

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

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

June 30, 2019 and 2018



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, 2019

Board of Trustees

Michael Morones, CPA	Chair
Victor Nwachuku, MD	Vice Chair
Joel Schram	Secretary/Treasurer
Antonio Trujillo	Member
Tsering Sherpa, MD	Member
Jeannie Miller	Member
Edwin Wilmot	Member

Principal Employees

Taffy Arias	Chief Executive Officer
Richard Stokes	Chief Financial Officer

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees and Management of
Gila Regional Medical Center and
Mr. Brian Colon, 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, 2019 and 2018, 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 for the Medical Center for the year ended June 30, 2019, 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, 2019 and 2018, 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, 2019, 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 10 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 11, 2019, 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, 2019. We issued a similar report for the year ended June 30, 2018, dated October 8, 2018, which has not been included with the 2019 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 the effectiveness of the Medical Center's 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 11, 2019

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management's Discussion and Analysis
Years Ended June 30, 2019 and 2018

Our discussion and analysis of Gila Regional Medical Center's (GRMC), 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, 2019 and 2018. 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 2019 by \$11,058,585 or 20.3 percent and increased in 2018 by \$516,459 or 1.0 percent.
- In 2019, the Medical Center reported a decrease in operating income of \$11,417,748 from the gain reported in 2018. The operating income in 2018 increased by \$3,325,974 over the loss reported in 2017.
- Nonoperating net revenues decreased by \$157,296 or 89.7 percent in 2019 compared to 2018. Nonoperating net revenues increased by \$141,778 or 422.5 percent in 2018 compared to 2017.

Fiscal year 2019 was the first year of a two-year financial turnaround for the Medical Center. As such, many decisions were made that adversely impacted the results of operations for this fiscal year. The major area of clean-up was reevaluating and recognizing the true value of certain patient accounts receivable. Accordingly, significant changes in estimates and valuations of the patient accounts receivable of the Medical Center were conducted which resulted in a substantial one-time adjustment to the provision for bad debts.

Additionally, in April 2018, changes to the New Mexico Safety Net Care Pool program resulted in a loss of approximately \$7,000,000 of reimbursement. The Medical Center is taking the appropriate steps to mitigate the future impact of this change by implementing revenue enhancement and cost containment activities which will be implemented during fiscal year 2020.

Finally, the Medical Center recognized that in order to accomplish these goals, a more seasoned finance team was needed. To that end, the entire finance department has been replaced and a very experienced patient financial services director was hired. Additionally, as finance is often impacted by clinical decisions, a new chief nursing officer was hired to drive accountability throughout the clinical operations.

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.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management’s Discussion and Analysis (Continued)
Years Ended June 30, 2019 and 2018

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position (continued)

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?”

The Medical Center’s Net Position

The Medical Center’s net position is the difference between its assets and liabilities reported in the Statements of Net Position, on page 10. The Medical Center’s net position decreased by \$11,058,585 or 20.3 percent and increased \$516,459 or 1.0 percent in 2019 and 2018, 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 2019, current assets decreased by \$6,188,843. Total assets for 2019 decreased \$9,891,466 from 2018. Total assets for 2019 consist primarily of cash and certificates of deposit, net patient accounts receivable, and net capital assets.

Table 1. Net Position

**Sierra Vista Hospital
Management's Discussion and Analysis
June 30, 2007 and 2006**

	2019	2018	2017
<i>Assets</i>			
Current assets	\$ 21,877,537	\$ 28,066,380	\$ 25,516,967
Capital assets, net	30,543,439	34,246,062	35,542,881
Other noncurrent assets	140,016	140,016	140,016
Total assets	\$ 52,560,992	\$ 62,452,458	\$ 61,199,864
Total current liabilities	\$ 9,155,384	\$ 7,988,265	\$ 7,252,130
<i>Net position</i>			
Net investment in capital assets	30,543,439	34,246,062	35,542,881
Unrestricted	12,862,169	20,218,131	18,404,853
Total net position	43,405,608	54,464,193	53,947,734
Total liabilities and net position	\$ 52,560,992	\$ 62,452,458	\$ 61,199,864

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2019 and 2018

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

In 2019, the Medical Center's operating income decreased by \$11,417,748. This is the result of total operating revenues decreasing by \$5,438,108 and total operating expenses increasing by \$5,979,640 in 2019 as compared to 2018. In comparison to the results for 2018, these large changes explain the result for 2019: An increase in net patient service revenue of \$1,414,222, a decrease in SNCP program revenues of \$6,987,225, a decrease in salaries, wages, and employee benefits expense of \$137,012, and an increase in professional fees and purchased services expense of \$3,276,963. In 2018, the Medical Center's operating income increased by \$3,325,974 compared to 2017.

