

**UNION COUNTY GENERAL HOSPITAL**

**FINANCIAL STATEMENTS**

**JUNE 30, 2015 AND 2014**

# UNION COUNTY GENERAL HOSPITAL

## TABLE OF CONTENTS

Official Roster	1
Independent Auditor's Report	2
Management's Discussion and Analysis	5
<b>FINANCIAL STATEMENTS</b>	
Statements of Net Position	10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13
<b>SUPPLEMENTARY INFORMATION (AUDITED)</b>	
Schedule of Revenues, Expenses and Changes in Net Position- Budget and Actual (2015)	27
Schedule of Revenues, Expenses and Changes in Net Position- Budget and Actual (2014)	28
<b>NM STATE AUDITOR'S SUPPLEMENTARY INFORMATION</b>	
Schedule of Pledged Collateral	29
Schedule of Individual Deposit and Investment Accounts	30
Schedule of Vendor Information	31
<b>Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	32
<b>Schedule of Findings and Responses</b>	34
<b>Summary of Prior Audit Findings</b>	39
<b>Exit Conference</b>	40

**UNION COUNTY GENERAL HOSPITAL  
(A COMPONENT UNIT OF UNION COUNTY)  
For the Year Ended June 30, 2015 and 2014**

**Official Roster**

**Board of Trustees**

Judith Cooper, President  
Jim Mayfield, Vice-President  
Hollie Steen, Secretary/Treasurer  
Gloria Rael, Member  
Jim Brook, Member

**Principal Employees**

Gerald Wiesner, Chief Executive Officer  
Alexander Altman, Chief Financial Officer  
Tammie Chavez, Chief Operating Officer/Chief Nursing Officer  
Cassie Drumm, Administrative Assistant



6200 Uptown Blvd NE  
Suite 400  
Albuquerque, NM 87110  
505.338.0800

## Independent Auditor's Report

To the Board of Directors  
Clayton Health Systems, Inc.  
dba Union County General Hospital  
Clayton, New Mexico  
and  
Timothy Keller, State Auditor

### Report on the Financial Statements

We have audited the accompanying financial statements of Clayton Health Systems, Inc. dba Union County General Hospital (the "Hospital"), a component unit of Union County (the County"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the budget comparison schedule for the year ended June 30, 2015, presented as supplementary information, as defined by the Governmental Accounting Standards Board.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial 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 respective financial position of the Hospital as of June 30, 2015, and the changes in its financial position and cash flows, and the respective budget comparison schedule for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters***Prior Year Auditor's Report*

The financial statements of the Hospital as of June 30, 2014, were audited by other auditors whose report dated November 26, 2014, expressed an unmodified opinion.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplemental Information*

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budget comparison schedule that collectively comprise the Hospital's financial statements as a whole. The accompanying schedules of pledged collateral, individual deposit and investment accounts, as required by Section 2.2.2 NMAC, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Other Information*

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2015, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Ricci & Company LLC*

Albuquerque, New Mexico  
October 27, 2015

**UNION COUNTY GENERAL HOSPITAL  
(A COMPONENT UNIT OF UNION COUNTY)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015**

**Introduction**

This section of the financial report presents management's discussion and analysis of Union County General Hospital (the "Hospital's") financial performance during the fiscal year that ended June 30, 2015. This section presents comparative information and balances for the years ended June 30, 2015, 2014 and 2013. Please read it in conjunction with the Hospital's basic financial statements, which follow this section.

**Financial Highlights**

- Current assets increased by \$435,108 in 2015 and decreased by \$(1,414,759) in 2014, or 14.8% and (32.4%), respectively.
- The Hospital's net position increased by \$207,944 in 2015 and \$100,855 in 2014, or 2.8% and 1.4%, respectively.

**Using This Annual Report**

The Hospital's financial statements consist of three statements: balance sheets; statements of revenues, expenses and changes in net position; and statements of cash flows. These statements provide information about the activities of the Hospital. The Hospital is accounted for as a business-type activity and presents its financial statement using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheets and the statements of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question.

