

**Gila Regional Medical Center
A Component Unit of
Grant County, New Mexico**

Basic Financial Statements, Supplemental Information,
and Independent Auditors' Reports

June 30, 2016 and 2015



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
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INTRODUCTORY SECTION

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Board of Trustees and Principal Employees
June 30, 2016

Board of Trustees

Jeremiah Garcia	Chairperson
Victor Nwachuku, MD	Vice Chairperson
Magdaleno Manzanarez,	Secretary/Treasurer
Antonio Trujillo	Member
Tsering Sherpa, MD	Member
Michael Morones, CPA	Member
Joel Schram	Member

Principal Employees

Brian Cunningham	Chief Executive Officer
Michael Metts	Chief Financial Officer
Peggy White	Chief Nursing Officer

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees and Management of
Gila Regional Medical Center and
Mr. Timothy Keller, New Mexico State Auditor
Silver City, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Gila Regional Medical Center, a component unit of Grant County, New Mexico (the Medical Center) as of and for the year ended June 30, 2016, 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 schedule of revenues and expenses – budget to actual of the Medical Center for the year ended June 30, 2016, presented as supplemental information 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit 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 auditors consider 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 opinion.

Opinion

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, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the schedule of revenues and expenses – budget to actual of the Medical Center for the year ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the June 30, 2015, financial statements have been restated to correct Safety Net Care Pool (SNCP) program settlements. Our opinion is not modified with respect to this restatement.

Other Matters

Prior Year (June 30, 2015) Auditors' Report

The financial statements of the Medical Center as of and for the year ended June 30, 2015, were audited by REDW, and whose report dated October 2, 2015, expressed an unmodified opinion of those financial statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 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 an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements and schedule of revenues and expenses – budget to actual. The schedule of pledged collateral and schedule of individual deposit and investment accounts are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of pledged collateral and schedule of individual deposit and investment accounts are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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.

The schedule of vendor information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2016, 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 for the year ended June 30, 2016. REDW issued a similar report for the year ended June 30, 2015, dated October 2, 2015, which has not been included with the 2016 financial and compliance report. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing for each year, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are 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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 5, 2016

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management's Discussion and Analysis
Years Ended June 30, 2016 and 2015

Our discussion and analysis of Gila Regional Medical Center's, a component unit of Grant County, New Mexico (the Medical Center) financial performance provides an overview of the Medical Center's financial activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the Medical Center's financial statements, which begin on page 10.

Financial Highlights

- The Medical Center's net position decreased in 2016 by \$4,309,371 or 7.1% and decreased in 2015 by \$3,103,259 or 4.9%.
- In 2016, the Medical Center reported an increase in operating loss of \$1,223,604 from the loss reported in 2015. The operating loss in 2015 increased by \$2,324,067 over the loss reported in 2014.
- Nonoperating net revenues increased by \$17,492 or 23.3% in 2016 compared to 2015. Nonoperating net revenues increased by \$215,399 or 153.6% in 2015 compared to 2014.

Using This Annual Report

The Medical Center's financial statements consist of three statements — a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Medical Center, including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the Medical Center finances begins on page 6. One of the most important questions asked about the 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 Statement of Net Position and Statement 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. 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 it. You can think of the Statement of Net Position — the difference between assets and liabilities — as one way to measure the Medical Center's financial health, or financial position. The Statement of Revenues, Expenses, and Changes in Net Position tells the reader if the Medical Center had a profitable year or operated at a loss. Over time, increases or decreases in the Medical Center's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Medical Center's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as, "Where did cash come from? What was cash used for? What was the change in cash balance during the reporting period?"

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015

The Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the Statement of Net Position, on page 10. The Medical Center's net position decreased by \$4,309,371 or 7.1% and \$3,103,259 or 4.9% in 2016 and 2015, respectively, as shown in Table 1.

A significant component of the change in the Medical Center's assets is the decrease in current assets. In 2016, current assets decreased by \$5,925,579. Total assets for 2016 decreased \$2,850,876 from 2015. Total assets for 2016 consist primarily of cash and certificates of deposit, net patient accounts receivable, and net capital assets. Total liabilities have increased by \$1,458,495 over the last year due mainly to an increase in SNCP program payable.

Table 1. Net Position

	2016	2015	2014
<i>Assets</i>			
Current assets	\$ 34,843,356	\$ 40,768,935	\$ 40,565,171
Capital assets, net	33,145,043	30,070,340	30,267,136
Other noncurrent assets	136,416	136,416	136,416
Total assets	\$ 68,124,815	\$ 70,975,691	\$ 70,968,723
Total current liabilities	\$ 11,554,388	\$ 10,095,893	\$ 6,985,666
<i>Net position</i>			
Net investment in capital assets	33,145,043	30,070,340	30,267,137
Unrestricted	23,425,384	30,809,458	33,715,920
Total net position	56,570,427	60,879,798	63,983,057
Total liabilities and net position	\$ 68,124,815	\$ 70,975,691	\$ 70,968,723

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015

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

In 2016, the Medical Center's operating loss increased by \$1,223,604. This is the result of total operating revenues increasing by \$2,788,526 and total operating expenses increasing by \$4,012,130 in 2016 as compared to 2015. In comparison to the results for 2015, these large changes explain the result for 2016: An increase in net patient service revenue of \$1,329,809, an increase in SNCP program revenues of \$1,285,244, an increase in salaries, wages, and employee benefits expense of \$1,878,124, and an increase in professional fees and purchased services expense of \$3,249,096. In 2015, the Medical Center's operating loss increased by \$2,324,067 compared to 2014.

Table 2. Operating Results and Changes in Net Position

	2016	2015	2014
<i>Operating revenues</i>			
Net patient service revenue, net of provision for bad debts	\$ 65,396,033	\$ 64,066,224	\$ 65,212,228
Safety net care pool	4,813,764	3,528,520	-
Grants and contributions	603,423	667,242	795,893
Other	751,018	513,726	1,287,139
Total operating revenues	71,564,238	68,775,712	67,295,260
<i>Operating expenses</i>			
Salaries, wages, and employee benefits	38,329,856	36,451,732	36,028,972
Professional fees and purchased services	16,086,892	12,837,796	10,336,879
Supplies	10,566,956	11,219,132	10,553,013
Depreciation	3,175,151	3,434,390	3,343,335
Other operating expenses	7,807,409	8,011,084	7,887,416
Total operating expenses	75,966,264	71,954,134	68,149,615
<i>Operating loss</i>	(4,402,026)	(3,178,422)	(854,355)
<i>Nonoperating revenues (expenses)</i>			
Interest income	80,771	111,174	78,768
Gain (loss) on disposal of capital assets	11,884	(36,011)	(219,004)
Total nonoperating revenues (expenses), net	92,655	75,163	(140,236)
Capital grants	-	-	2,250,000
Change in net position	(4,309,371)	(3,103,259)	1,255,409
Net position, beginning of year	60,879,798	63,983,057	62,727,648
Net position, end of year	\$ 56,570,427	\$ 60,879,798	\$ 63,983,057

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015

Analysis of Financial Position, Results of Operations, Nonoperating Activities, and Cash Flows

During the year operating revenues increased \$2,788,526 or 4.1%. Operating expenses increased in the amount of \$4,012,130 or 5.6%. The operating revenues for the Medical Center are separated into three categories:

- Net patient service revenue increased \$1,329,809 or 2.1% due to certain patient volumes and the addition of a surgery service and a family practice clinic.
- Safety Net Care Pool (SNCP) program revenue increased by \$1,285,244 or 36.4% due to an adjustment in fiscal year 2015 created by significant changes in the SNCP program made by the New Mexico Human Services Department.
- Other operating revenues for fiscal year 2016 increased by \$237,292 or 46.2% from fiscal year 2015.