Table 2. Operating Results and Changes in Net Position

	2019	2018	2017
<i>Operating revenues</i>			
Net patient service revenue, net of provision for bad debts	\$ 56,657,770	\$ 55,243,548	\$ 60,276,680
Safety net care pool	5,937,555	12,924,780	10,215,556
Electronic health records system payback	-	-	(495,689)
Grants and contributions	786,249	544,844	568,225
Other	463,744	570,254	607,665
Total operating revenues	63,845,318	69,283,426	71,172,437
<i>Operating expenses</i>			
Salaries, wages, and employee benefits	34,660,103	34,797,115	37,652,824
Professional fees and purchased services	15,888,723	12,611,760	17,352,884
Supplies	11,024,264	10,772,164	9,227,743
Depreciation	4,845,757	4,266,810	3,190,415
Other operating expenses	8,503,097	6,494,455	6,733,423
Total operating expenses	74,921,944	68,942,304	74,157,289
<i>Operating income (loss)</i>	(11,076,626)	341,122	(2,984,852)
<i>Nonoperating revenues (expenses)</i>			
Interest income	31,641	53,691	47,813
Gain (loss) on disposal of capital assets	(13,600)	121,646	(14,254)
Total nonoperating revenues, net	18,041	175,337	33,559
Capital grants	-	-	328,600
Change in net position	(11,058,585)	516,459	(2,622,693)
Net position, beginning of year	54,464,193	53,947,734	56,570,427
Net position, end of year	\$ 43,405,608	\$ 54,464,193	\$ 53,947,734

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management’s Discussion and Analysis (Continued)
Years Ended June 30, 2019 and 2018

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

During the year, operating revenues decreased \$5,438,108 or 7.8 percent. Operating expenses increased in the amount of \$5,979,640 or 8.7 percent. Net patient service revenue increased \$1,414,222 or 2.6 percent. Safety Net Care Pool (SNCP) program revenue decreased by \$6,987,225 or 54.1 percent.

Table 3. Budget to Actual

	Actual	Approved Budget	Favorable (Unfavorable) Variance
Budgetary basis revenues	\$ 63,863,359	\$ 75,334,364	\$ (11,471,005)
Budgetary basis expenses	74,921,944	74,314,897	(607,047)
Excess of revenues over expenses (expenses over revenues)	\$ (11,058,585)	\$ 1,019,467	\$ (12,078,052)

Actual results compare unfavorably to budgeted amounts for the Medical Center due to actual revenues being \$11,471,005 less than budgeted, while actual expenses were \$607,047 more than budgeted. This results in an unfavorable variance of \$12,078,052 with excess of expenses over revenues being \$11,058,585 as compared to budgeted excess of revenues over expenses of \$1,019,467, as shown in Table 3.

Capital Assets

At the end of 2019, the Medical Center had \$30,543,439 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the basic financial statements. In 2019, the Medical Center purchased new assets costing \$1,175,302.

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.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Management's Discussion and Analysis (Continued)
Years Ended June 30, 2019 and 2018

Currently Known Facts, Decisions, and Conditions (continued)

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, 2019 and 2018

ASSETS	2019	2018
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,002,288	\$ 7,890,376
Certificates of deposit	1,815,942	2,915,499
Patient accounts receivable	7,670,848	8,819,491
Safety net care pool receivable	2,215,391	3,658,428
Estimated third-party payor settlements receivable	2,498,267	-
Grants receivable	142,636	130,069
Other receivables	192,562	278,445
Inventories	2,825,132	2,779,788
Prepaid expenses	1,514,471	1,594,284
Total current assets	21,877,537	28,066,380
<i>Noncurrent assets</i>		
Capital assets, net	30,543,439	34,246,062
Art collection	140,016	140,016
Total noncurrent assets	30,683,455	34,386,078
Total assets	\$ 52,560,992	\$ 62,452,458
LIABILITIES AND NET POSITION		
<i>Current liabilities</i>		
Accounts payable	\$ 6,933,996	\$ 5,920,005
Accrued compensation and related liabilities	774,118	540,362
Accrued compensated absences	1,447,270	1,527,898
Total current liabilities	9,155,384	7,988,265
<i>Net position</i>		
Net investment in capital assets	30,543,439	34,246,062
Unrestricted	12,862,169	20,218,131
Total net position	43,405,608	54,464,193
Total liabilities and net position	\$ 52,560,992	\$ 62,452,458