These statements include all assets and liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

**UNION COUNTY GENERAL HOSPITAL  
(A COMPONENT UNIT OF UNION COUNTY)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015**

These two statements report the Hospital's net position and changes in it. The Hospital's total net position, the difference between assets and liabilities, is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

**The Statements of Cash Flows**

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

**The Hospital's Net Position**

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position increased in 2015 by \$207,944, or 2.8%, and increased in 2014 by \$100,855 or 1.4%, as shown in the following table:

**UNION COUNTY GENERAL HOSPITAL  
BALANCE SHEETS  
June 30, 2015 and 2014 and 2013**

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current Assets	\$ <u>3,382,886</u>	<u>2,947,778</u>	<u>4,362,537</u>
Assets limited as to use	<u>3,557,431</u>	<u>1,627,342</u>	<u>1,675,805</u>
Property and Equipment-Net of Depreciation	<u>9,846,278</u>	<u>10,006,363</u>	<u>10,763,760</u>
Other assets	<u>132,830</u>	<u>142,180</u>	<u>127,474</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>16,919,425</u></b>	<b><u>14,723,663</u></b>	<b><u>16,929,576</u></b>
 <u>LIABILITIES AND NET POSITION</u>			
Current Liabilities	\$ <u>3,249,917</u>	<u>1,144,263</u>	<u>2,957,853</u>
Debt borrowings, net of current maturities	<u>6,152,442</u>	<u>6,270,278</u>	<u>6,763,456</u>
<b>Total liabilities</b>	<b><u>9,402,359</u></b>	<b><u>7,414,541</u></b>	<b><u>9,721,309</u></b>
<b>Net Position</b>	<b><u>7,517,066</u></b>	<b><u>7,309,122</u></b>	<b><u>7,208,267</u></b>
<b>Total Liabilities and Net Position</b>	<b>\$ <u>16,919,425</u></b>	<b><u>14,723,663</u></b>	<b><u>16,929,576</u></b>

*See Notes to Financial Statements.*



**UNION COUNTY GENERAL HOSPITAL  
(A COMPONENT UNIT OF UNION COUNTY)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015**

**UNION COUNTY GENERAL HOSPITAL  
Statement of Revenue, Expenses, & Change in Net Position  
Years Ended June 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Net Patient Revenue</b>	\$ 8,647,038	7,302,722	8,713,921
SCH Funds	13,348	2,098,672	2,252,979
SNCP Funds	1,085,777	657,841	-
Other operating revenues	374,629	323,355	98,491
<b>Total Revenues</b>	<b>10,120,792</b>	<b>10,382,590</b>	<b>11,065,391</b>
<b>Expenses</b>			
Salaries, Benefits, Contract Labor	4,972,479	5,673,892	6,018,466
Purchased services, Supplies	3,711,652	3,235,261	3,596,789
Other Operating Expenses	1,703,801	1,653,343	1,845,699
Depreciation, Interest	971,134	1,149,760	1,005,179
<b>Total expenses</b>	<b>11,359,066</b>	<b>11,712,256</b>	<b>12,466,133</b>
<b>Operating income (loss)</b>	<b>(1,238,274)</b>	<b>(1,329,666)</b>	<b>(1,400,742)</b>
<b>Non Operating Revenue</b>			
Tax revenues	964,335	878,116	669,203
Other non operating revenues	481,883	589,755	500,074
<b>Total Non Operating Revenue</b>	<b>1,446,218</b>	<b>1,467,871</b>	<b>1,169,277</b>
<b>Change in Net Position</b>	<b>\$ 207,944</b>	<b>138,205</b>	<b>(231,465)</b>
Net Position Beginning of Year	<u>7,309,122</u>	<u>7,170,917</u>	<u>7,402,382</u>
Net Position at End of Year	<u><u>\$ 7,517,066</u></u>	<u><u>7,309,122</u></u>	<u><u>7,170,917</u></u>

The increase in net position of \$207,944 in 2015, as opposed to the increase of \$138,205 in 2014, was due to higher operating revenue in 2015 than in 2014.

