue (Expenses)		
Interest income	**111,173**	78,769
Loss on disposal of assets	**(36,011)**	(219,004)
Grants and gifts	**739,762**	795,893
Total nonoperating revenue, net	**814,924**	655,658
Revenues over/(under) expenses before capital grant	**734,319**	(994,591)
Capital grant from State of New Mexico for Cancer Center	**-**	2,250,000
Change in net position	**734,319**	1,255,409
Net position, beginning of year	**63,983,057**	62,727,648
Net position, end of year	**$ 64,717,376**	$ 63,983,057

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,

	2015	2014
Cash flows from operating activities		
Cash received from patients and third-party payors	**$ 73,392,987**	$ 69,592,165
Cash paid to suppliers and contractors	**(31,704,820)**	(28,706,928)
Cash paid to employees	**(36,899,542)**	(36,176,785)
Net cash provided by operating activities	**4,788,625**	4,708,452
Cash flows from noncapital financing activities		
Grants and gifts	**2,989,762**	795,893
Cash flows from capital and related financing activities		
Payments on capital lease	**-**	(114,709)
Purchase of capital assets	**(3,397,542)**	(4,070,096)
Changes in assets limited as to use	**-**	1,058
Proceeds from sale of capital assets	**124,125**	58,966
Net cash used in capital and related financing activities	**(3,273,417)**	(4,124,781)
Cash flows from investing activities		
Purchase of certificates of deposit	**(51,655)**	(73,332)
Interest on investments	**111,173**	78,769
Net cash provided by investing activities	**59,518**	5,437
Net increase in cash and cash equivalents	**4,564,488**	1,385,001
Cash and cash equivalents, beginning of year	**5,735,937**	4,350,936
Cash and cash equivalents, end of year	**$ 10,300,425**	$ 5,735,937

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,

	2015	2014
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	**$ (80,605)**	$ (1,650,249)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	**3,434,202**	3,343,335
Provision for uncollectible accounts	**7,886,082**	7,108,710
Changes in assets and liabilities		
Patient accounts receivable	**(7,549,653)**	(3,924,971)
Safety net care pool receivable	**190,981**	(1,956,294)
Sole community provider receivable	**-**	2,460,191
Other receivables	**590,697**	(63,602)
Inventories	**(116,807)**	172,934
Prepaid expenses and other assets	**(662,184)**	(144,921)
Accounts payable and accrued expenses	**707,400**	(108,197)
Estimated third-party payor settlements	**388,512**	(528,484)
Net cash provided by operating activities	**$ 4,788,625**	$ 4,708,452

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, 2016. Management fees, included in purchased services and professional fees, approximated $45,000 and $47,000 in 2015 and 2014, respectively. According to the 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.

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).

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, 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.

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. The estimated cost to provide charity care services to patients who were unable to pay was approximately $7,319,000 and $5,285,000 in 2015 and 2014, 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 expenses. 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 2, 2015, the date which the financial statements were available to be issued, were evaluated for recognition and disclosure in the June 30, 2015, 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 cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary.

Medicaid—Prior to December 31, 2013, the State of New Mexico (the "State") administered its Medicaid program through contracts with several Managed Care Organizations (MCOs). Medicaid beneficiaries were required to enroll with one of the MCOs. The State paid each MCO a per member, per month rate based on their enrollment. These amounts were allocated by each MCO to separate pools for the hospital, physicians, and ancillary providers and the MCOs assumed the financial risk of providing health care to its members. This arrangement was referred to as "SALUD!".

In 2014, the State redesigned its Medicaid managed care program and Centennial Care began on January 1, 2014, with services provided by four MCOs. These services include physical health, behavioral health, long-term care and community benefits. Most individuals who are enrolled in New Mexico's Medicaid program are eligible for Centennial Care and most adults who are eligible for New Mexico's Medicaid Expansion receive their services through Centennial Care.

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 according 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, starting 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, 2015 Amount	June 30, 2015 Status	June 30, 2014 Amount
Medicare			
2012	**$ -**	Final settlement	$ (50,000)
2013	**(258,512)**	Tentative settlement	-
2014	**(100,000)**	Filed, pending audit	(100,000)
2015	**(100,000)**	Not filed, estimate	-
	(458,512)		(150,000)
Medicaid			
2011	**-**	Final settlement	(50,000)
2012	**-**	Final settlement	(50,000)
2013	**(80,000)**	Filed, pending audit	(50,000)
2014	**(100,000)**	Filed, pending audit	(50,000)
2015	**(100,000)**	Not filed, estimate	-
	(280,000)		(200,000)
Estimated third-party payor settlements	**$ (738,512)**		$ (350,000)

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 an increase of $389,000 and a decrease of approximately $528,000 to net patient service revenue for the years ended June 30, 2015 and 2014, respectively.