Consistent with the healthcare industry nationally, as well as in New Mexico, wages, payroll taxes, and employee benefits are typically the highest individual expense line items. Salaries, wages, and employee benefits increased in 2016 by \$1,878,124 or 5.2%. This increase is based on increases in the full-time equivalents, and the increased use of contract staff needed to cover staffing shortages. The healthcare labor market is very competitive and healthcare providers must continually increase their salary and wage scales in order to attract, and then retain, caregivers. This represents an ongoing pressure on the operating results of providers.

Table 3. Budget to Actual

	Actual	Approved Budget	Favorable (Unfavorable) Variance
Budgetary basis revenues	\$ 71,656,893	\$ 73,843,656	\$ (2,186,763)
Budgetary basis expenses	75,966,264	73,655,539	(2,310,725)
Excess of revenues over expenses (expenses over revenues)	\$ (4,309,371)	\$ 188,117	\$ (4,497,488)

Actual results compare unfavorably to budgeted amounts for the Medical Center due to actual revenues being \$2,186,763 less than budgeted, while actual expenses were \$2,310,725 more than budgeted. This results in an unfavorable variance of \$4,497,488 with excess of expenses over revenues being \$4,309,371 as compared to budgeted excess of revenues over expenses of \$188,117, as shown in Table 3.

Capital Asset

At the end of 2016, the Medical Center had \$33,145,043 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the basic financial statements. In 2016, the Medical Center purchased new assets costing \$6,250,112. The majority of the additions are related to expenditures for equipment and construction in progress for the Meditech conversion.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2016 and 2015

Currently Known Facts, Decisions, and Conditions

The healthcare industry is subject to a tremendous amount of regulatory activity related to the provision of services as well as the billing for such services. Many different regulatory agencies establish standards that the Medical Center must meet in order to continue operating. The costs involved with meeting constantly changing regulations can create a costly burden for the Medical Center. However, the costs of not meeting such regulations are potentially far greater. Significant penalties are assessed, for example, when fraud and/or abuse, either intentional or unintentional, are noted in billings submitted to Medicare or Medicaid. There has been no such activity detected at the Medical Center.

There will continue to be significant pressure on net patient service revenues in the future. Changes in the Medicare and Medicaid programs and the possible reduction of funding could have an adverse impact on the Medical Center. Negotiations with other third-party payors regarding payment for services provided to these payors' insured members are critical to maintaining the Medical Center's financial position. These third-party payors are facing increasing pressures on their own operating results. In addition, the costs of providing care to uninsured patients are significant due to the high percentage of such patients within New Mexico. Economic conditions in Silver City and the surrounding area can have a direct impact on the Medical Center's operating results.

Healthcare expenditures are expected to continue representing a greater percentage of the Gross National Product. The costs related to salaries, wages, payroll taxes, and employee benefits will continue to increase due to what is expected to be continued intense competition for caregivers and qualified administrative personnel. Pharmaceutical and medical supply costs are also expected to continue to increase.

Contacting the Medical Center's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the administration department at 1313 East 32nd Street, Silver City, New Mexico 88061.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Statements of Net Position
June 30, 2016 and 2015

ASSETS	2016	2015
<i>Current assets</i>		
Cash and cash equivalents	\$ 6,112,394	\$ 10,300,425
Certificates of deposit	16,766,297	16,694,442
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$4,998,000 and \$5,021,000, respectively	9,038,849	9,657,529
Grants receivable	77,401	175,014
Other receivables	17,810	159,602
Inventories	2,202,314	2,353,567
Prepaid expenses	628,291	1,428,356
Total current assets	34,843,356	40,768,935
<i>Noncurrent assets</i>		
Capital assets, net	33,145,043	30,070,340
Art collection	136,416	136,416
Total noncurrent assets	33,281,459	30,206,756
Total assets	\$ 68,124,815	\$ 70,975,691
LIABILITIES AND NET POSITION		
<i>Current liabilities</i>		
Accounts payable	\$ 4,525,822	\$ 3,765,072
Accrued compensation and related liabilities	763,750	1,594,604
Accrued compensated absences	2,077,711	1,983,390
Safety net care pool payable	3,699,813	2,014,315
Estimated third-party payor settlements payable	487,292	738,512
Total current liabilities	11,554,388	10,095,893
<i>Net position</i>		
Net investment in capital assets	33,145,043	30,070,340
Unrestricted	23,425,384	30,809,458
Total net position	56,570,427	60,879,798
Total liabilities and net position	\$ 68,124,815	\$ 70,975,691

See accompanying notes to basic financial statements.

Gila Regional Medical Center

A Component Unit of Grant County, New Mexico

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended June 30, 2016 and 2015

	2016	2015
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$4,638,840 and \$7,825,936, respectively	\$ 65,396,033	\$ 64,066,224
Safety net care pool	4,813,764	3,528,520
Grants and contributions	603,423	667,242
Other	751,018	513,726
Total operating revenues	71,564,238	68,775,712
<i>Operating expenses</i>		
Salaries and wages	30,804,855	29,136,235
Employee benefits	7,525,001	7,315,497
Professional fees	13,080,942	9,913,464
Purchased services	3,005,950	2,924,332
Supplies	10,566,956	11,219,132
Utilities	1,166,131	1,201,492
Repairs and maintenance	2,669,998	2,388,116
Leases and rentals	1,785,211	1,699,109
Depreciation	3,175,151	3,434,390
Insurance	656,422	777,863
Other	1,529,647	1,944,504
Total operating expenses	75,966,264	71,954,134
Operating loss	(4,402,026)	(3,178,422)
<i>Nonoperating revenues (expenses)</i>		
Interest income	80,771	111,174
Gain (loss) on disposal of capital assets	11,884	(36,011)
Total nonoperating revenues, net	92,655	75,163
Change in net position	(4,309,371)	(3,103,259)
Net position, beginning of year	60,879,798	63,983,057
Net position, end of year	\$ 56,570,427	\$ 60,879,798