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, 2019 and 2018

	2019	2018
<i>Operating revenues</i>		
Net patient service revenue	\$ 56,657,770	\$ 55,243,548
Safety net care pool	5,937,555	12,924,780
Grants	786,249	544,844
Other	463,744	570,254
Total operating revenues	63,845,318	69,283,426
<i>Operating expenses</i>		
Salaries and wages	28,113,364	28,219,279
Employee benefits	6,546,739	6,577,836
Professional fees and purchased services	15,888,723	12,611,760
Supplies	11,024,264	10,772,164
Utilities	928,874	1,056,729
Repairs and maintenance	3,291,009	2,057,970
Leases and rentals	1,462,193	1,205,641
Depreciation	4,845,757	4,266,810
Insurance	842,269	1,042,081
Other	1,978,752	1,132,034
Total operating expenses	74,921,944	68,942,304
Operating income (loss)	(11,076,626)	341,122
<i>Nonoperating revenues (expenses)</i>		
Interest income	31,641	53,691
Gain (loss) on disposal of capital assets	(13,600)	121,646
Total nonoperating revenues, net	18,041	175,337
Change in net position	(11,058,585)	516,459
Net position, beginning of year	54,464,193	53,947,734
Net position, end of year	\$ 43,405,608	\$ 54,464,193

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, 2019 and 2018

	2019	2018
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 55,308,146	\$ 54,192,492
Receipts from safety net care pool	7,380,592	11,704,428
Receipts from grants	773,682	520,576
Receipts from other revenue	549,627	560,407
Payments to and on behalf of employees	(34,506,975)	(35,427,783)
Payments to suppliers and contractors	(34,367,624)	(28,568,541)
Net cash provided by (used in) operating activities	(4,862,552)	2,981,579
<i>Cash flows from capital and related financing activities</i>		
Purchase of capital assets	(1,156,734)	(2,848,344)
<i>Cash flows from investing activities</i>		
Purchase of investments	-	4,942,079
Proceeds from sale of investments	1,099,557	-
Interest received	31,641	40,545
Net cash provided by investing activities	1,131,198	4,982,624
Net increase (decrease) in cash and cash equivalents	(4,888,088)	5,115,859
Cash and cash equivalents, beginning of year	7,890,376	2,774,517
Cash and cash equivalents, end of year	\$ 3,002,288	\$ 7,890,376

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, 2019 and 2018

	2019	2018
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used In) Operating Activities</i>		
Operating income (loss)	\$ (11,076,626)	\$ 341,122
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>		
Depreciation	4,845,757	4,266,810
Provision for bad debts	9,207,468	7,910,584
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(8,058,825)	(8,262,666)
Safety net care pool	1,443,037	(1,220,352)
Estimated third-party payor receivable	(2,498,267)	-
Grants	(12,567)	(24,268)
Other	85,883	(9,847)
Inventories	(45,344)	(120,464)
Prepaid expenses	79,813	(635,475)
Increase (decrease) in liabilities:		
Accounts payable	1,013,991	2,065,777
Accrued compensation and related liabilities	233,756	(206,974)
Accrued compensated absences	(80,628)	(423,694)
Estimated third-party payor settlements payable	-	(698,974)
Net cash provided by (used in) operating activities	\$ (4,862,552)	\$ 2,981,579

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, 2019 and 2018

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 Medical Center 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, 2019 and 2018

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 Trustees.

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, 2019 and 2018

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.

Upcoming accounting standard pronouncements – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee's right to use the leased asset, thereby enhancing the relevance and consistency of information about governments' leasing activities. The new guidance is effective for the Medical Center's year ending June 30, 2021, although earlier application is encouraged. The Medical Center has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the Medical Center's year ending June 30, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

Subsequent events – Subsequent events have been reviewed through October 11, 2019, the date on which the financial statements were available to be issued.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

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, 2019, the Medical Center had deposits with a bank balance of \$4,991,289, of which \$498,697 was uninsured and uncollateralized, and therefore subject to custodial credit risk. As of June 30, 2018, the Medical Center had deposits with a bank balance of \$11,083,174, of which \$2,096,016 was uninsured and uncollateralized, and therefore subject to custodial credit risk.