Safety Net Care Pool Program (SNCP)—SNCP provides for a county-imposed tax of one-sixteenth percent of gross receipts be permanently transferred to the "Safety Net Care Pool Fund" and expended pursuant to the Indigent Hospital and County Health Care Act. The law allows counties to budget for expenditures on ambulance services, burial expenses, and hospital or medical expenses for indigent residents of their county. The law requires that qualifying hospitals receiving payment from the Safety Net Care Pool file a quarterly report on all indigent health care funding with the Human Services Department (HSD) and the County Commission, and the HSD to submit a quarterly report to the Legislative Finance Committee containing the previous quarter's Safety Net Care Pool Fund receipts and the disposition of funds. Revenues from the SNCP Program were approximately $7,308,000 for the year ended June 30, 2015, of which approximately $1,765,000 was due to the Medical Center at June 30, 2015. Revenues for 2014 were approximately $3,778,000 of which approximately $1,956,000 was due to the Medical Center at June 30, 2014.

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:

	2015	2014
Gross patient revenue		
Inpatient	**$ 52,126,975**	$ 56,683,661
Outpatient	**149,203,179**	133,959,754
Total gross patient revenue	**201,330,154**	190,643,415
Less contractual adjustments and provision for uncollectible accounts		
Third-party payor contractual allowances, discounts, and adjustments	**129,227,852**	122,099,999
Provision for uncollectible accounts	**7,886,082**	7,108,710
Total contractual adjustments and provision for uncollectible accounts	**137,113,934**	129,208,709
Net patient service revenue	**$ 64,216,220**	$ 61,434,706

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, 2015 and 2014, the Medical Center was in compliance with the state collateralization requirements.

As of June 30, 2015, the Medical Center had deposits with a bank balance of $19,362,693, of which $1,531,281 was uninsured and uncollateralized, and therefore subject to custodial credit risk. As of June 30, 2014, the Medical Center had deposits with a bank balance of $19,345,093, of which $5,097,047 was uninsured and uncollateralized, and therefore subject to custodial credit risk.

On June 3, 2015, the Medical Center obtained a Letter-of-Credit (LOC) issued by a federal home loan bank in the amount of $1,700,000 to secure uninsured deposits. As of June 30, 2015, the LOC has not been drawn on. The LOC expires March 4, 2016.

State Treasurer's Investment Pool

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, 2015, is as follows:

New MexiGrow LGIP	AAAm rated	$1,060	55-day WAM

At June 30, 2015 and 2014, the Medical Center had investments with the following maturities:

	June 30, 2015				
		Maturities in Years			
Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Repurchase agreement	**$ 7,912,128**	**$ 7,912,128**	$ -	$ -	$ -
State Treasurer's investment pool	**1,060**	**1,060**	-	-	-
	$ 7,913,188	**$ 7,913,188**	**$ -**	**$ -**	**$ -**

	June 30, 2014				
		Maturities in Years			
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
U.S. treasury securities and money market	$ 3,297,303	$ 3,297,303	$ -	$ -	$ -
State Treasurer's investment pool	1,059	1,059	-	-	-
	$ 3,298,362	$ 3,298,362	$ -	$ -	$ -

The repurchase agreement was collateralized at 102% at June 30, 2015 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:

	2015	2014
Carrying value		
Deposits	**$ 19,081,679**	$ 19,080,362
Investments and *New MexiGrow* Pool	**7,913,188**	3,298,362
	$ 26,994,867	$ 22,378,724
Included in the following balance sheets captions		
Cash and cash equivalents	**$ 10,300,425**	$ 5,735,937
Certificates of deposit	**16,694,442**	16,642,787
	$ 26,994,867	$ 22,378,724

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:

	2015	2014
Medicare	**$ 10,479,664**	$ 10,461,315
Medicaid	**6,469,184**	4,215,449
Other third-party payers	**6,644,036**	4,488,147
Patients	**6,953,348**	8,994,981
	30,546,232	28,159,892
Less allowance for contractual adjustments	**15,867,915**	13,012,441
	14,678,317	15,147,451
Less allowance for uncollectible accounts	**5,020,675**	5,153,380
	$ 9,657,642	$ 9,994,071