See accompanying notes to basic financial statements.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 65,763,492	\$ 64,809,907
Receipts from safety net care pool	6,499,262	7,499,129
Receipts from grants and contributions	701,036	2,882,786
Electronic health records system incentive receipts	-	284,516
Receipts from other revenue	892,810	893,571
Payments to and on behalf of employees	(39,066,389)	(36,268,968)
Payments to suppliers and contractors	(32,749,188)	(32,322,368)
Net cash provided by operating activities	2,041,023	7,778,573
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(6,250,113)	(3,397,729)
Proceeds from disposal of capital assets	12,143	124,125
Net cash used in capital and related financing activities	(6,237,970)	(3,273,604)
<i>Cash flows from investing activities</i>		
Purchase of investments	(71,855)	(51,655)
Interest received	80,771	111,174
Net cash provided by investing activities	8,916	59,519
Net increase (decrease) in cash and cash equivalents	(4,188,031)	4,564,488
Cash and cash equivalents, beginning of year	10,300,425	5,735,937
Cash and cash equivalents, end of year	\$ 6,112,394	\$ 10,300,425

See accompanying notes to basic financial statements.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Statements of Cash Flows (Continued)
Years Ended June 30, 2016 and 2015

	2016	2015
<i>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities</i>		
Operating loss	\$ (4,402,026)	\$ (3,178,422)
<i>Adjustments to reconcile operating loss to net cash provided by operating activities</i>		
Depreciation	3,175,151	3,434,390
Provision for bad debts	4,638,840	7,825,936
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(4,020,160)	(7,470,765)
Electronic health records system incentive	-	284,516
Grants	97,613	2,215,544
Other	141,792	379,844
Inventories	151,253	(116,807)
Prepaid expenses	800,065	(662,184)
Increase (decrease) in liabilities:		
Accounts payable	760,750	524,636
Accrued compensation and related liabilities	(830,854)	60,038
Accrued compensated absences	94,321	122,726
Safety net care pool payable	1,685,498	3,970,609
Estimated third-party payor settlements payable	(251,220)	388,512
Net cash provided by operating activities	\$ 2,041,023	\$ 7,778,573

See accompanying notes to basic financial statements.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements
Years Ended June 30, 2016 and 2015

1. Reporting Entity and Summary of Significant Accounting Policies:

a. 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, New Mexico (the County) and the Board of County Commissioners appoints members to the Board of Trustees of the Medical Center. The Medical Center provides inpatient, outpatient, and emergency care services to patients in the Grant County area.

The Medical Center has a management advisory services agreement with Quorum Health Resources (QHR), a healthcare management company, effective through July 31, 2019. Management fees, included in professional fees, approximated \$50,000 and \$45,000 in 2016 and 2015, 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 exceed \$2,500 without prior written approval.

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.

b. Summary of Significant Accounting Policies

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those estimates.

Enterprise fund accounting – The Medical Center's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The Hospital uses enterprise fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include business checking accounts maintained with local financial institutions, cash on hand, and investments in highly liquid debt instruments with an original maturity of three months or less.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Inventories – Inventories consist primarily of medical and pharmaceutical supplies and are stated at the lower of cost (using the first-in, first-out method) or market value.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

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 statements of net position dates plus an additional amount for compensation-related payments, such as social security and Medicare taxes computed, using rates in effect at that date.

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

Restricted resources – When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it is the Medical Center’s policy to use restricted resources before unrestricted resources.

Net position – Net position of the Medical Center is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

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.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Operating revenues and expenses – The Medical Center’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the Medical Center’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Grants and contributions – From time to time, the Medical Center receives grants from governmental and nongovernmental entities, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. Grants that are for specific projects, or purposes related to the Medical Center’s operating activities, are reported as operating revenue. Grants that are used to subsidize operating deficits are reported as nonoperating revenue. Contributions, except for capital contributions, are reported as nonoperating revenue.

Change in accounting policies – Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurements and Application*, is effective for years beginning after June 15, 2015 (fiscal year ended June 30, 2016, for the Medical Center). The statement establishes new requirements on how fair value should be measured, which assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. The adoption of this statement has no impact on change in net position.

Reclassifications – Certain reclassifications have been made to the 2015 financial statements to conform with the classifications used in the 2016 financial statements with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through October 5, 2016, the date on which the financial statements were available to be issued.

2. Prior Year Restatement:

The Medical Center has restated its 2015 financial statements to correct SNCP program settlements. The Medical Center’s change in net position for 2015 decreased by \$3,837,578 as a result of this restatement. The impact on the June 30, 2015, net position balance is as follows:

Net position at June 30, 2015, as previously reported	\$ 64,717,376
<u>Correction of safety net care pool settlements</u>	<u>(3,837,578)</u>
Net position at June 30, 2015, as restated	\$ 60,879,798

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

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, 2016 and 2015, the Medical Center was in compliance with the state collateralization requirements.

As of June 30, 2016, the Medical Center had deposits with a bank balance of \$23,095,756, of which \$6,764,153 was uninsured and uncollateralized, and therefore subject to custodial credit risk. 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.

The Medical Center has a Letter-of-Credit (LOC) issued by the Federal Home Loan Bank of Atlanta in the amount of \$1,700,000. This LOC has been pledged by BBVA Compass Bank to collateralize uninsured deposits. As of June 30, 2016, the LOC has not been drawn on. The LOC expires March 4, 2017.

State Treasurer’s Investment Pool – The Medical Center may legally invest in direct obligations of and other obligations guaranteed as to principal by the United States (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.

Fair value – The Medical Center categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Medical Center’s certificates of deposit are value using quoted market prices (Level 2 input).

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

3. Deposits and Investments (continued):

The Medical Center's investments are as follows:

	2016					
	Fair Value	Investment Maturities (in Years)			Investment Ratings	
		Less Than One	One to Five	Six to Ten	More than Ten	
Repurchase agreement	\$ 2,536,698	\$ 2,536,698	\$ -	\$ -	\$ -	Not applicable
New MexiGROW Local Government Investment Pool	1,063	1,063	-	-	-	AAAm
Certificates of deposit	16,766,297	16,766,297	-	-	-	Not applicable
Total investments	\$ 19,304,058	\$ 19,304,058	\$ -	\$ -	\$ -	

	2015					
	Fair Value	Investment Maturities (in Years)			Investment Ratings	
		Less Than One	One to Five	Six to Ten	More than Ten	
Repurchase agreement	\$ 7,912,128	\$ 7,912,128	\$ -	\$ -	\$ -	Not applicable
New MexiGROW Local Government Investment Pool	1,060	1,060	-	-	-	AAAm
Certificates of deposit	16,694,442	16,694,442	-	-	-	Not applicable
Total investments	\$ 24,607,630	\$ 24,607,630	\$ -	\$ -	\$ -	

The repurchase agreement was collateralized at 102% at June 30, 2016 and 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 deposit and repurchase agreements with maturities of less than one year.

