

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

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

June 30, 2017 and 2016



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, 2017

Board of Trustees

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

Principal Employees

Taffy Arias	Chief Executive Officer
JoBeth Vance	Interim Chief Financial Officer
Peggy White	Chief Nursing Officer

FINANCIAL SECTION



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Certified Public Accountants

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 years ended June 30, 2017 and 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, 2017, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2017 and 2016, and the changes in its financial position and its cash flows for the years 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, 2017, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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, schedule of individual deposit and investment accounts, and indigent care cost and funding report are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of pledged collateral, schedule of individual deposit and investment accounts, and indigent care cost and funding report 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017, 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, 2017. We issued a similar report for the year ended June 30, 2016, dated October 5, 2016, which has not been included with the 2017 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 6, 2017

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management's Discussion and Analysis
Years Ended June 30, 2017 and 2016

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, 2017 and 2016. 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 2017 by \$2,622,693 or 4.6% and decreased in 2016 by \$4,309,370 or 7.1%
- In 2017, the Medical Center reported a decrease in operating loss of \$1,417,172 from the loss reported in 2016. The operating loss in 2016 increased by \$1,223,602 over the loss reported in 2015.
- Nonoperating net revenues decreased by \$59,095 or 63.8% in 2017 compared to 2016. Nonoperating net revenues increased by \$17,491 or 23.3% in 2016 compared to 2015.

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's 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, 2017 and 2016

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 \$2,622,693 or 4.6% and \$4,309,370 or 7.1% in 2017 and 2016, 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 2017, current assets decreased by \$8,138,989. Total assets for 2017 decreased \$5,737,551 from 2016. Total assets for 2017 consist primarily of cash and certificates of deposit, net patient accounts receivable, and net capital assets. Total liabilities have decreased by \$3,114,858 over the last year due mainly to an increase in Safety Net Care Pool (SNCP) program receivable.

Table 1. Net Position

	2017	2016	2015
<i>Assets</i>			
Current assets	\$ 26,704,368	\$ 34,843,357	\$ 40,768,934
Capital assets, net	35,542,881	33,145,043	30,070,340
Other noncurrent assets	140,016	136,416	136,416
Total assets	\$ 62,387,265	\$ 68,124,816	\$ 70,975,690
Total current liabilities	\$ 8,439,531	\$ 11,554,389	\$ 10,095,893
<i>Net position</i>			
Net investment in capital assets	35,542,881	33,145,043	30,070,340
Unrestricted	18,404,853	23,425,384	30,809,457
Total net position	53,947,734	56,570,427	60,879,797
Total liabilities and net position	\$ 62,387,265	\$ 68,124,816	\$ 70,975,690

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2017 and 2016

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

In 2017, the Medical Center's operating loss decreased by \$1,417,172. This is the result of total operating revenues decreasing by \$391,804 and total operating expenses decreasing by \$1,808,976 in 2017 as compared to 2016. In comparison to the results for 2016, these large changes explain the result for 2017: A decrease in net patient service revenue of \$5,119,353, an increase in SNCP program revenues of \$5,401,792, a decrease in salaries, wages, and employee benefits expense of \$650,422, and an increase in professional fees and purchased services expense of \$1,283,244. In 2016, the Medical Center's operating loss increased by \$1,223,602 compared to 2015.

Table 2. Operating Results and Changes in Net Position

	2017	2016	2015
<i>Operating revenues</i>			
Net patient service revenue, net of provision for bad debts	\$ 60,276,680	\$ 65,396,033	\$ 64,066,224
Safety net care pool	10,215,556	4,813,764	3,528,520
Electronic health records system payback	(495,689)	-	-
Grants and contributions	568,225	603,423	667,242
Other	607,665	751,021	513,726
Total operating revenues	71,172,437	71,564,241	68,775,712
<i>Operating expenses</i>			
Salaries, wages, and employee benefits	37,679,434	38,329,856	36,451,732
Professional fees and purchased services	17,370,144	16,086,900	12,837,796
Supplies	9,227,743	10,566,954	11,219,132
Depreciation	3,190,415	3,175,151	3,434,390
Other operating expenses	6,689,553	7,807,404	8,011,084
Total operating expenses	74,157,289	75,966,265	71,954,134
<i>Operating loss</i>	(2,984,852)	(4,402,024)	(3,178,422)
<i>Nonoperating revenues (expenses)</i>			
Interest income	47,813	80,771	111,174
Gain (loss) on disposal of capital assets	(14,254)	11,883	(36,011)
Total nonoperating revenues, net	33,559	92,654	75,163
Capital grants	328,600	-	-
Change in net position	(2,622,693)	(4,309,370)	(3,103,259)
Net position, beginning of year	56,570,427	60,879,797	63,983,056
Net position, end of year	\$ 53,947,734	\$ 56,570,427	\$ 60,879,797