5) Capital Assets

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

	2015				
	Beginning Balance	**Additions**	**Disposals and Retirements**	**Transfers**	**Ending Balance**
Capital assets not being depreciated					
Land	**$ 806,200**	**$ -**	**$ -**	**$ -**	**$ 806,200**
Construction in progress	**246,169**	**2,064,760**	**(79,474)**	**-**	**2,231,455**
Total capital assets not being depreciated	**1,052,369**	**2,064,760**	**(79,474)**	**-**	**3,037,655**
Capital assets being depreciated					
Land improvements	**577,466**	**-**	**-**	**-**	**577,466**
Buildings	**32,250,049**	**-**	**-**	**-**	**32,250,049**
Equipment	**30,998,043**	**1,332,782**	**(5,181,964)**	**-**	**27,148,861**
Total capital assets being depreciated	**63,825,558**	**1,332,782**	**(5,181,964)**	**-**	**59,976,376**
Less accumulated depreciation					
Land improvements	**180,769**	**52,462**	**-**	**-**	**233,231**
Buildings	**14,107,153**	**862,286**	**-**	**-**	**14,969,439**
Equipment	**20,322,869**	**2,519,454**	**(5,101,302)**	**-**	**17,741,021**
Capital assets being depreciated, net	**34,610,791**	**3,434,202**	**(5,101,302)**	**-**	**32,943,691**
Capital assets, net	**$ 30,267,136**	**$ (36,660)**	**$ (160,136)**	**$ -**	**$ 30,070,340**

	2014				
	Beginning Balance	Additions	Disposals and Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Land	$ 806,200	$ -	$ -	$ -	$ 806,200
Construction in progress	284,395	2,526,206	-	(2,564,432)	246,169
Total capital assets not being depreciated	1,090,595	2,526,206	-	(2,564,432)	1,052,369
Capital assets being depreciated					
Land improvements	577,466	-	-	-	577,466
Buildings	32,188,167	61,882	-	-	32,250,049
Equipment	29,937,089	1,482,008	(2,985,486)	2,564,432	30,998,043
Total capital assets being depreciated	62,702,722	1,543,890	(2,985,486)	2,564,432	63,825,558
Less accumulated depreciation					
Land improvements	83,100	97,669	-	-	180,769
Buildings	13,121,384	985,769	-	-	14,107,153
Equipment	20,770,488	2,259,897	(2,707,516)	-	20,322,869
Capital assets being depreciated, net	33,974,972	3,343,335	(2,707,516)	-	34,610,791
Capital assets, net	$ 29,818,345	$ 726,761	$ (277,970)	$ -	$ 30,267,136

In 2015, an analysis of the capital asset listing resulted in a $5,261,438 write-off for assets that were not in use as of June 30, 2015. The net book value of these assets was $160,136. In 2014 the Medical Center completed an analysis of its capital asset listing and wrote off $2,985,486 of capital assets that were not in use. The net book value of these assets was $277,970.

In 2014, the Medical Center was awarded a $2,250,000 grant from the State of New Mexico for design, construction, equipment and furnishing additions to the Cancer Center. The total amount of the grant consisted of $1,650,000 remaining from the Series 2013 Bond and $600,000 of excess balance in the Rural County Cancer Treatment Fund. The Medical Center utilized these funds to purchase and put in service a linear accelerator at the Cancer Center.

6) Long-Term Obligations

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

	2015				
	Beginning Balance	**Additions**	**Deductions**	**Ending Balance**	**Due Within One Year**
Accrued compensated absences	**$ 1,860,664**	**$ 3,311,485**	**$ 3,188,759**	**$ 1,983,390**	**$ 1,983,390**
Total long-term obligations	**$ 1,860,664**	**$ 3,311,485**	**$ 3,188,759**	**$ 1,983,390**	**$ 1,983,390**

	2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Capital lease obligation	$ 114,709	$ -	$ 114,709	$ -	$ -
Other long-term liabilities					
Accrued compensated absences	2,108,133	1,860,664	2,108,133	1,860,664	1,860,664
Total long-term obligations	$ 2,222,842	$ 1,860,664	$ 2,222,842	$ 1,860,664	$ 1,860,664

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% of the employee's annual salary. Employees may contribute a maximum of 20% 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 $615,000 and $712,000 for the years ended June 30, 2015 and 2014, respectively. Employee contributions to the plan were approximately $1,250,000 and $1,181,000 for 2015 and 2014, 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 $1,626,000 and $1,681,000 for 2015 and 2014, respectively.

Future minimum lease payments for noncancelable operating leases with lease terms exceeding one year at June 30, 2015, are as follows:

Year Ending June 30,	
2016	$ 1,450,243
2017	29,611
Total future minimum lease payments	$ 1,479,854

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.

For the year ended June 30, 2014, the Medical Center recognized $791,101 from the Medicaid incentive program. The Medical Center included the EHR incentive program revenue in the line item “Other revenue” in the statements of revenues, expenses and changes in net position.

In 2015, the Medical Center realized that the data used to calculate the revenue for the incentive program was incorrect. As a result, a total of $115,657 was repaid to the program. A receivable of $213,387 was also removed as of June 30, 2015.