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of credit risk – The Medical Center places no limit on the amount that may be invested in any one issuer.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

3. Deposits and Investments (continued):

Reconciliation to the statements of net position – The carrying values of deposits and investments in the statements of net position are as follows:

	2016	2015
Carrying value		
Deposits	\$ 3,574,633	\$ 2,387,237
Investments and New MexiGROW Local Government Investment Pool	19,304,058	24,607,630
	\$ 22,878,691	\$ 26,994,867
Included in the following statements of net position captions		
Cash and cash equivalents	\$ 6,112,394	\$ 10,300,425
Certificates of deposit	16,766,297	16,694,442
	\$ 22,878,691	\$ 26,994,867

4. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the Medical Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Medical Center analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Medical Center records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Medical Center's allowance for uncollectible accounts for self-pay patients has not changed significantly from prior years. The Medical Center does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

4. Patient Accounts Receivable (continued):

Patient accounts receivable reported as current assets by the Medical Center consisted of these amounts:

	2016	2015
Receivable from patients and their insurance carriers	\$ 10,520,988	\$ 10,649,462
Receivable from Medicare	1,990,441	2,494,256
Receivable from Medicaid	1,525,435	1,534,486
Total patient accounts receivable	14,036,864	14,678,204
Less allowance for uncollectible accounts	4,998,015	5,020,675
Net patient accounts receivable	\$ 9,038,849	\$ 9,657,529

5. Capital Assets:

The Medical Center capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of at least one year, in accordance with Section 12-6-10 NMSA 1978. Capital asset acquisitions are recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated or amortized (in the case of capital leases) by the straight-line method of depreciation using these asset lives:

Land improvements	15 to 20 years
Buildings	20 to 40 years
Equipment	3 to 10 years

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

5. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances were as follows:

	2016				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 2,231,455	\$ 4,176,261	\$ -	\$ (161,602)	\$ 6,246,114
Land	806,200	-	-	-	806,200
Total capital assets not being depreciated	3,037,655	4,176,261	-	(161,602)	7,052,314
<i>Capital assets being depreciated</i>					
Land improvements	577,465	-	-	-	577,465
Buildings	32,250,049	-	-	-	32,250,049
Equipment	27,148,861	2,073,851	(3,579,185)	161,602	25,805,129
Total capital assets being depreciated	59,976,375	2,073,851	(3,579,185)	161,602	58,632,643
<i>Less accumulated depreciation for</i>					
Land improvements	233,231	51,677	-	-	284,908
Buildings	14,969,438	862,286	-	-	15,831,724
Equipment	17,741,021	2,261,188	(3,578,927)	-	16,423,282
Total accumulated depreciation	32,943,690	3,175,151	(3,578,927)	-	32,539,914
Total capital assets being depreciated, net	27,032,685	(1,101,300)	(258)	161,602	26,092,729
Capital assets, net of accumulated depreciation	\$ 30,070,340	\$ 3,074,961	\$ (258)	\$ -	\$ 33,145,043

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

5. Capital Assets (continued):

	2015				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 246,169	\$ 2,064,760	\$ (79,474)	\$ -	\$ 2,231,455
Land	806,200	-	-	-	806,200
Total capital assets not being depreciated	1,052,369	2,064,760	(79,474)	-	3,037,655
<i>Capital assets being depreciated</i>					
Land improvements	577,465	-	-	-	577,465
Buildings	32,250,049	-	-	-	32,250,049
Equipment	30,998,044	1,332,781	(5,181,964)	-	27,148,861
Total capital assets being depreciated	63,825,558	1,332,781	(5,181,964)	-	59,976,375
<i>Less accumulated depreciation for</i>					
Land improvements	180,769	52,462	-	-	233,231
Buildings	14,107,153	862,285	-	-	14,969,438
Equipment	20,322,680	2,519,643	(5,101,302)	-	17,741,021
Total accumulated depreciation	34,610,602	3,434,390	(5,101,302)	-	32,943,690
Total capital assets being depreciated, net	29,214,956	(2,101,609)	(80,662)	-	27,032,685
Capital assets, net of accumulated depreciation	\$ 30,267,325	\$ (36,849)	\$ (160,136)	\$ -	\$ 30,070,340

In 2016, an analysis of the capital asset listing resulted in a \$3,579,185 writeoff for assets that were not in use as of June 30, 2016. The net book value of these assets was \$258. In 2015, an analysis of the capital asset listing resulted in a \$5,261,438 writeoff for assets that were not in use as of June 30, 2015. The net book value of these assets was \$160,136.

At June 30, 2016, construction in progress consisted primarily of the Medical Center's conversion to Meditech with an estimated cost to complete of approximately \$2,325,000. The conversion is expected to be completed in fiscal year 2017.

6. Commitments Under Operating Leases:

The Medical Center leases various buildings and equipment under operating leases with terms of one to four years.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

7. Noncurrent Liabilities:

A schedule of changes in the Medical Center's noncurrent liabilities is as follows:

	2016				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Compensated absences	\$ 1,983,390	\$ 2,655,971	\$ (2,561,650)	\$ 2,077,711	\$ 2,077,711
Total noncurrent liabilities	\$ 1,983,390	\$ 2,655,971	\$ (2,561,650)	\$ 2,077,711	\$ 2,077,711

	2015				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Compensated absences	\$ 1,860,664	\$ 3,311,485	\$ (3,188,759)	\$ 1,983,390	\$ 1,983,390
Total noncurrent liabilities	\$ 1,860,664	\$ 3,311,485	\$ (3,188,759)	\$ 1,983,390	\$ 1,983,390

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

8. Net Patient Service Revenue:

The Medical Center recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Medical Center recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Medical Center's patients will be unable or unwilling to pay for the services provided. Thus, the Medical Center records a significant provision for bad debts related to uninsured patients and the deductible and coinsurance portion of payments due from beneficiaries in the period the services are provided. The Medical Center's provisions for bad debts and writeoffs have decreased from the prior year due to Medicaid expansion. The Medical Center has not changed its charity care or uninsured discount policies during fiscal years 2016 or 2015. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2016	2015
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 21,193,969	\$ 23,282,912
Medicaid/Centennial Care	10,592,027	12,116,067
Other third-party payors	35,976,871	33,276,027
Patients	2,723,843	4,039,335
	70,486,710	72,714,341
Less:		
Charity care	451,837	822,181
Provision for bad debts	4,638,840	7,825,936
Net patient service revenue	\$ 65,396,033	\$ 64,066,224

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

- *Medicare* – Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Medical Center is reimbursed for some 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 administrative contractor.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

8. Net Patient Service Revenue (continued):

- *Medicaid/Centennial Care* – 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 healthcare to its members.

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 according to a patient classification system that is based on clinical, diagnostic, and other factors.

Behavioral services provided to Medicaid program beneficiaries are paid under a fee schedule methodology.

The Medical Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

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. The net patient service revenue decreased by approximately \$177,000 in 2016 and increased by approximately \$389,000 in 2015, due to differences between original estimates and final settlements or revised estimates.

The Medical Center provides charity care to patients who are financially unable to pay for the healthcare services they receive. The Medical Center's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the Medical Center does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The Medical Center determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries, wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended June 30, 2016 and 2015, were approximately \$172,000 and \$290,000, respectively. The Medical Center did not receive any gifts or grants to subsidize charity care services during 2016 and 2015. The SNCP program subsidizes services to uninsured patients and unreimbursed Medicaid costs.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

9. Retirement Plan:

The Medical Center contributes to a tax sheltered retirement plan covering all eligible employees. The name of the plan is Gila Regional Medical Center 403(b) Plan. 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 \$726,000 and \$615,000 for the years ended June 30, 2016 and 2015, respectively. Employee contributions to the plan were approximately \$993,000 and \$1,250,000 for 2016 and 2015, respectively. There are no stand-alone financial reports available to the public for the plan.