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management’s Discussion and Analysis (Continued)
Years Ended June 30, 2017 and 2016

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

During the year operating revenues decreased \$391,804 or 0.5%. Operating expenses decreased in the amount of \$1,808,976 or 2.4%. The operating revenues for the Medical Center are separated into three categories:

- Net patient service revenue decreased \$5,119,353 or 7.8% due to reduced patient volumes, selected chargemaster changes, and reduced reimbursement.
- Safety Net Care Pool (SNCP) program revenue increased by \$5,401,792 or 112.2% 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 2017 decreased by \$143,356 or 19.1% from fiscal year 2016.

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 decreased in 2017 by \$650,422 or 1.7%. This decrease is based on decreases in the full-time equivalents, and somewhat offset by 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	\$ 71,534,596	\$ 77,370,323	\$ (5,835,727)
Budgetary basis expenses	74,157,289	77,332,842	3,175,553
Excess of revenues over expenses (expenses over revenues)	\$ (2,622,693)	\$ 37,481	\$ (2,660,174)

Actual results compare unfavorably to budgeted amounts for the Medical Center due to actual revenues being \$5,835,727 less than budgeted, while actual expenses were \$3,175,553 less than budgeted. This results in an unfavorable variance of \$2,660,174 with excess of expenses over revenues being \$2,622,693 as compared to budgeted excess of revenues over expenses of \$37,481, as shown in Table 3.

Capital Assets

At the end of 2017, the Medical Center had \$35,542,881 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the basic financial statements. In 2017, the Medical Center purchased new assets costing \$5,602,506. 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, 2017 and 2016

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, 2017 and 2016

ASSETS	2017	2016
<i>Current assets</i>		
Cash and cash equivalents	\$ 2,774,517	\$ 6,112,394
Certificates of deposit	7,844,433	16,766,297
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$5,369,000 and \$4,998,000, respectively	9,654,810	9,038,851
Safety net care pool receivable	2,438,076	-
Grants receivable	105,801	77,401
Other receivables	268,598	17,809
Inventories	2,659,324	2,202,314
Prepaid expenses	958,809	628,291
Total current assets	26,704,368	34,843,357
<i>Noncurrent assets</i>		
Capital assets, net	35,542,881	33,145,043
Art collection	140,016	136,416
Total noncurrent assets	35,682,897	33,281,459
Total assets	\$ 62,387,265	\$ 68,124,816
LIABILITIES AND NET POSITION		
<i>Current liabilities</i>		
Accounts payable	\$ 3,863,731	\$ 4,525,823
Accrued compensation and related liabilities	737,833	763,750
Accrued compensated absences	1,951,592	2,077,711
Safety net care pool payable	-	3,699,813
Patient refunds	1,187,401	-
Estimated third-party payor settlements payable	698,974	487,292
Total current liabilities	8,439,531	11,554,389
<i>Net position</i>		
Net investment in capital assets	35,542,881	33,145,043
Unrestricted	18,404,853	23,425,384
Total net position	53,947,734	56,570,427
Total liabilities and net position	\$ 62,387,265	\$ 68,124,816