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, 2015

	Budgeted Amounts			Variance with Final Budget - Favorable
	Original	Final	**Actual**	(Unfavorable)
Operating Revenue	$ 70,485,136	$ 70,485,136	**$ 71,886,368**	$ 1,401,232
Operating Expenses				
Salaries, wages and employee benefits	36,855,463	36,855,463	**37,082,306**	(226,843)
Supplies and other	17,829,710	17,829,710	**17,120,763**	708,947
Purchased services and professional fees	11,696,789	11,696,789	**12,703,055**	(1,006,266)
Depreciation	3,037,775	3,037,775	**3,434,202**	(396,427)
Rental and leases	1,785,966	1,785,966	**1,626,647**	159,319
Total operating expenses	71,205,703	71,205,703	**71,966,973**	(761,270)
Operating income (loss)	(720,567)	(720,567)	**(80,605)**	639,962
Nonoperating revenue, net	(720,567)	(720,567)	**814,924**	1,535,491
Change in net position	$ (1,441,134)	$ (1,441,134)	**734,319**	$ 2,175,453
Net position, beginning of year			**63,983,057**	
Net position, end of year			**$ 64,717,376**	

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.

This is for informational purposes only because the Medical Center is a proprietary entity and does not receive legislative appropriations; therefore, the budget is not a legally adopted budget.

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, 2014

	Budgeted Amounts			Variance with Final Budget - Favorable
	Original	Final	**Actual**	(Unfavorable)
Operating Revenue	$ 64,258,673	$ 64,258,673	**$ 66,496,615**	$ 2,237,942
Operating Expenses				
Salaries, wages and employee benefits	33,035,960	33,035,960	**36,055,183**	(3,019,223)
Supplies and other	15,361,942	15,361,942	**16,394,160**	(1,032,218)
Purchased services and professional fees	10,859,972	10,859,972	**10,673,347**	186,625
Depreciation	3,408,935	3,408,935	**3,343,335**	65,600
Rental and leases	1,475,054	1,475,054	**1,680,839**	(205,785)
Total operating expenses	64,141,863	64,141,863	**68,146,864**	(4,005,001)
Operating income (loss)	116,810	116,810	**(1,650,249)**	(1,767,059)
Nonoperating revenue, net	67,512	67,512	**655,658**	588,146
Revenues over (under) expenses before capital grant	184,322	184,322	**(994,591)**	(1,178,913)
Capital grant from State of New Mexico for Cancer Center	-	-	**2,250,000**	2,250,000
Change in net position	$ 184,322	$ 184,322	**1,255,409**	$ 1,071,087
Net position, beginning of year			**62,727,648**	
Net position, end of year			**$ 63,983,057**	

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.

This is for informational purposes only because the Medical Center is a proprietary entity and does not receive legislative appropriations; therefore, the budget is not a legally adopted budget.

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, 2015

Account	Account Type	Wells Fargo Bank, NA	Ambank	Compass Bank	First Savings Bank	First NM Bank	Total
General Account	Checking	$ 2,610,887	$ -	$ -	$ -	$ -	$ 2,610,887
Payroll Account	Checking	57,364	-	-	-		57,364
Employee Assistance Account	CD	1,043,900	-	-	-	-	1,043,900
Certificate of Deposit	CD	1,547,107	-	-	-	-	1,547,107
Certificate of Deposit	CD	-	1,564,312	-	-	-	1,564,312
Certificate of Deposit	CD	-	1,773,195	-	-	-	1,773,195
Certificate of Deposit	CD	-	1,056,674	-	-	-	1,056,674
Certificate of Deposit	CD	-	1,044,617	-	-	-	1,044,617
Certificate of Deposit	CD	-	-	3,343,509	-	-	3,343,509
Certificate of Deposit	CD	-	-	-	-	1,013,602	1,013,602
Certificate of Deposit	CD	-	-	-	1,097,406	-	1,097,406
Certificate of Deposit	CD	-	-	-	3,210,120	-	3,210,120
Total amount of deposit in bank		5,259,258	5,438,798	3,343,509	4,307,526	1,013,602	19,362,693
Less FDIC insurance		250,000	250,000	250,000	250,000	250,000	1,250,000
Total uninsured public funds		$ 5,009,258	$ 5,188,798	$ 3,093,509	$ 4,057,526	$ 763,602	$ 18,112,693
Collateral requirement - 50% (Section 6-10-17)		$ 2,504,629	$ 2,594,399	$ 1,546,755	$ 2,028,763	$ 381,801	$ 9,056,347

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Pledged Collateral — continued
For the Year Ended June 30, 2015