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 fund’s amounts were invested. Participation in the Pool is voluntary.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

2. Deposits and Investments (continued):

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 and repurchase agreement are valued using quoted market prices (Level 2 input).

The Medical Center’s investments are as follows:

	2019					Investment Ratings
	Fair Value	Investment Maturities (in Years)				
		Less than One	One to Five	Six to Ten	More than Ten	
New MexiGROW Local Government Investment Pool	\$ 1,100	\$ 1,100	\$ -	\$ -	\$ -	AAAm
Certificates of deposit	1,815,942	1,815,942	-	-	-	Not applicable
Total investments	\$ 1,817,042	\$ 1,817,042	\$ -	\$ -	\$ -	

	2018					Investment Ratings
	Fair Value	Investment Maturities (in Years)				
		Less than One	One to Five	Six to Ten	More than Ten	
Repurchase agreement	\$ 3,493,225	\$ 3,493,225	\$ -	\$ -	\$ -	Not applicable
New MexiGROW Local Government Investment Pool	1,079	1,079	-	-	-	AAAm
Certificates of deposit	2,915,499	2,915,499	-	-	-	Not applicable
Total investments	\$ 6,409,803	\$ 6,409,803	\$ -	\$ -	\$ -	

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, 2019 and 2018

2. 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:

	2019	2018
Carrying value		
Deposits	\$ 3,001,188	\$ 4,396,072
Investments and New MexiGROW Local Government Investment Pool	1,817,042	6,409,803
	\$ 4,818,230	\$ 10,805,875
Included in the following statements of net position captions		
Cash and cash equivalents	\$ 3,002,288	\$ 7,890,376
Certificates of deposit	1,815,942	2,915,499
	\$ 4,818,230	\$ 10,805,875

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 decreased from prior years, due primarily to write-off of older accounts. The allowance related to patient coinsurance and deductibles was previously included with Medicare, Medicaid, and other third party payors. The aggregate net patient accounts receivable is the same under either classification methodology. 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, 2019 and 2018

3. Patient Accounts Receivable (continued):

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

	2019	2018
Receivable from patients and their insurance carriers	\$ 7,910,452	\$ 12,678,583
Receivable from Medicare	2,902,180	3,225,599
Receivable from Medicaid	1,717,641	1,803,090
Total patient accounts receivable	12,530,273	17,707,272
Less allowance for uncollectible accounts	4,859,425	8,887,781
Net patient accounts receivable	\$ 7,670,848	\$ 8,819,491

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, 2019 and 2018

4. Capital Assets (continued):

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

	2019				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 266,208	\$ 257,000	\$ -	\$ (199,657)	\$ 323,551
Land	806,200	-	-	-	806,200
Total capital assets not being depreciated	1,072,408	257,000	-	(199,657)	1,129,751
<i>Capital assets being depreciated</i>					
Land improvements	577,465	-	-	-	577,465
Buildings	32,367,726	-	-	-	32,367,726
Equipment	39,646,488	918,302	(32,171)	199,657	40,732,276
Total capital assets being depreciated	72,591,679	918,302	(32,171)	199,657	73,677,467
<i>Less accumulated depreciation for</i>					
Land improvements	388,260	51,676	-	-	439,936
Buildings	17,562,509	858,226	-	-	18,420,735
Equipment	21,467,256	3,935,855	(3)	-	25,403,108
Total accumulated depreciation	39,418,025	4,845,757	(3)	-	44,263,779
Total capital assets being depreciated, net	33,173,654	(3,927,455)	(32,168)	199,657	29,413,688
Capital assets, net of accumulated depreciation	\$ 34,246,062	\$ (3,670,455)	\$ (32,168)	\$ -	\$ 30,543,439