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, 2017 and 2016

	2017	2016
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of approximately \$6,274,000 and \$4,999,000, respectively	\$ 60,276,680	\$ 65,396,033
Safety net care pool	10,215,556	4,813,764
Electronic health records incentive payback	(495,689)	-
Grants and contributions	568,225	603,423
Other	607,665	751,021
Total operating revenues	71,172,437	71,564,241
<i>Operating expenses</i>		
Salaries and wages	30,013,186	30,804,854
Employee benefits	7,666,248	7,525,002
Professional fees	14,585,422	13,080,949
Purchased services	2,784,722	3,005,951
Supplies	9,227,743	10,566,954
Utilities	1,140,245	1,166,133
Repairs and maintenance	2,517,111	2,669,996
Leases and rentals	1,393,166	1,785,213
Depreciation	3,190,415	3,175,151
Insurance	673,958	656,422
Other	965,073	1,529,640
Total operating expenses	74,157,289	75,966,265
Operating loss	(2,984,852)	(4,402,024)
<i>Nonoperating revenues (expenses)</i>		
Interest income	47,813	80,771
Gain (loss) on disposal of capital assets	(14,254)	11,883
Total nonoperating revenues, net	33,559	92,654
Capital grants	328,600	-
Change in net position	(2,622,693)	(4,309,370)
Net position, beginning of year	56,570,427	60,879,797
Net position, end of year	\$ 53,947,734	\$ 56,570,427

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, 2017 and 2016

	2017	2016
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 61,059,804	\$ 65,763,491
Receipts from safety net care pool	4,077,667	6,499,262
Receipts from grants and contributions	539,825	701,036
Electronic health records system incentive payback	(495,689)	-
Receipts from other revenue	356,876	892,814
Payments to and on behalf of employees	(37,831,470)	(39,066,389)
Payments to suppliers and contractors	(34,737,060)	(32,749,189)
Net cash provided by (used in) operating activities	(7,030,047)	2,041,025
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(5,606,106)	(6,250,113)
Proceeds from capital grants	328,600	-
Proceeds from disposal of capital assets	-	12,141
Net cash used in capital and related financing activities	(5,277,506)	(6,237,972)
<i>Cash flows from investing activities</i>		
Purchase of investments	(7,844,433)	(71,855)
Proceeds from sale of investments	16,766,297	-
Interest received	47,812	80,771
Net cash provided by investing activities	8,969,676	8,916
Net increase (decrease) in cash and cash equivalents	(3,337,877)	(4,188,031)
Cash and cash equivalents, beginning of year	6,112,394	10,300,425
Cash and cash equivalents, end of year	\$ 2,774,517	\$ 6,112,394

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, 2017 and 2016

	2017	2016
<i>Reconciliation of Operating Loss to Net Cash</i>		
<i>Provided By (Used In) Operating Activities</i>		
Operating loss	\$ (2,984,852)	\$ (4,402,024)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation	3,190,415	3,175,151
Provision for bad debts	6,273,755	4,638,841
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(6,889,714)	(4,020,163)
Safety net care pool	(2,438,076)	-
Grants	(28,400)	97,613
Other	(250,789)	141,793
Inventories	(457,010)	151,253
Prepaid expenses	(330,518)	800,065
Increase (decrease) in liabilities:		
Accounts payable	(662,092)	760,751
Accrued compensation and related liabilities	(25,917)	(830,854)
Accrued compensated absences	(126,119)	94,321
Safety net care pool payable	(3,699,813)	1,685,498
Patient refunds	1,187,401	-
Estimated third-party payor settlements payable	211,682	(251,220)
Net cash provided by (used in) operating activities	\$ (7,030,047)	\$ 2,041,025

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, 2017 and 2016

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.

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.

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.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

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

b. Summary of Significant Accounting Policies (continued)

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.

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.

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.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

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

b. Summary of Significant Accounting Policies (continued)

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.

Subsequent events – Subsequent events have been reviewed through October 6, 2017, the date on which the financial statements were available to be issued.

2. 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, 2017 and 2016, the Medical Center was in compliance with the state collateralization requirements.

As of June 30, 2017, the Medical Center had deposits with a bank balance of \$12,576,542, of which \$3,132,303 was uninsured and uncollateralized, and therefore subject to custodial credit risk. 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.

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, 2017, the LOC has not been drawn on. The LOC expires March 6, 2018.

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.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

2. Deposits and Investments (continued):

State Treasurer’s Investment Pool (continued) – 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 fund’s 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 valued using quoted market prices (Level 2 input).