The plan is administered by the Medical Center. The Medical Center has the authority to amend the plan.

10. Risk Management and Contingencies:

Medical malpractice claims – The Medical Center has professional liability insurance coverage with Darwin Select Insurance Company. The policy provides protection on a "claims-made" basis whereby claims filed in the current year are covered by the current policy. If there are occurrences in the current year, these will only be covered in the year the claim is filed if claims-made coverage is obtained in that year or if the Medical Center purchases insurance to cover prior acts. The current professional liability insurance provides \$1,000,000 per claim of primary coverage with an annual aggregate limit of \$3,000,000. The policy has a \$50,000 deductible per claim.

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.

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditations, and government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues 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 together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Medical Center is in compliance with fraud and abuse statutes, as well as other applicable government laws and regulations.

While no regulatory inquiries have been made, 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.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2016 and 2015

11. Concentration of Risk:

Patient accounts receivable – The Medical Center grants credit without collateral to its patients, most of whom are local residents, and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in and around Grant County.

The mix of receivables from patients and third-party payors was as follows:

	2016	2015
Medicare	32 %	34 %
Medicaid/Centennial Care	22	21
Patients	21	23
Commercial and other	25	22
	100 %	100 %

Physicians – The Medical Center is dependent on local physicians in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or a change in their utilization patterns may have an adverse effect on the Medical Center’s operations.

SUPPLEMENTAL INFORMATION

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Pledged Collateral
June 30, 2016

	Wells Fargo, NA	BBVA Compass Bank	First American Bank	First New Mexico Bank	First Savings Bank
Deposits at June 30, 2016	\$ 6,388,845	\$ 3,366,559	\$ 5,452,175	\$ 1,015,430	\$ 4,336,049
Less: FDIC coverage	(250,000)	(250,000)	(250,000)	(250,000)	(250,000)
Uninsured public funds	6,138,845	3,116,559	5,202,175	765,430	4,086,049
Pledged collateral held by the pledging bank's trust department or agent held in the Medical Center's name	3,822,490	1,700,000	4,022,326	1,445,000	2,234,659
Total uninsured and uncollateralized public funds	\$ 2,316,355	\$ 1,416,559	\$ 1,179,849	\$ (679,570)	\$ 1,851,390
50% pledged collateral requirement per statute	\$ 3,069,423	\$ 1,558,280	\$ 2,601,088	\$ 382,715	\$ 2,043,025
Total pledged collateral	3,822,490	1,700,000	4,022,326	1,445,000	2,234,659
Pledged collateral over the requirement	\$ 753,067	\$ 141,720	\$ 1,421,238	\$ 1,062,285	\$ 191,634

Wells Fargo, NA	Fair Value
FMAC FGPC 3128MJWV8, matures August 1, 2045	\$ 1,331,870
FMAC FGPC 3132QSUG1, matures September 1, 2045	388,524
FNMA FNMS 3138M5LD9, matures August 1, 2042	796
FNMA FNMS 3138M8J61, matures September 1, 2042	904,375
FNMA FNMS 3138MPXR1, matures December 1, 2042	22,573
FNMA FNMS 3138WPSD7, matures May 1, 2043	40,160
FNMA FNMS 31412RMKO, matures December 1, 2040	57,970
FNMA FNMS 31417FNF1, matures February 1, 2043	412,201
FNMS 31418ASX7, matures May 1, 2043	664,021
Total pledged securities	\$ 3,822,490

BBVA Compass Bank	Fair Value
Irrevocable Letter-of-Credit #91420, expires March 4, 2017	\$ 1,700,000
Total pledged securities	\$ 1,700,000

First American Bank	Fair Value
BELEN MUN SD 2NM 17, matures August 1, 2017	\$ 100,371
SAN JUAN CNTY ISD 22, matures August 1, 2016	150,252
SANTA FE COMNTY CLG, matures August 1, 2016	255,434
HOBBS SD#16 NM 19, matures April 15, 2019	102,672
SAN JUANISD#22-BLDG, matures August 1, 2017	205,068
TORRANCE ETC CD#8 NM, matures May 15, 2018	405,548
LOS LUNAS SD 1-REF NM, matures July 15, 2018	418,576
LOVINGTON MUN SD BLDG, matures October 1, 2019	100,846
LOVINGTON SD#1 BLDG, matures September 1, 2021	102,609
CLOVIS SD #1 NM 23, matures August 1, 2023	550,165
SBAP 2014-10D 1, matures July 1, 2024	430,175
GNMA II 30 FHA Jumbo, matures March 20, 2017	408,805
CLOVIS MUNI SD #1-B NM, matures August 1, 2028	791,805
Total pledged securities	\$ 4,022,326

First New Mexico Bank	Fair Value
Lovington NM Mun School, matures October 1, 2018	\$ 200,000
Gallup McKinnley Cnty, matures August 2, 2022	300,000
Las Vegas NM Cty, matures August 1, 2017	270,000
Hobbs NM Sch Dist, matures April 15, 2023	250,000
Bloomfield NM, matures April 15, 2023	115,000
Grants & Cibola Cntys, matures October 1, 2016	140,000
Dulce NM Sch Dist, matures September 1, 2017	170,000
Total pledged securities	\$ 1,445,000

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Pledged Collateral (Continued)
June 30, 2016

First Savings Bank	Fair Value
FNMA 10 YR, matures July 1, 2017	\$ 15,499
ORONO STR RECONST-A MN, matures February 1, 2018	101,745
FHLMC 10 YR, matures March 1, 2023	97,225
FHLMC 10 YR, matures March 1, 2023	109,226
DONA ANA CO NM 25, matures September 1, 2025	111,181
FNMA 15 YR, matures February 1, 2027	662,570
GNMA 15 YR, matures March 15, 2027	47,382
FHLMC 15 YR, matures May 1, 2027	58,278
FNMA 15 YR, matures November 1, 2027	126,053
GNR 2010-115 QG, matures November 20, 2038	49,546
GNR 2011-4 MD, matures November 20, 2038	59,803
GNR 2009-55 HC, matures June 20, 2039	11,256
FNR 2010-135 CH, matures April 25, 2040	75,588
FNR 3925 DE, matures July 15, 2040	22,895
FNR 3925 DE, matures July 15, 2040	183,158
GNR 2011-43 E, matures December 20, 2040	86,071
FHR 4505 PA, matures May 15, 2044	417,183
Total pledged securities	\$ 2,234,659

	Wells Fargo, NA
Amount of repurchase agreement at June 30, 2016	\$ 2,536,698
102% pledged collateral requirement per statute	\$ 2,587,432
Pledged collateral held by the pledging bank's trust department or agent held in the Medical Center's name	2,587,432
Pledged collateral over the requirement	\$ -

Wells Fargo, NA Securities	Fair Value
FHG-3 G08558, matures November 1, 2043	\$ 2,587,432
Total pledged securities	\$ 2,587,432

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Individual Deposit and Investment Accounts
June 30, 2016