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

4. Capital Assets (continued):

	2018				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 285,028	\$ 1,151,404	\$ -	\$ (1,170,224)	\$ 266,208
Land	806,200	-	-	-	806,200
Total capital assets not being depreciated	1,091,228	1,151,404	-	(1,170,224)	1,072,408
<i>Capital assets being depreciated</i>					
Land improvements	577,465	-	-	-	577,465
Buildings	32,250,049	-	-	117,677	32,367,726
Equipment	36,963,508	1,818,587	(188,154)	1,052,547	39,646,488
Total capital assets being depreciated	69,791,022	1,818,587	(188,154)	1,170,224	72,591,679
<i>Less accumulated depreciation for</i>					
Land improvements	336,584	51,676	-	-	388,260
Buildings	16,694,010	868,499	-	-	17,562,509
Equipment	18,308,775	3,346,635	(188,154)	-	21,467,256
Total accumulated depreciation	35,339,369	4,266,810	(188,154)	-	39,418,025
Total capital assets being depreciated, net	34,451,653	(2,448,223)	-	1,170,224	33,173,654
Capital assets, net of accumulated depreciation	\$ 35,542,881	\$ (1,296,819)	\$ -	\$ -	\$ 34,246,062

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, 2019 and 2018

6. Noncurrent Liabilities:

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

	2019				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Compensated absences	\$ 1,527,898	\$ 2,187,634	\$ (2,268,262)	\$ 1,447,270	\$ 1,447,270
Total noncurrent liabilities	\$ 1,527,898	\$ 2,187,634	\$ (2,268,262)	\$ 1,447,270	\$ 1,447,270

	2018				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
Compensated absences	\$ 1,951,592	\$ 2,263,233	\$ (2,686,927)	\$ 1,527,898	\$ 1,527,898
Total noncurrent liabilities	\$ 1,951,592	\$ 2,263,233	\$ (2,686,927)	\$ 1,527,898	\$ 1,527,898

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2019 and 2018

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 who 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 provision for bad debts increased due to writeoffs of accounts due to revenue cycle issues. The Medical Center has not changed its charity care or uninsured discount policies during fiscal years 2019 or 2018. 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:

	2019	2018
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 29,495,973	\$ 21,456,571
Medicaid/Centennial Care	9,120,874	9,709,429
Other third-party payors	22,135,161	26,634,406
Patients	5,634,892	5,353,726
	66,386,900	63,154,132
Less:		
Charity care	521,662	-
Provision for bad debts	9,207,468	7,910,584
Net patient service revenue	\$ 56,657,770	\$ 55,243,548

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, 2019 and 2018

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 increased by approximately \$2,498,000 in 2019 and decreased by approximately \$588,000 in 2018, 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 and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the year ended June 30, 2019, were approximately \$221,000. The Medical Center did not receive any gifts or grants to subsidize charity care services during 2019 and 2018. The Safety Net Care Pool 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 decreased by approximately \$1,500,000 in 2019 and increased by approximately \$2,820,000 in 2018 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, 2019 and 2018

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 percent 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 percent of the employee's contribution up to a maximum of 5 percent of the employee's annual salary. Employees may contribute a maximum of 20 percent 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 \$619,000 and \$615,000 for the years ended June 30, 2019 and 2018, respectively. Employee contributions to the plan were approximately \$904,000 and \$926,000 for 2019 and 2018, 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 Endurance American Specialty 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 \$25,000 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, 2019 and 2018

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:

	2019	2018
Medicare	36 %	36 %
Medicaid/Centennial Care	21	20
Patients	21	24
Commercial and other	22	20
	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 Revenues and Expenses – Budget to Actual
Year Ended June 30, 2019

	Actual	Approved Budget	Approved Budget - Favorable (Unfavorable)
<i>Revenues</i>			
Net patient service revenue and safety net care pool	\$ 62,595,325	\$ 74,784,532	\$ (12,189,207)
Other	1,249,993	517,832	732,161
Nonoperating revenues, net	18,041	32,000	(13,959)
Total revenues	63,863,359	75,334,364	(11,471,005)
<i>Expenses</i>			
Salaries, wages, and benefits	34,660,103	37,554,169	2,894,066
Professional fees and purchased services	15,888,723	12,906,510	(2,982,213)
Supplies	11,024,264	11,453,533	429,269
Other	13,348,854	12,400,685	(948,169)
Total expenses	74,921,944	74,314,897	(607,047)
Change in net position	\$ (11,058,585)	\$ 1,019,467	\$ (12,078,052)

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
Schedule of Pledged Collateral
June 30, 2019