Account		Maturity	CUSIP		Wells Fargo Bank, NA	Ambank	Compass Bank	First Savings Bank	First NM Bank	Total
Pledged securities held by Wells Fargo; held in the name of the Medical Center										
FN AV0703	FN	Matures 12/01/43	3138XBX90	(2)	$ 2,241,990	$ -	$ -	$ -	$ -	$ 2,241,990
FN AB2813	FN	Matures 04/01/41	31416YDT2	(2)	111,694	-	-	-	-	111,694
FN MA 2636	FN	Matures 07/01/43	31418AVT2	(2)	69,346	-	-	-	-	69,346
FN AO6780	FN	Matures 06/01/42	3138LXRA9	(2)	181,876	-	-	-	-	181,876
FMAC	FMAC	Matures 11/01/41	3128UHH73	(2)	227,056	-	-	-	-	227,056
FNMA	FNMA	Matures 07/01/41	3138AMUC7	(2)	101,969	-	-	-	-	101,969
FNMA	FNMA	Matures 09/01/41	3138EG3M4	(2)	138,905	-	-	-	-	138,905
FNMA	FNMA	Matures 03/01/43	3138EKYF6	(2)	40,408	-	-	-	-	40,408
FNMA	FNMA	Matures 01/01/43	31417EKV2	(2)	13,033	-	-	-	-	13,033
FNMA	FNMA	Matures 09/01/43	3138X3XV9	(2)	72,186	-	-	-	-	72,186
FNMA	FNMA	Matures 01/01/42	3138E55Q7	(2)	648,898	-	-	-	-	648,898
FNMA	FNMA	Matures 01/01/43	31417EVK4	(2)	13,293	-	-	-	-	13,293
FNMA	FNMA	Matures 11/01/25	31419KVB8	(2)	398,619	-	-	-	-	398,619
FNMA	FNMA	Matures 11/01/25	3138E2TA3	(2)	1,320	-	-	-	-	1,320
Pledged securities held by Ambank; held in the name of the Medical Center										
Belen Schools	MUNI	Matures 08/01/2017	077581MM5	(1)	$ -	$ 103,553	$ -	$ -	$ -	$ 103,553
Clovis NM MSD	MUNI	Matures 08/01/2023	189414HL2	(1)	-	541,620	-	-	-	541,620
Clovis NM MSD	MUNI	Matures 08/01/2028	189414KJ3	(1)	-	752,647	-	-	-	752,647
SBAP 2014-10D1	FNMA	Matures 09/12/2015	83162CWJ8	(2)	-	470,036	-	-	-	470,036
MBS GNMA2	MUNI	Matures 03/20/2027	36202F5C6	(1)	-	655,171	-	-	-	655,171
Hobbs Schools	MUNI	Matures 04/15/2019	433866DB3	(1)	-	105,844	-	-	-	105,844
Los Lunas NM Dist 1	MUNI	Matures 07/15/2018	545562PE4	(1)	-	423,632	-	-	-	423,632
Lovington, NM	MUNI	Matures 10/01/2019	547473CK2	(1)	-	103,723	-	-	-	103,723
Lovington, NM	MUNI	Matures 09/01/2021	547473CZ9	(1)	-	103,214	-	-	-	103,214
San Juan Cty, NM	MUNI	Matures 08/01/2017	798359HP3	(1)	-	209,276	-	-	-	209,276
San Juan Cty, NM	MUNI	Matures 08/01/2016	798359JE6	(1)	-	152,339	-	-	-	152,339
Santa FE	MUNI	Matures 08/01/2016	801901JC4	(1)	-	258,975	-	-	-	258,975
Sthrn Sandoval CO	MUNI	Matures 08/01/2017	843789DW5	(1)	-	100,364	-	-	-	100,364
Torrance ETC Cty	MUNI	Matures 05/15/2018	891400NE9	(1)	-	405,424	-	-	-	405,424

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Pledged Collateral — continued
For the Year Ended June 30, 2015

Account		Maturity	CUSIP		Wells Fargo Bank, NA	Ambank	Compass Bank	First Savings Bank	First NM Bank	Total
Pledged securities held by First Savings Bank; held in the name of the Medical Center										
MBS FNMA 10 yr	MUNI	Matures 04/15/18	31371NGQ2	(1)	$ -	$ -	$ -	$ 1,000,000	$ -	$ 1,000,000
FNR-2010-135-CH	FNMA	Matures 04/25/40	31398SN66	(2)	-	-	-	200,000	-	200,000
GRR 2009-55 HC	GNMA	Matures 06/20/2039	38374VPS2	(2)	-	-	-	100,000	-	100,000
GNR 2011-4MD	MUNI	Matures 11/20/2038	38377TBL4	(1)	-	-	-	250,000	-	250,000
FHLMC	FHLMC	Matures 03/01/2023	3128MDNT6	(2)	-	-	-	200,000	-	200,000
GNR 2010-115 QG	FNMA	Matures 11/20/2038	38377KKM1	(2)	-	-	-	150,000	-	150,000
MBS FNMA 10-yr	FNMA	Matures 04/01/24	314188BB54	(2)	-	-	-	200,000	-	200,000
MBS FNMA 15 yr	FNMA	Matures 02/01/27	3138E4X71	(2)	-	-	-	1,400,000	-	1,400,000
MBS GNMA 10yr	MUNI	Matures 03/15/27	36176XE21	(1)	-	-	-	100,000	-	100,000
US Bank	MUNI	Matures 02/01/18	687119LR6	(1)	-	-	-	100,000	-	100,000
FNMA 15yr	MUNI	Matures 11/01/27	3138MJWW5	(1)	-	-	-	200,000	-	200,000
FHLMC 15yr	FNMA	Matures 06/01/28	31307DB62	(1)	-	-	-	250,000	-	250,000
MBS FHLMC	FNMA	Matures 03/01/23	31307BJW1	(1)	-	-	-	200,000	-	200,000
GRR 2011-43-E	MUNI	Matures 12/20/2040	3877UMA3	(1)	-	-	-	350,000	-	350,000
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
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