The Medical Center’s investments are as follows:

	2017					
	Fair Value	Investment Maturities (in Years)				Investment Ratings
		Less Than One	One to Five	Six to Ten	More than Ten	
Repurchase agreement	\$ 815,236	\$ 815,236	\$ -	\$ -	\$ -	Not applicable
New MexiGROW Local Government Investment Pool	1,068	1,068	-	-	-	AAAm
Certificates of deposit	7,844,433	7,844,433	-	-	-	Not applicable
Total investments	\$ 8,660,737	\$ 8,660,737	\$ -	\$ -	\$ -	

	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	\$ -	\$ -	\$ -	

The repurchase agreement was collateralized at 102% at June 30, 2017 and 2016, 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.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

2. Deposits and Investments (continued):

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

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

	2017	2016
Carrying value		
Deposits	\$ 1,958,213	\$ 3,574,633
Investments and New MexiGROW Local Government Investment Pool	8,660,737	19,304,058
	\$ 10,618,950	\$ 22,878,691
Included in the following statements of net position captions		
Cash and cash equivalents	\$ 2,774,517	\$ 6,112,394
Certificates of deposit	7,844,433	16,766,297
	\$ 10,618,950	\$ 22,878,691

3. 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, 2017 and 2016

3. Patient Accounts Receivable (continued):

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

	2017	2016
Receivable from patients and their insurance carriers	\$ 11,609,650	\$ 10,520,990
Receivable from Medicare	1,871,865	1,990,441
Receivable from Medicaid	1,542,060	1,525,435
Total patient accounts receivable	15,023,575	14,036,866
Less allowance for uncollectible accounts	5,368,765	4,998,015
Net patient accounts receivable	\$ 9,654,810	\$ 9,038,851

4. 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, 2017 and 2016

4. Capital Assets (continued):

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

	2017				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 6,246,114	\$ 189,063	\$ -	\$ (6,150,149)	\$ 285,028
Land	806,200	-	-	-	806,200
Total capital assets not being depreciated	7,052,314	189,063	-	(6,150,149)	1,091,228
<i>Capital assets being depreciated</i>					
Land improvements	577,465	-	-	-	577,465
Buildings	32,250,049	-	-	-	32,250,049
Equipment	25,805,129	5,413,443	(405,213)	6,150,149	36,963,508
Total capital assets being depreciated	58,632,643	5,413,443	(405,213)	6,150,149	69,791,022
<i>Less accumulated depreciation for</i>					
Land improvements	284,908	51,676	-	-	336,584
Buildings	15,831,724	862,286	-	-	16,694,010
Equipment	16,423,282	2,276,453	(390,960)	-	18,308,775
Total accumulated depreciation	32,539,914	3,190,415	(390,960)	-	35,339,369
Total capital assets being depreciated, net	26,092,729	2,223,028	(14,253)	6,150,149	34,451,653
Capital assets, net of accumulated depreciation	\$ 33,145,043	\$ 2,412,091	\$ (14,253)	\$ -	\$ 35,542,881

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

4. Capital Assets (continued):

	2016				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<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

5. 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, 2017 and 2016

6. Noncurrent Liabilities:

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

	2017				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Compensated absences	\$ 2,077,711	\$ 2,410,810	\$ (2,536,929)	\$ 1,951,592	\$ 1,951,592
Total noncurrent liabilities	\$ 2,077,711	\$ 2,410,810	\$ (2,536,929)	\$ 1,951,592	\$ 1,951,592

	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

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

7. 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 has not changed its charity care or uninsured discount policies during fiscal years 2017 or 2016. 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:

	2017	2016
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 22,338,816	\$ 21,193,970
Medicaid/Centennial Care	10,746,577	10,592,027
Other third-party payors	29,579,409	35,976,871
Patients	3,905,187	2,723,843
	66,569,989	70,486,711
Less:		
Charity care	19,554	91,507
Provision for bad debts	6,273,755	4,999,171
Net patient service revenue	\$ 60,276,680	\$ 65,396,033

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, 2017 and 2016

7. 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, 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, 2017 and 2016, were approximately \$7,000 and \$35,000, respectively. The Medical Center did not receive any gifts or grants to subsidize charity care services during 2017 and 2016. The SNCP program subsidizes services to uninsured patients and unreimbursed Medicaid costs.