	Wells Fargo, NA	First American Bank	US Bank	Columbia Bank
Deposits at June 30, 2018	\$ 2,629,951	\$ 1,815,942	\$ 265,285	\$ 280,111
Less: FDIC coverage	(250,000)	(250,000)	(250,000)	(250,000)
Uninsured public funds	2,379,951	1,565,942	15,285	30,111
Pledged collateral held by the pledging bank's trust department or agent held in the Medical Center's name	2,368,960	1,123,632	-	-
Total uninsured and uncollateralized public funds	\$ 10,991	\$ 442,310	\$ 15,285	\$ 30,111
50% pledged collateral requirement per statute	\$ 1,189,976	\$ 782,971	\$ 7,643	\$ 15,056
Total pledged collateral	2,368,960	1,123,632	-	-
Pledged collateral over (under) the requirement	\$ 1,178,984	\$ 340,661	\$ (7,643)	\$ (15,056)
Wells Fargo, NA				
	Fair Value			
FNMA FNMS 3138W0XX2, matures January 1, 2043	\$ 1,181,490			
FNMA FNMS 31418AFB9, matures April 1, 2042	787,623			
FNMA FNMS 31418B5D4, matures June 1, 2036	399,847			
Total pledged securities	\$ 2,368,960			
First American Bank				
		Fair Value		
SBAP 2014-10D 1, matures July 1, 2024		\$ 168,993		
GNMA II 30 FHA Jumbo, matures March 20, 2027		213,843		
CLOVIS MUNI SD #1-B NM, matures August 1, 2028		740,796		
Total pledged securities		\$ 1,123,632		

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, 2019

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Reconciling Items	Book Balance
Deposit Accounts							
Wells Fargo	Operating checking	Interest bearing checking	\$ 2,474,243	\$ 1,046	\$ 169,194	\$ -	\$ 2,306,095
Wells Fargo	Payroll checking	Interest bearing checking	50,000	-	8,611	-	41,389
Wells Fargo	Employee assistance account	Interest bearing checking	98,896	-	-	-	98,896
Wells Fargo	Physician clinic account	Interest bearing checking	6,812	-	-	-	6,812
US Bank	POV operating checking	Interest bearing checking	265,285	-	-	-	265,285
Columbia Bank	Depository account	Interest bearing checking	280,111	-	-	-	280,111
Cash on hand	Petty cash	Petty cash	2,600	-	-	-	2,600
Investment Pool							
State Treasurer's Local Government	Investment Pool	Investment Pool	1,100	-	-	-	1,100
Certificates of Deposit							
First American Bank	GRMC	Certificates of Deposit	1,815,942	-	-	-	1,815,942
Total deposits and investments			\$ 4,994,989	\$ 1,046	\$ 177,805	\$ -	\$ 4,818,230

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Indigent Care Cost and Funding Report
Year Ended June 30, 2019

	For years ended June 30,		
	2019	2018	2017
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	<u>-</u>	<u>-</u>	<u>-</u>
B Cost of providing indigent care			
Total cost of care for providing services to:			
B1 Uninsured patients qualifying for indigent care	219,098	-	6,844
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	-	-	-
	<u>219,098</u>	<u>-</u>	<u>6,844</u>
Excess (shortfall) of funding for indigent care to cost of providing indigent care	<u>\$ (219,098)</u>	<u>\$ -</u>	<u>\$ (6,844)</u>
C Patient receiving indigent care services			
C1 Total number of patients receiving indigent care	211	-	4
C2 Total number of patients encounters receiving indigent care	756	-	4

See accompanying independent auditors' report.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Indigent Care Cost and Funding Report (Continued)
Year Ended June 30, 2019

	For years ended June 30,		
	2019	2018	2017
<i>Uninsured patients qualifying for indigent care</i>			
Charges for these patients	\$ 521,662	\$ -	\$ 19,554
Ratio of cost to charges	42%	36%	35%
Cost for uninsured patients qualifying for indigent care	<u>\$ 219,098</u>	<u>\$ -</u>	<u>\$ 6,844</u>
<i>Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)</i>			
Charges for these patients	\$ -	\$ -	\$ -
Ratio of cost to charges	42%	36%	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	42%	36%	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. Brian Colon, 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, 2019, 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 11, 2019. We also audited the schedule of revenues and expenses – budget to actual of the Medical Center for the year ended June 30, 2019, 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 first paragraph of this section 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 as items: 2017-001, 2017-002, and 2018-001 that we consider to be material weaknesses.

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 item 2018-003, 2019-001, and 2019-002.