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Deposit Accounts						
Wells Fargo	Operating checking	Interest bearing checking	\$ 3,512,856	\$ -	\$ 209,254	\$ 3,303,602
Wells Fargo	Payroll checking	Interest bearing checking	195,939	-	11,324	184,615
Wells Fargo	Employee assistance account	Interest bearing checking	70,891	-	-	70,891
Wells Fargo	Physician clinic account	Interest bearing checking	13,075	-	-	13,075
Cash on hand	Petty cash	Petty cash	2,450	-	-	2,450
Investment Pool						
State Treasurer's Local Government	Investment Pool	Investment Pool	1,063	-	-	1,063
Certificates of Deposit						
Wells Fargo	GRMC	Certificates of Deposit	2,596,084	-	-	2,596,084
BBVA Compass Bank	GRMC	Certificates of Deposit	3,366,559	-	-	3,366,559
First American Bank	GRMC	Certificates of Deposit	5,452,175	-	-	5,452,175
First New Mexico Bank	GRMC	Certificates of Deposit	1,015,430	-	-	1,015,430
First Savings Bank	GRMC	Certificates of Deposit	4,336,049	-	-	4,336,049
Repurchase Agreement						
Wells Fargo	Sweep	Repurchase	2,536,698	-	-	2,536,698
Total deposits and investments			\$ 23,099,269	\$ -	\$ 220,578	\$ 22,878,691

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Vendor Information
Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			3M COMPANY G00035949		\$ 75,168	\$ 75,168					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			ADVANCED NETWORK MANAGEMENT, INC. G00994661		\$ 61,233	\$ 61,233					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			ALCON LABORATORIES G00001099		\$ 117,034	\$ 117,034					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			AMN HEALTHCARE, INC G00993155		\$ 64,312	\$ 64,312					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			AMNIOX MEDICAL G00994387		\$ 227,880	\$ 227,880					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			AMS SALES CORPORATION G00993660		\$ 67,430	\$ 67,430					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			ANTONIO C. MEDINA G00994604		\$ 225,848	\$ 225,848					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			API HEALTHCARE CORPORATION G00992990		\$ 86,270	\$ 86,270					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			ARGYLE WELDING SUPPLY CO INC G00994402		\$ 90,373	\$ 90,373					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			ASE TECHNOLOGY, INC G00993973		\$ 77,738	\$ 77,738					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			ATLAS MEDSTAFF, LLC G00994698		\$ 84,461	\$ 84,461					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			AUREUS RADIOLOGY (Aureus Medical Group) G00994052		\$ 71,205	\$ 71,205					

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Vendor Information (Continued)
Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			BANK OF THE WEST G00994442		\$ 90,546	\$ 90,546					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			BAXTER HEALTHCARE CORP G00004093		\$ 308,336	\$ 308,336					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			BAYER HEALTHCARE G00991065		\$ 64,925	\$ 64,925					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			BG MEDICAL LLC G00994463		\$ 65,944	\$ 65,944					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			BIOMEDICAL ENTERPRISES, INC G00994125		\$ 120,975	\$ 120,975					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			BIOMET, INC G00993573		\$ 708,094	\$ 708,094					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			BLOOD SYSTEMS, INC. G00038254		\$ 272,979	\$ 272,979					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			BOSTON SCIENTIFIC CORPORATION G00031359		\$ 81,735	\$ 81,735					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CARDINAL HEALTH G00004077		\$ 1,135,075	\$ 1,135,075					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CARDINAL HEALTH 411, INC G00994478		\$ 3,170,282	\$ 3,170,282					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CARDINAL HEALTH 414 LLC G00004201		\$ 61,315	\$ 61,315					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CAREFUSION SOLUTIONS, LLC G00993469		\$ 243,612	\$ 243,612					

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Vendor Information (Continued)
Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CARESTREAM HEALTH INC G00993662		\$ 72,204	\$ 72,204					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CARESTREAM HEALTH INC G00993662		\$ 72,204	\$ 72,204					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CARTER LEDYARD & MELBOURN LLP G00994674		\$ 69,141	\$ 69,141					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CENTURY LINK G00038646		\$ 209,791	\$ 209,791					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CEPHEID G00994006		\$ 78,598	\$ 78,598					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CHG MEDICAL STAFFING INC G00993361		\$ 109,079	\$ 109,079					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CIRCHARO ACQUISITION CORP (Corepoint) G00993715		\$ 76,790	\$ 76,790					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			COKER GROUP HOLDINGS LLC G00994416		\$ 649,236	\$ 649,236					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			COMP RAY INC G00992943		\$ 261,732	\$ 261,732					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			COOPERATIVE EDUCATIONAL SERVICES G00994045		\$ 290,499	\$ 290,499					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CPEOPLE, LP G00994567		\$ 720,155	\$ 720,155					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			CSL BEHRING, LLC G00993923		\$ 364,658	\$ 364,658					

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Vendor Information (Continued)
Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			DANIELLE BEGLEY G00994532		\$ 105,260	\$ 105,260					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			DARWIN SELECT INSURANCE COMPANY (HUB) G00994443		\$ 184,855	\$ 184,855					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			DATEX-OHMEDA, INC G00990935		\$ 188,552	\$ 188,552					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			DELTA DENTAL PLAN OF NEW MEXICO G00016070		\$ 243,233	\$ 243,233					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			DR. DONALD STINAR, MD G00035250		\$ 79,185	\$ 79,185					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			DRAEGER MEDICAL, INC. G00992310		\$ 113,132	\$ 113,132					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			E CLINICAL WORKS G00993517		\$ 98,733	\$ 98,733					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			EMERGENCY STAFFING SOLUTIONS, INC G00994214		\$ 1,455,661	\$ 1,455,661					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			EN POINTE TECHNOLOGIES SALES, LLC G00994077		\$ 136,193	\$ 136,193					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			FASTAFF, LLC G00994652		\$ 1,312,238	\$ 1,312,238					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			FOWLER DEVELOPMENT G00012591		\$ 79,135	\$ 79,135					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			FREDERICK W. WENDLER JR G00994531		\$ 89,029	\$ 89,029					

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Vendor Information (Continued)
Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			FUSION MEDICAL STAFFING, LLC G00994598		\$ 63,666	\$ 63,666					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			GE HEALTHCARE G00991744		\$ 98,079	\$ 98,079					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			GE HEALTHCARE G00994723		\$ 61,838	\$ 61,838					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			GE MEDICAL SYSTEMS G00990702		\$ 127,230	\$ 127,230					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			GILA MULTISPECIALTY IPA LLC G00993901		\$ 1,277,394	\$ 1,277,394					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			GILA PATHOLOGY SERVICES, PA G00013790		\$ 194,572	\$ 194,572					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			HIMS CONSULTING GROUP, INC G00994667		\$ 514,811	\$ 514,811					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			HOLOGIC LIMITED PARTNERSHIP G00993245		\$ 182,140	\$ 182,140					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			HOLOGIC, INC. G00993102		\$ 64,439	\$ 64,439					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			HUB INTERNATIONAL INSURANCE SERVICE G00992757		\$ 651,740	\$ 651,740					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			HUNTINGTON TECHNOLOGY FINANCE G00994653		\$ 94,858	\$ 94,858					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			INNOVA EMERGENCY MEDICAL ASSOC. G00994525		\$ 901,800	\$ 901,800					