8. Safety Net Care Pool:

The Medical Center receives funding for uncompensated care costs through the State of New Mexico's safety net care pool program. The Medical Center receives interim quarterly payments subject to settlement based on actual uncompensated care costs. The Medical Center estimates the settlement amounts for each calendar year. There is a reasonable possibility that recorded estimates will change by a material amount. The safety net care pool funding increased by approximately \$2,162,000 in 2017 due to differences between original estimates and final settlements or revised estimates.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

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 \$720,000 and \$726,000 for the years ended June 30, 2017 and 2016, respectively. Employee contributions to the plan were approximately \$901,000 and \$993,000 for 2017 and 2016, 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 Allied World Assurance Company, LTD. 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, 2017 and 2016

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:

	2017	2016
Medicare	36 %	32 %
Medicaid/Centennial Care	23	22
Patients	23	21
Commercial and other	18	25
	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, 2017

	Wells Fargo, NA	BBVA Compass Bank	First American Bank	First Savings Bank
Deposits at June 30, 2017	\$ 3,913,355	\$ 3,363,351	\$ 3,368,266	\$ 1,112,816
Less: FDIC coverage	(250,000)	(250,000)	(250,000)	(250,000)
Uninsured public funds	3,663,355	3,113,351	3,118,266	862,816
Pledged collateral held by the pledging bank's trust department or agent held in the Medical Center's name	2,010,944	1,700,000	3,051,725	2,059,645
Total uninsured and uncollateralized public funds	\$ 1,652,411	\$ 1,413,351	\$ 66,541	\$ -
50% pledged collateral requirement per statute	\$ 1,831,678	\$ 1,556,676	\$ 1,559,133	\$ 431,408
Total pledged collateral	2,010,944	1,700,000	3,051,725	2,059,645
Pledged collateral over the requirement	\$ 179,266	\$ 143,324	\$ 1,492,592	\$ 1,628,237
Wells Fargo, NA	Fair Value			
FNMA FNMS 3140FAXR8, matures August 1, 2031	\$ 2,010,944			
Total pledged securities	\$ 2,010,944			
BBVA Compass Bank		Fair Value		
Irrevocable Letter-of-Credit #107299, expires March 6, 2018		\$ 1,700,000		
Total pledged securities		\$ 1,700,000		
First American Bank			Fair Value	
SAN JUANISD#22-BLDG, matures August 1, 2017			\$ 200,466	
LOVINGTON SD#1 BLDG, matures September 1, 2021			100,496	
TORRANCE ETC CD#8 NM, matures May 15, 2018			401,444	
LOS LUNAS SD 1-REF NM, matures July 15, 2018			408,060	
CLOVIS SD #1 NM 23, matures August 1, 2023			530,315	
SBAP 2014-10D 1, matures July 1, 2024			354,651	
GNMA II 30 FHA Jumbo, matures March 20, 2027			301,245	
CLOVIS MUNI SD #1-B NM, matures August 1, 2028			755,048	
Total pledged securities			\$ 3,051,725	
First Savings Bank				Fair Value
FHLMC 10 YR, matures March 1, 2023				\$ 68,834
FHLMC 10 YR, matures March 1, 2023				82,909
DONA ANA CO NM 25, matures September 1, 2025				108,122
FNMA 15 YR, matures February 1, 2027				523,238
GNMA 15 YR, matures March 15, 2027				36,418
FHLMC 15 YR, matures May 1, 2027				47,008
GNR 2012-96 AD, matures August 20, 2027				117,630
FNMA 15 YR, matures November 1, 2027				101,296
FHLMC 15 YR, matures August 1, 2031				93,433
FHLMC 15 YR, matures August 1, 2031				186,866
GNR 2010-115 QG, matures November 20, 2038				32,992
GNR 2011-4 MD, matures November 20, 2038				33,617
GNR 2009-55 HC, matures June 20, 2039				3,088
FNR 2010-135 CH, matures April 25, 2040				57,341
FNR 3925 DE, matures July 15, 2040				148,810
FNR 3925 DE, matures July 15, 2040				18,601
GNR 2011-43 E, matures December 20, 2040				54,139
FHR 4505 PA, matures May 15, 2044				345,303
Total pledged securities				\$ 2,059,645

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Pledged Collateral (Continued)
June 30, 2017