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Pledged Collateral — continued
For the Year Ended June 30, 2015

Account		Maturity	CUSIP		Wells Fargo Bank, NA	Ambank	Compass Bank	First Savings Bank	First NM Bank	Total
Line of Credit at Compass Bank, held in the name of the Medical Center										
Irrevocable Letter of Credit No 64387 (expires 3/4/2016)					$ -	$ -	$ 1,700,000	$ -	$ -	$ 1,700,000
Total pledged collateral					4,260,593	4,385,818	1,700,000	4,700,000	1,535,000	16,581,411
Amount over collateralized for 50% requirement					$ 1,755,964	$ 1,791,419	$ 153,245	$ 2,671,237	$ 1,153,199	$ 7,525,064
Repurchase Agreement										
Amount of repurchase agreement					$ 7,912,128					
Required collateralization - 102% of uninsured portion					8,070,371					
Pledged securities held by Wells Fargo Bank, NA held in the name of the Medical Center	FNMA	Matures 02/01/2039	36202E2A6	(2)	8,070,371					
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, 2015

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Deposit Accounts						
Wells Fargo	GRMC	Checking	$ 2,610,887	$ 48,421	$ 328,299	$ 2,331,009
Wells Fargo	GRMC	Checking	57,364	-	3,236	54,128
			2,668,251	48,421	331,535	2,385,137
Cash on hand		Petty cash	2,100	-	-	2,100
			2,670,351	48,421	331,535	2,387,237
Investment Pool						
State Treasurer's Local Government Investment Pool		Investment pool	1,060	-	-	1,060
			1,060	-	-	1,060
Certificates of Deposit						
Wells Fargo	GRMC	Certificates of Deposit	2,591,007	-	-	2,591,007
AM Bank	GRMC	Certificates of Deposit	5,438,798	-	-	5,438,798
Compass Bank	GRMC	Certificates of Deposit	3,343,509	-	-	3,343,509
First Savings Bank	GRMC	Certificates of Deposit	4,307,526	-	-	4,307,526
First New Mexico Bank	GRMC	Certificates of Deposit	1,013,602	-	-	1,013,602
			16,694,442	-	-	16,694,442
Repurchase Agreement						
Wells Fargo	Sweep	Repurchase	7,912,128	-	-	7,912,128
Total deposits and investments			$ 27,277,980	$ 48,421	$ 331,535	$ 26,994,867

Gila Regional Medical Center
(A Component Unit of Grant County)
Schedule of Vendor Information
For the Year Ended June 30, 2015

RFB#/RFP#	Type of Procurement	Awarded Vendor	$ Amount of Awarded Contract	$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded	In-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
N/A	RFP	Argyle Welding Supply Co	$ 89,301	N/A	550 N.Telshore, Las Cruces, NM 88011	Y	N	Oxygen Tanks & Tank Leases
N/A	Sole Source	Carefusion Solutions LLC	$ 251,827	N/A	22745 SaviRanch,Yorba Linda, CA	N	N	Pyxis Dispensers
N/A	RFP	Carestream Health Inc G0	$ 95,810	N/A	150 Verona St, Rochester, NY 14608	N	N	Equpments Service Contracts
N/A	RFP	Century Link G00038646	$ 174,079	N/A	PO Box 29040, Phoenix, AZ 85038	N	N	Communications
N/A	Sole Source	EN Pointe Technologies Sa	$ 77,661	N/A	18701 S.Figueroa, Gardena, CA 90248	N	N	Software
N/A	Sole Source	GE Medical Systems G0099	$ 328,862	N/A	384 Wright Brothers, SaltLake City,UT	N	N	Equipment Leases
N/A	Sole Source	Gila Multispecialty IPA L	$ 1,129,026	N/A	PO Box 2158, Silver City, NM 88061	Y	N	Physician On Call Fees
N/A	RFP	Innova Emergency Medical	$ 527,891	N/A	700 N. Colorado, Denver CO 80206	N	N	Er Physicians
N/A	Sole Source	INX LLC, A Presidio Compa	$ 95,466	N/A	7601 Ora Glen Drive, Ste 100 Greenbelt, MD 20770	N	N	It Equipment
N/A	Sole Source	Lumenate Technologies, Lp	$ 65,847	N/A	16633 Dallas Pkwy, Addison TX 75001	N	N	Service Contract for Meditech 6.1
N/A	RFP	Truven Health Anlytics, I	$ 64,866	N/A	777 E Eisenhower Parkway Ann Arbor, MI 48108	N	N	Subscription Agreement-Care Discovery Quality Measures
N/A	Sole Source	Zynx Health, Inc. G00992	$ 165,000	N/A	10880 Wilshire Blvd, Suite 1450 Los Angeles, CA 90024	N	N	IT License Agreement-Zynx Inside