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Vendor Information (Continued)
Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			INX LLC, a PRESIDIO COMPANY G00992688		\$ 313,246	\$ 313,246					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			JACOBUS CONSULTING, INC G00994580		\$ 1,690,888	\$ 1,690,888					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			LABORATORY CORPORATION OF AMERICA G00018962		\$ 167,139	\$ 167,139					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			LABORATORY SUPPLY COMPANY, INC G00994696		\$ 70,487	\$ 70,487					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			LEICA MICROSYSTEMS INC G00035626		\$ 107,462	\$ 107,462					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			LIQUID AGENTS HEALTHCARE G00993202		\$ 74,210	\$ 74,210					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			LOCUMTENENS.COM G00994648		\$ 63,296	\$ 63,296					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			MEDICAL ASSISTANCE DIVISION G00019413		\$ 178,364	\$ 178,364					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			MEDICAL INFORMATION TECHNOLOGY G00019547		\$ 533,210	\$ 533,210					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			MEDISERVE INSURANCE SERVICES G00019511		\$ 59,970	\$ 59,970					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			MEDLINE INDUSTRIES, INC. G00990516		\$ 524,837	\$ 524,837					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			MEDTRONIC PHYSIO CONTROL CORP G00026005		\$ 252,825	\$ 252,825					

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Vendor Information (Continued)
Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			MORRISON MANAGEMENT SPECIALISTS INC G00993281		\$ 1,189,277	\$ 1,189,277					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			NEAR TERM CORPORATION G00994733		\$ 64,021	\$ 64,021					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			NEW MEXICO MUTUAL CASUALTY COMPANY G00994354		\$ 488,703	\$ 488,703					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			NEW MEXICO ONCOLOGY G00991828		\$ 3,312,621	\$ 3,312,621					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			NM GAS COMPANY G00993644		\$ 92,855	\$ 92,855					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			NOVITAS SOLUTIONS G00994265		\$ 396,599	\$ 396,599					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			OGRADY-PEYTON INTERNATIONAL U S A G00994513		\$ 109,857	\$ 109,857					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			PATIENT REFUND VENDOR (GRMC) G00990274		\$ 109,260	\$ 109,260					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			PC CONNECTION G00992246		\$ 583,301	\$ 583,301					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			PHILLIPS HEALTHCARE G00025400		\$ 68,504	\$ 68,504					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			PNM ELECTRIC SERVICES G00026501		\$ 683,136	\$ 683,136					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			PREFERRED MEDICAL MARKETING CORP G00994650		\$ 69,000	\$ 69,000					

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Vendor Information (Continued)
Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			RECONDO TECHNOLOGY, INC G00994373		\$ 118,080	\$ 118,080					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			RELIANCE STANDARD LIFE INSURANCE G00994197		\$ 381,089	\$ 381,089					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			REVSOLVE G00994543		\$ 95,650	\$ 95,650					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			ROBERT HALF TECHNOLOGY G00992775		\$ 278,432	\$ 278,432					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			RURAL RADIOLOGY ASSOCIATES, PLLC G00993456		\$ 559,420	\$ 559,420					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			SCG CAPTIAL CORPORATION G00993851		\$ 183,270	\$ 183,270					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			SILVER HEALTH CARE G00033590		\$ 99,510	\$ 99,510					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			STAPLES ADVANTAGE G00009375		\$ 71,439	\$ 71,439					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			STERIS CORPORATION G00035188		\$ 69,885	\$ 69,885					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			STRYKER ENDOSCOPY G00035303		\$ 68,894	\$ 68,894					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			STRYKER SALES CORP. G00990765		\$ 88,631	\$ 88,631					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			SYNTHESES G00035640		\$ 68,289	\$ 68,289					

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Vendor Information (Continued)
Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			SYSMEX AMERICA, INC G00993925		\$ 77,568	\$ 77,568					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			TOSHIBA AMERICA MEDICAL CREDIT G00036285		\$ 122,211	\$ 122,211					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			TOSHIBA AMERICA MEDICAL SYSTEMS G00993996		\$ 134,429	\$ 134,429					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			TOWN OF SILVER CITY G00036509		\$ 110,822	\$ 110,822					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			TRIAGE STAFFING INC G00993818		\$ 298,921	\$ 298,921					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			TRILLIANT SURGICAL LTD G00994429		\$ 138,948	\$ 138,948					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			TRUSTAFF INC. G00992332		\$ 80,375	\$ 80,375					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			TRUVEN HEALTH ANALYTICS, INC G00994195		\$ 77,467	\$ 77,467					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			UNITED SHOCKWAVE SERVICES, LTD G00994056		\$ 89,835	\$ 89,835					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			US MEDISYS, LLC G00993622		\$ 382,372	\$ 382,372					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			VARIAN MEDICAL SYSTEMS, INC G00994383		\$ 178,512	\$ 178,512					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			VERSOGENICS INC G00994382		\$ 102,598	\$ 102,598					

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Vendor Information (Continued)
Year Ended June 30, 2016

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			WELLS FARGO G00994043		\$ 64,273	\$ 64,273					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			WERFEN USA LLC G00016469		\$ 78,324	\$ 78,324					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			WF CC PAYMENT 556919000625989 G00992964		\$ 295,988	\$ 295,988					
2040	Gila Regional Medical Center	Hospitals or Special Hospital Districts			WNM COMMUNICATIONS CORPORATION G00041132		\$ 61,295	\$ 61,295					

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Revenues and Expenses – Budget to Actual
Year Ended June 30, 2016

	Actual	Approved Budget	Approved Budget - Favorable (Unfavorable)
<i>Revenues</i>			
Net patient service revenue and safety net care pool	\$ 70,209,797	\$ 73,138,332	\$ (2,928,535)
Other	1,354,441	585,324	769,117
Nonoperating revenues, net	92,655	120,000	(27,345)
Total revenues	71,656,893	73,843,656	(2,186,763)
<i>Expenses</i>			
Salaries, wages, and benefits	38,329,856	37,451,846	(878,010)
Professional fees	13,080,942	13,438,922	357,980
Supplies	10,566,956	12,108,619	1,541,663
Other	13,988,510	10,656,152	(3,332,358)
Total expenses	75,966,264	73,655,539	(2,310,725)
Change in net position	\$ (4,309,371)	\$ 188,117	\$ (4,497,488)

See accompanying independent auditors' report.

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.



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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. Timothy Keller, New Mexico State Auditor
Silver City, New Mexico

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, a component unit of Grant County, New Mexico (the Medical Center), as of and for the year ended June 30, 2016, 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 and have issued our report thereon dated October 5, 2016. We also audited the schedule of revenues and expenses – budget to actual of the Medical Center for the year ended June 30, 2016, presented as supplemental information as listed in the table of contents.

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.

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 deficiency 2015-001 described in the accompanying schedule of findings and responses to be a material weakness.