	Wells Fargo, NA
Amount of repurchase agreement at June 30, 2017	\$ 815,236
102% pledged collateral requirement per statute	\$ 831,541
Pledged collateral held by the pledging bank's trust department or agent held in the Medical Center's name	831,541
Pledged collateral over the requirement	\$ -
Wells Fargo, NA Securities	Fair Value
GN-11 MA0783, matures February 1, 2043	\$ 244,067
FHG-3 Q33108, matures May 1, 2045	587,474
Total pledged securities	\$ 831,541

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, 2017

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Deposit Accounts						
Wells Fargo	Operating checking	Interest bearing checking	\$ 3,523,580	\$ -	\$ 1,953,411	\$ 1,570,169
Wells Fargo	Payroll checking	Interest bearing checking	305,191	-	4,181	301,010
Wells Fargo	Employee assistance account	Interest bearing checking	81,760	-	-	81,760
Wells Fargo	Physician clinic account	Interest bearing checking	2,824	-	-	2,824
Cash on hand	Petty cash	Petty cash	2,450	-	-	2,450
Investment Pool						
State Treasurer's Local Government	Investment Pool	Investment Pool	1,068	-	-	1,068
Certificates of Deposit						
BBVA Compass Bank	GRMC	Certificates of Deposit	3,363,351	-	-	3,363,351
First American Bank	GRMC	Certificates of Deposit	3,368,266	-	-	3,368,266
First Savings Bank	GRMC	Certificates of Deposit	1,112,816	-	-	1,112,816
Repurchase Agreement						
Wells Fargo	Sweep	Repurchase	815,236	-	-	815,236
Total deposits and investments			\$ 12,576,542	\$ -	\$ 1,957,592	\$ 10,618,950

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, 2017

	Actual	Approved Budget	Approved Budget - Favorable (Unfavorable)
<i>Revenues</i>			
Net patient service revenue and safety net care pool	\$ 70,492,236	\$ 76,580,517	\$ (6,088,281)
Other	680,201	624,720	55,481
Nonoperating revenues, net	362,159	165,086	197,073
Total revenues	71,534,596	77,370,323	(5,835,727)
<i>Expenses</i>			
Salaries, wages, and benefits	37,679,434	38,526,802	847,368
Professional fees	14,585,422	17,040,798	2,455,376
Supplies	9,227,743	10,806,317	1,578,574
Other	12,664,690	10,958,925	(1,705,765)
Total expenses	74,157,289	77,332,842	3,175,553
Change in net position	\$ (2,622,693)	\$ 37,481	\$ (2,660,174)

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.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Indigent Care Cost and Funding Report

		For years ended June 30,		
		2017	2016	2015
A Funding for Indigent Care				
A1	State appropriations specified for indigent care – Out of County Indigent Fund	\$ -	\$ -	\$ -
A2	County indigent funds received	-	-	-
A3	Out of county indigent funds received	-	-	-
A4	Payments and copayments received from uninsured patients qualifying for indigent care	-	-	-
A5	Reimbursement received for services provided to patients qualifying for coverage under EMSA	-	-	-
A6	Charitable contributions received from donors that are designated for funding indigent care	-	-	-
Other Sources				
A7	Other source 1 (if applicable)	-	-	-
	Total Funding for Indigent Care	-	-	-
B Cost of Providing Indigent Care				
Total cost of care for providing services to:				
B1	Uninsured patients qualifying for indigent care	6,844	34,773	10,174
B2	Patients qualifying for coverage under EMSA	-	-	-
B3	Cost of care related to patients portion of bill for insured patients qualifying for indigent care	-	-	-
B4	Direct costs paid to other providers on behalf of patients qualifying for indigent care	-	-	-
		6,844	34,773	10,174
	Excess (Shortfall) of Funding for Indigent Care to Cost of Providing Indigent Care	\$ (6,844)	\$ (34,773)	\$ (10,174)
C Patient Receiving Indigent Care Services				
C1	Total number of patients receiving indigent care	4	11	16
C2	Total number of patients encounters receiving indigent care	4	9	9

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Indigent Care Cost and Funding Report (Continued)