Independent Auditor's 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. Tim Keller, 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 and budgetary comparisons of Gila Regional Medical Center (the "Medical Center"), a component unit of Grant County, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements and related budgetary comparisons of the Medical Center, presented as supplementary information, and have issued our report thereon dated October 2, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 as item 2015-001 in the accompanying schedule of findings and responses 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 as item 2015-002 in the accompanying schedule of findings and responses 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 from 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2015-003.

The Medical Center's Response 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

REDW LLC

Phoenix, Arizona
October 2, 2015

Gila Regional Medical Center

(A Component Unit of Grant County)
Schedule of Findings and Responses
For the Year Ended June 30, 2015

2015-001 — Analysis of Certain Balance Sheet Accounts – Material Weakness

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Criteria or Specific Requirement: Timely and accurate information should be available to management and those charged with governance to make decisions. To promote this, general ledger accounts should be analyzed throughout the year and at year-end for accurate financial presentation.

Condition: Significant adjusting journal entries were required after the accounting records were closed at year-end in the following areas:

- Safety Net Care Pool (SNCP) receivable balances were understated as of June 30, 2015. The net effect of these adjustments on 2015 revenue totaled $2,486,921.
- Meaningful Use incentive receivables were overstated by $213,387.
- Third-party payor settlement liabilities were understated by $258,512.

Cause: There was turnover in certain management positions during the year which resulted in modifications for how SNCP revenues and receivables were treated. At the end of fiscal year 2015, no analysis was completed on the receivable and liability balances to determine if the amounts reported were accurate.

Effect: There were significant errors in the financial statements, which were corrected through adjustments after the accounting records were closed.

Auditor Recommendation: The Medical Center should establish and monitor a schedule for monthly and annual account reconciliations. The Medical Center should analyze all balance sheet accounts on a regular basis to ensure that balances are accurately presented.

Management Response: Management agrees that timely and accurate analysis of all general ledger accounts must be done on a monthly basis, which is our current practice, as an analysis is completed on all balances at both month end and year-end to determine accuracy. The Safety Net Care Pool is a relatively new program with uncertainty about the reconciliation process as the Uncompensated Care application is prepared with data that lags two years behind the payment year, i.e. Calendar Year 2015 funding is based upon Medicare Cost Report data from Fiscal Year 2013. Due to this uncertainty, management made the decision to reserve the amount of approximately $2.5 million as a total potential offset for any reconciliation. Without a reserve, any potential recoupment will be an expense in the year in which the reconciliation is calculated rather than the year in which the overpayment was received.

The Meaningful Use Incentive receivable reflected a project that is underway to recover increases in payments for the Electronic Health Record, but although there is a potential to receive as much as $400,000, this is not a firm commitment at this time.

2015-001 — Analysis of Certain Balance Sheet Accounts – Material Weakness — continued

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Management Response — continued: The FY 2013 Medicaid Cost Report was under review in February 2015 at which time there was turnover in both the management and consulting positions and although the review was completed, the workpapers received and the acknowledgement signed, the final settlement was not received and therefore not paid or recouped. It was the understanding of management and the Consultant that this had been settled and there was no further liability recorded. Arrangements have been made to ensure there is more than one contact person for communications from the Centers for Medicare and Medicaid and tracking of information relating to financial consequences of Cost Report settlements is shared and readily available.

Additionally, all Balance Sheet accounts will be reviewed at the monthly Administrative Financial Review for a more complete analysis engaging all management functions and enhancing communication of financial status.

2015-002 - Policy for Estimating Allowances – Significant Deficiency

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Criteria or Specific Requirement: The Medical Center should estimate its allowances for doubtful patient accounts receivable based on a board approved methodology. The estimation should be based on a recent historical analysis of collections.

Condition: The formal policy for calculating allowances has not been updated to reflect current practices. Furthermore, while the contractual allowances are based on historical collection data, bad debt allowances are not. Bad debt allowances are calculated simply at 100% of all balances older than 120 days with the exception of self-pay, which is based on a graduated scale.