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 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 2015-003, 2016-001, and 2016-002.

The Medical Center's Response to Findings

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

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.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 5, 2016

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses
Year Ended June 30, 2016

2015-001 Safety Net Care Pool Audit Adjustments

[] Compliance Finding [] Significant Deficiency [X] Material Weakness

<i>Criteria</i>	Timely and accurate information should be available to management and those charged with governance to make decisions.
<i>Condition</i>	Material audit adjustments were required to record the 2014 SNCP program settlement and estimated 2015 SNCP program settlement. Restatement of the prior year's financial statements was required to report the estimated settlement in the prior year. Management progressed in its reconciliation of estimated third-party payor settlements as outlined in its 2015 corrective action plan.
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Effect</i>	There were material errors in the financial statements that were corrected through auditor proposed adjustments.
<i>Cause</i>	The SNCP program settlement estimate was not prepared during fiscal year 2016. The Medical Center has prepared a SNCP program settlement estimate during fiscal year 2015, but due to incorrect and/or confusing external guidance did not prepare the 2016 estimate.
<i>Recommendation</i>	The Medical Center should develop a methodology to estimate and record SNCP program settlements.
<i>Management's Response</i>	This is an audit adjustment requested by the Medical Center's management. The SNCP program is a Medicaid waiver demonstration project designed to alleviate the financial hardship experienced by New Mexico Sole Community Provider (SCP) Hospitals when the SCP funding was discontinued. The SNCP program is based upon a calendar year and the Uncompensated Care Application which is the basis of the funding allocation is done using data that is two years prior to the actual payment period. The funding for calendar year 2015, the first year of the program, is based upon hospital care provided to Medicaid and uninsured patients in calendar year 2013. Thus when the application for calendar year 2016 was submitted, it contained data from calendar year 2014. There was an adjustment in the Medical Center's 2015 funding which reduced the payment and an estimate was prepared and reserved which the prior auditors' opinion held to be inappropriate, and was backed out of fiscal year 2015. It is the position of the Medical Center's management that this reserve was appropriate and we requested the restatement of the prior year. In the current year, there is a payable for the reconciliation of calendar year 2016 funding, which was not reserved for in compliance with the prior year's audit opinion, although it is our position that this, too, should be reserved. The reconciliation for calendar year 2017 will be performed by the Human Services Department in January 2017 and the Medical Center will reserve an amount equal to the liability created by that reconciliation.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2016

2015-003 Employee Meal Reimbursements

	[X] Compliance Finding [] Significant Deficiency [] Material Weakness
<i>Criteria</i>	Per 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.
<i>Condition</i>	Of the 15 travel reimbursements tested, five had food reimbursement overages totaling \$1,186. The total reimbursement should have been \$930, but was \$2,116. Management has made progress in implementing its corrective action plan. In response to prior year’s audit finding, the Medical Center implemented a new travel policy. This new policy was not implemented until after the start of fiscal year 2016 and as a result, employee meal reimbursements were paid incorrectly prior to implementation.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	The Medical Center is not in compliance with the Travel and Per Diem Act.
<i>Cause</i>	The Medical Center did not have proper controls surrounding reimbursements in accordance with the Travel and Per Diem Act.
<i>Recommendation</i>	The Medical Center should improve controls surrounding reimbursement to ensure compliance with laws and regulations.
<i>Management’s Response</i>	The Medical Center’s Travel Policy was reviewed and revised following the finding in the prior year audit. This was a lengthy process which required legal review to ensure full compliance with the New Mexico Travel and Per Diem Act and was instituted during the year. Due to the time necessary to revise the policy, the previous policy was in effect for some time during the year and reimbursement was made for travel according to the old policy. The revised policy was in effect at June 30, 2016 and the Medical Center will continue to be in compliance going forward.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2016

2016-001 Schedule of Vendor Information

Compliance Finding Significant Deficiency Material Weakness

<i>Criteria</i>	Section 2.2.2.10(A)(2)(g) NMAC.
<i>Condition</i>	The Medical Center's Schedule of Vendor Information was not completed with all applicable information required by 2.2.2.10(A)(2)(g) NMAC.
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Effect</i>	The Medical Center is not in compliance with Section 2.2.2.10(A)(2)(g) NMAC.
<i>Cause</i>	The Medical Center did not have the resources available to compile all applicable information in a timely manner.
<i>Recommendation</i>	The Medical Center should track all applicable vendor information required by Section 2.2.2.10(A)(2)(g) NMAC on an on-going basis.
<i>Management's Response</i>	The Medical Center has only recently become aware of the extended requirements for compliance with this statute. The Director of Corporate Compliance is currently developing an ongoing process for tracking contracts and the relevant data required. This process will be implemented by June 30, 2017 to ensure compliance.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2016

2016-002 Actual Expenditures Exceeded Budgeted Expenditures

[X] Compliance Finding [] Significant Deficiency [] Material Weakness

<i>Criteria</i>	In order to comply with Section 2.2.2.10 O(1) NMAC, actual expenditures cannot exceed budgeted expenditures, which were \$73,655,539 for fiscal year 2016.
<i>Condition</i>	The Medical Clinic’s actual expenditures for fiscal year 2016 exceeded budgeted expenditures by \$2,310,725.
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Effect</i>	The Medical Center is not in compliance with Section 2.2.2.10 O(1) NMAC.
<i>Cause</i>	The Medical Center did not amend its original budget to reflect additional expenses incurred.
<i>Recommendation</i>	The Medical Center should monitor expenditures throughout the fiscal year to ensure actual expenses do not exceed budgeted expenses. If necessary, an amended budget should be submitted to the Local Government Division for approval.
<i>Management’s Response</i>	The Medical Center submits a quarterly report to the Department of Finance Administration (DFA) as required which has been approved and has never been requested to submit an amended budget. The Controller will institute communication with the DFA on a quarterly basis and submit an amended budget as necessary.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Summary Schedule of Prior Year Findings
Year Ended June 30, 2016

Prior-Year Number	Description	Current Status
2015-001	Analysis of Certain Balance Sheet Accounts – Material Weakness	Repeated
2015-002	Policy for Estimating Allowances – Significant Deficiency	Resolved
2015-003	Per Diem Reimbursements – Compliance Finding	Repeated

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Exit Conference
Year Ended June 30, 2016

A closed session exit conference was held October 5, 2016, with the following individuals to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Jeremiah Garcia	Board of Trustees, Chairperson
Victor Nwachuku, MD	Board of Trustees, Vice Chairperson
Tsering Sherpa, MD	Board of Trustees, Member
Michael Morones, CPA	Board of Trustees, Member
Joel Schram	Board of Trustees, Member
Brian Cunningham	Chief Executive Officer
Peggy White	Chief Nursing Officer
Ray Goellner	Chief Clinical Services
Jed Rudd	Chief Operating Officer
Beth Allred	Controller
Angela Ortiz	Administration
Hilton Dickson	Assistant Controller
Tom Dingus	Dingus, Zarecor & Associates PLLC

These financial statements were prepared by Dingus, Zarecor & Associates PLLC from records of the Medical Center.