	For years ended June 30,		
	2017	2016	2015
<i>Uninsured patients qualifying for indigent care</i>			
Charges for these patients	\$ 19,554	\$ 91,507	\$ 29,070
Ratio of cost to charges	35%	38%	35%
Cost for uninsured patients qualifying for indigent care	<u>\$ 6,844</u>	<u>\$ 34,773</u>	<u>\$ 10,174</u>
<i>Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)</i>			
Charges for these patients	\$ -	\$ -	\$ -
Ratio of cost to charges	35%	38%	35%
Cost for patients qualifying for coverage under EMSA	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Cost of care related to patients portion of bill for insured patients qualifying for indigent care</i>			
Indigent care adjustments for these patients	\$ -	-	\$ -
Ratio of cost to charges	35%	38%	35%
Cost of care related to patients portion of bill for insured patients qualifying for indigent care	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<i>Direct costs paid to other providers on behalf of patients qualifying for indigent care</i>			
Payments to other providers for care of these patients	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditors' report.



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, 2017, 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 6, 2017. We also audited the schedule of revenues and expenses – budget to actual of the Medical Center for the year ended June 30, 2017, 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses, 2017-001 and 2017-002.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 6, 2017

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses
Year Ended June 30, 2017

2017-001 Auditor-Detected Adjustments

Compliance Finding Significant Deficiency 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>	Three material audit adjustments were required to correct the estimated safety net care pool (SNCP) program settlement, the allowance for uncollectible patient accounts receivable, the accounts payable and cash balances, and other balance sheet accounts. The net effect of the auditor-detected adjustments was a \$4,017,258 increase in the change in net position.
<i>Context</i>	This finding appears to be a <i>systemic</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 misstated due to misunderstanding the settlement process. Other audit adjustments were caused by incorrect calculations, misposted journal entries, and unreconciled accounts during the Meditech upgrade.
<i>Recommendation</i>	The Medical Center should develop a methodology to estimate and record SNCP program settlements and review processes for significant balance sheet accounts. The Medical Center should seek consultation regarding unique transactions.
<i>Management's Response</i>	Management uses a third party to review the SNCP reserves and depends upon their expertise to maintain appropriate reserves for any potential reconciliation and related payback. With the preparation of the latest estimate, the recommended reserves were adjusted for the latest estimate. In addition, the Meditech software conversion on June 1, 2017, resulted in multiple challenges which made year-end reconciliations difficult. These issues have been addressed and processes implemented to ensure all accounts are appropriately reconciled monthly and management has timely and accurate information. The chief financial officer will be responsible for resolution of this issue.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2017

2017-002 Reconciliations

Compliance Finding Significant Deficiency 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>	Cash, accounts payable, and other accounts were not reconciled to supporting records on a monthly basis.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	There were material errors in the financial statements that were corrected through the audit process.
<i>Cause</i>	Processes were not in place to systematically reconcile all balance - sheet accounts on a monthly basis. The computer-system conversion also contributed to account reconciliations not occurring on a monthly basis.
<i>Recommendation</i>	The Medical Center should develop formal, systematic processes to reconcile all balance sheet accounts on a monthly basis.
<i>Management's Response</i>	As with the prior finding, there were issues with the conversion near yearend, as well as other process problems that have been addressed so that management and others have accurate and timely information going forward. The chief financial officer will be responsible for resolution of this issue.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Summary Schedule of Prior Year Findings
Year Ended June 30, 2017

Prior Year Number	Description	Current Status
2015-001	Safety Net Care Pool Audit Adjustment	Repeated as 2017-001
2015-003	Employee Meal Reimbursement	Resolved
2016-001	Schedule of Vendor Information – Compliance Finding	Resolved
2016-002	Actual Expenditures Exceeded Budgeted Expenditures – Compliance Finding	Resolved

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Exit Conference
Year Ended June 30, 2017

A closed session exit conference was held October 6, 2017, 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
Michael Morones, CPA	Board of Trustees, Secretary/Treasurer
Anthony Trujillo	Board of Trustees, Member
Tsering Sherpa, MD	Board of Trustees, Member
Joel Schram	Board of Trustees, Member
Jeannie Miller	Board of Trustees, Member
Taffy Arias	Chief Executive Officer
JoBeth Vance	Interim Chief Financial Officer
Tom Dingus	Dingus, Zarecor & Associates PLLC

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