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 11, 2019

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Summary of Auditors' Results
Year Ended June 30, 2019

Financial Statements:

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiency(ies) identified?

yes no
 yes none reported

Noncompliance material to financial statements noted?

yes no

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses
Year Ended June 30, 2019

2017-001 Auditor-Detected Adjustments

Significant Deficiency Material Weakness Material Noncompliance
 Other Noncompliance Other Matters

<i>Criteria</i>	Timely and accurate information should be available to management and those charged with governance to make decisions. No material adjusting journal entry should be detected by auditors during the audit process.
<i>Condition</i>	Audit adjustments were made to reverse prior period adjustments to net patient service revenue (\$6,936,476) and safety net care pool (\$1,500,000). These audit adjustments decreased net patient service revenue and safety net care pool revenues. An audit adjustment was also made to decrease the Medicare volume decrease adjustment receivable (\$951,859). The Medical Center reduced the number of auditor-detected adjustments in 2019 compared to 2018.
<i>Context</i>	This finding appears to be an <i>isolated</i> instance.
<i>Effect</i>	There were material errors in the financial statements that were corrected through auditor-proposed adjustments.
<i>Cause</i>	The Medical Center recorded material changes in estimates as prior period adjustments. Post year end, the Medical Center received additional information which required an adjustment to the Medicare volume decrease adjustment receivable.
<i>Recommendation</i>	The Medical Center should not record prior period adjustments that are not corrections of errors. The Medical Center should update estimates when additional information becomes available.
<i>Management's Response</i>	During fiscal year 2019, the Medical Center determined that the valuation of certain patient accounts receivable, primarily from dates of service prior to fiscal year 2019, had become worthless or of minimal value. As the Medical Center worked through these issues, all parties including the Medical Center Board, administration, and external auditors were aware of the issue and how management was treating these adjustments. Although the result of the treatment of these one-time adjustments resulted in a significant loss for the Medical Center, management ultimately agreed that the accounting standards would not allow these items to be treated as prior period adjustments. The Medical Center's chief financial officer will be responsible for implementing any corrective actions.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2019

2017-002 Reconciliations

Significant Deficiency Material Weakness Material Noncompliance
 Other Noncompliance Other Matters

<i>Criteria</i>	Property accounts should be reconciled to supporting documentation at month end. Timely and accurate information should be available to management and those charged with governance to make decisions.
<i>Condition</i>	Property accounts were not reconciled to supporting records on a monthly basis. The Medical Center had only not reconciled property accounts in 2019 as compared to nearly all balance sheet accounts in 2018.
<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 property accounts on a monthly basis.
<i>Recommendation</i>	The Medical Center should develop a formal, systematic process to reconcile all property accounts on a monthly basis.
<i>Management's Response</i>	Management agrees with this recommendation. As a result of this continuing audit finding, management has elected to replace certain key positions and place a significant emphasis on account reconciliations. The Medical Center's chief financial officer will be responsible for implementing any corrective actions. The property accounts were reconciled by completion of the audit and will be reconciled monthly going forward.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2019

2018-001 Written Accounting Policies and Procedures

Significant Deficiency Material Weakness Material Noncompliance
 Other Noncompliance Other Matters

<i>Criteria</i>	Accounting policies and procedures should be documented to ensure the Medical Center has consistent internal controls.
<i>Condition</i>	The Medical Center does not currently have written accounting policies and procedures. The Medical Center has not made significant progress in correcting this finding.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	The accounting for key transactions is not consistent. Accounting staff do not have clear guidance to follow in performing their duties. Key internal controls are at risk of not being consistently applied.
<i>Cause</i>	The Medical Center has not documented accounting policies and procedures in writing.
<i>Recommendation</i>	The Medical Center should develop written accounting policies and procedures for reference throughout operations.
<i>Management's Response</i>	The Medical Center accounting policies and procedures will be in place by March 31, 2020. The Medical Center's controller will be responsible for developing the written policies and procedures. To assist the Medical Center with complying with requirements for proper controls over policies and procedures, in July 2019 the Medical Center deployed an electronic policy and procedure management system.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2019

2018-003 Minimum Pledged Collateral Requirement

Significant Deficiency Material Weakness Material Noncompliance
 Other Noncompliance Other Matters