Cause: The Medical Center has experienced turnover in the finance and patient financial services departments which resulted in a lack of documentation of the updated and improved processes around estimating bad debts. Further, management has not recently conducted a formal study to identify the historical trends of receivable collections to better estimate bad debts.

Effect: Failure to implement effective policies and procedures could increase ambiguity in how amounts are calculated and negatively impact the hospital. Not having a formalized policy may create disagreements in how estimations should be calculated. Not using historical data as a means for estimating bad debts may result in the Medical Center over/under reserving receivable balances.

Auditor's Recommendations: Management should create a patient accounts receivable allowance policy which incorporates the results of a historical trend analysis to ensure institutional knowledge is retained and the reserve balances reflect best estimates.

Management's Response: The Medical Center currently has in place a Policy and Procedure approved August 24, 2005 for "Calculation of Bad Debt Allowance" which outlines a sliding scale for reserving for uncollectible accounts aged less than 121 days as well as a percentage allowance for all accounts older than 121 days. This policy has been followed for each monthly allowance calculation with the exception of increasing all allowances for insurances to 100% of any accounts over 121 days and increasing the percentage of Self Pay Bad Debts from 80% to 85%, which reflects a more conservative approach to allowances that management considers appropriate. All insurance accounts are tracked with internal logs which calculate a cumulative percentage of collections, but not an analysis of collections by

2015-002 - Policy for Estimating Allowances – Significant Deficiency — continued

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Management's Response — continued:

aging of accounts. The Medical Center lacks the reporting capability to track allowance percentages collected for aging of Bad Debts. The Meditech upgrade is under review to determine if a solution to tracking payment percentages by aging of accounts is available to give us the data to do this analysis. The Policy and Procedure for Calculation of Bad Debt Allowance is under revision and a Policy and Procedure for Calculation of Insurance Allowances is to be developed. The updated Bad Debt and Contractual Allowance Policies will be followed in the preparation of the Contractual Adjustment and Bad Debt Allowance worksheet used to calculate the required allowance and associated expense write off for each month. This worksheet is also submitted to the Finance Committee as a part of the monthly financial packet.

2015-003 — Per Diem Reimbursements — Other Noncompliance

Criteria or Specific Requirement: According to the Travel and Per Diem Act (Section 10-8-4(k)(2), actual expenses for meals are not to exceed $30 per day for in state travel and $45 per day for out-of-state travel.

Condition: Of the five travel reimbursements tested, three had food reimbursement overages totaling $338.44. The total reimbursement should have been $225 but was $563.44.

Cause: The Medical Center did not have proper controls surrounding reimbursements in accordance with the Travel and Per Diem Act.

Effect: The Medical Center is out of compliance with the Travel and Per Diem Act.

Auditor's Recommendations: Improve controls surrounding reimbursement to ensure compliance with laws and regulations.

Management's Response: The Medical Center has had a detailed Travel Policy and Procedure for reimbursement of actual expenses in place for more than 20 years which has been audited multiple times with only one minor issue. The reimbursements tested were in compliance with that Policy and Procedure. However, as it has come to our attention that as a component unit of Grant County, the Medical Center must comply with the NM State Travel and Per Diem Act, the current Travel Policy is under review with the intent to become compliant with applicable law as soon as possible.

Gila Regional Medical Center

(A Component Unit of Grant County)
Current Status Schedule of Prior Years' Audit Findings
For the Year Ended June 30, 2015

Prior-Year Number	Description	Current Status
2014-001	Journal Entry Review and Approval – Significant Deficiency	Resolved. The Medical Center has implemented mitigating controls to ensure the journal entry preparer and reviewer duties are properly segregated.
2014-002	Capital Asset Inventory — Other	Resolved. Internal accounting records agreed to the capital asset listing.
2014-003	Segregation of Duties- Other	Resolved. The Medical Center has implemented controls to ensure proper segregation in the accounts payable function.

Gila Regional Medical Center
(A Component Unit of Grant County)
Other Disclosures
For the Year Ended June 30, 2015

Exit Conference
A closed meeting exit conference was held with the Medical Center on September 25, 2015, in Silver City, New Mexico with the following attending:

Gila Regional Medical Center	
Charles Kelly	Chair of the Board of Trustees
Freddie Rodriguez	Vice-Chair of the Board of Trustees
Jeremiah Garcia	Secretary/Treasurer of the Board of Trustees
Tony Trujillo	Board Member
Donald Stinar, MD	Board Member
Victor Nwachuku, MD	Board Member
Brian Cunningham	Chief Executive Officer
Dan Otero	Chief Administrative Officer
Jed Rudd	Chief Operating Officer
Mike Rolph	Interim Chief Financial Officer
Beth Allred	Controller
Peggy White	Chief Nursing Officer
Jerry Hammond	Patient Financial Services Director
Holley Hudgins	Cancer Center Director & Surgical Services
Gregory Koury, MD	Chief of Staff
REDW LLC	
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.