<i>Criteria</i>	In order to comply with Section 6-10-17 NMSA 1978, pledged collateral for deposits in banks must equal at least one-half of the amount of public money in each account.
<i>Condition</i>	The Medical Center did not meet the collateralization requirement with deposits held at US Bank and Columbia Bank at year end. The Medical Center was under collateralized by \$22,699. The Medical Center is continuing to work with the banks to develop procedures to keep bank balance below FDIC coverage.
<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 P (4)(b) NMAC and, as a result, exposes the Medical Center to custodial risk, in which the Medical Center would lose its assets not protected by the FDIC or that were not collateralized.
<i>Cause</i>	There are no policies and procedures regarding reviewing the collateralization requirement of the State of New Mexico. The US Bank and Columbia Bank accounts were set up to facilitate deposits collected by an outsourced business office organization.
<i>Recommendation</i>	Management should develop policies to ensure the Medical Center's deposits are reviewed frequently to ensure all deposits are properly collateralized in accordance with New Mexico State law.
<i>Management's Response</i>	The Medical Center is putting in place a policy to have all deposit accounts be 100 percent collateralized to avoid the risk of under collateralization. The Medical Center's chief financial officer will be responsible for correcting the collateralization issue as soon as possible.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2019

2019-001 State Compliance Audit Requirements – Actual Expenses Exceed Budgeted Expenses

Significant Deficiency Material Weakness Material Noncompliance
 Other Noncompliance Other Matters

<i>Criteria</i>	Sections 6-6-1 to 6-6-19 NMSA 1978, requires the Medical Center to approve a revised operating budget when expenses exceed the originally budgeted expenses.
<i>Condition</i>	The Medical Center went over budget by \$607,047.
<i>Context</i>	This finding appears to be an <i>isolated</i> instance.
<i>Effect</i>	The District is not in compliance with the New Mexico state audit rule.
<i>Cause</i>	The District did not follow New Mexico state regulations regarding operating budgets.
<i>Recommendation</i>	Management should develop policies and procedures to monitor actual and budgeted expenses. The budget should be revised and approved by the Board of Directors when actual expenses exceed budgeted expenses.
<i>Management's Response</i>	The Medical Center agrees and in fiscal year 2020 will be transitioning from an MS Excel based budgeting system to a more robust system which will allow quarterly rolling budget updates. The chief financial officer is responsible for implementing this system by January 31, 2020.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2019

2019-002 403(b) Plan Requirement

Significant Deficiency Material Weakness Material Noncompliance
 Other Noncompliance Other Matters

<i>Criteria</i>	IRS Publication 571, Tax-Sheltered Annuity Plans (403(b) Plans) states that these plans are available to employees of public schools and certain tax-exempt organizations.
<i>Condition</i>	The Medical Center is not a tax-exempt organization under IRS Section 501(c)(3). The Medical Center is a governmental entity and has not obtained dual-status as a tax-exempt organization under IRS Section 501(c)(3).
<i>Context</i>	The finding appears to be an <i>isolated</i> instance.
<i>Effect</i>	The Medical Center's retirement plan is not in compliance with IRS regulations.
<i>Cause</i>	The Medical Center's retirement plan administrators did not recognize that governmental entities are not tax-exempt organizations under IRS Section 501(c)(3) without specifically applying for this status.
<i>Recommendation</i>	The Medical Center either needs to obtain IRS Section 501(c)(3) status or change retirement plans.
<i>Management's Response</i>	The management of the Medical Center recognized this potential issue during fiscal year 2019. As such, a search for a more capable financial advisor was initiated in August 2019 with selection to occur during October 2019. The chief financial officer is responsible for the final determination regarding appropriateness of the 403(b) plan for the Medical Center and required corrective action to be completed by March 31, 2020.

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Summary Schedule of Prior Year Findings
Year Ended June 30, 2019

Prior Year Number	Description	Current Status
2017-001	Auditor-Detected Adjustments	Repeated
2017-002	Reconciliations	Repeated
2018-001	Written Accounting Policies and Procedures	Repeated
2018-002	Charity Care	Resolved
2018-003	Minimum Pledged Collateral Requirement	Repeated

Gila Regional Medical Center
A Component Unit of Grant County, New Mexico
Exit Conference
Year Ended June 30, 2019

An exit conference was held August 30, 2019, with the following individuals to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Antonio Trujillo	Board of Trustees, Board Chair
Taffy Arias	Chief Executive Officer
Richard Stokes	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.