**Operating Results and Changes in the Hospital's Net Position**

The Hospital's operating income in 2015 was \$(1,238,274), a 7% increase in the operating income compared to 2014 results. In 2014, the operating income was \$(1,329,664). This compares to 2013 operating income of \$(1,400,742). These results are shown in the following table:

**UNION COUNTY GENERAL HOSPITAL  
(A COMPONENT UNIT OF UNION COUNTY)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015**

**Operating Income**

The first component of the overall change in the Hospital's net position is its operating income or loss – the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital reported an operating loss in 2015 of \$(1,238,274), an decrease of \$91,390 compared to the 2014 operating loss of \$(1,328,664). The primary components of the operating results in 2015 are as follows:

- Increase in net patient service revenue of \$1,344,316, or 18%, was due in large part to increases in revenue.
- After receiving these funds for many years, the Hospital lost the Sole Community Provider (SCP) funding when the program ended on December 31, 2013. SCP was replaced with the Safety Net Care Pool Program that was created to offset some of the loss from the SCP Program. Revenue related to this new program was \$1,085,777 during the year ended June 30, 2015.
- The Hospital recorded \$369,813 due from Medicare for Electronic Health Record (EHR) "Meaningful Use" during 2015. The amount was calculated based on regulations passed by Congress in the HITECH Act and was based on the Hospital meeting the Stage I "meaningful use" criteria.
- Salaries and employee benefits and contract labor decreased by \$701,413 compared to the prior year. There was a 5% wage increase given back to all employees since the reduction in 2013.
- Purchased services and other increased by \$476,389 in 2015, or 14%, due primarily to increased fees paid for contracted services.
- Total expenses for 2015 were \$11,359,066, or 3% below total expenses reported in 2014.
- Total operating loss for 2015 of \$(1,238,274) was 7% below the operating loss for 2014 of \$(1,329,664).

**Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses, which consists primarily of Mill Levy, GRT and County funds, noncapital grants and gifts, and interest income, decreased by \$21,651. Nonoperating revenue for 2015 was \$1,446,218 and was \$1,467,869 for 2014.

**Cash Flows**

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

**UNION COUNTY GENERAL HOSPITAL  
(A COMPONENT UNIT OF UNION COUNTY)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015**

**Capital Assets and Debt Administration**

**Capital Assets**

At the end of 2015, the Hospital had \$9.8 million invested in capital assets, net of accumulated depreciation. In 2015, the Hospital invested approximately \$574,897 for the purchase of capital equipment and renovation projects. The capital asset additions above consisted of approximately \$120,732 for new and upgraded information systems technology for both hardware and software, approximately \$418,067 for new medical equipment, and other equipment purchases. Old, outdated equipment of \$733,816 was retired during the year.

**Budget Highlights**

There were budget modifications during the fiscal year of 2015. Total operating revenues were greater than the budget by approximately \$835,240 due primarily to higher inpatient and outpatient revenues. Operating expenses were \$482,620 above budget, primarily due to greater than planned utilization of contract employees in nursing areas.

**Other Economic Factors**

The Hospital's service area is comprised of the entirety of Union County. Over 90% of our patients are County residents. The County population is 4,474. Predictions are that the population will remain stable. Major employers are the local prison, the school system, government, retailing, and the hospitality industry. With a diversity of employers, and with gradual but certain economic recovery, it is believed that the risk of loss of our patient base is low. As a Hospital, we also recognize the need to identify opportunities to better serve the community. We understand that our proximity to our patient base is a key advantage. Current efforts in growing services are aimed at being the preferred provider for some who might travel to Amarillo, Raton, Albuquerque or Dalhart, Texas for many health care needs which might be met right here in Union County.

**Contacting the Hospital's Financial Management**

This financial report is designed to provide the Hospital's Board of Trustees, customers, and the citizens of Union County with a general overview of the Hospital's finances and to show the Hospital's financial accountability. If you have any questions about this report or need additional financial information, contact:

Chief Financial Officer  
Union County General Hospital  
300 Wilson Street  
Clayton, NM 88415  
(575)374-7008

**UNION COUNTY GENERAL HOSPITAL  
STATEMENTS OF NET POSITION  
June 30, 2015 and 2014**

**ASSETS**

	2015	2014
Current Assets		
Cash and cash equivalents	\$ 1,291,997	1,054,880
Patient accounts receivable, net of allowances	1,313,391	1,100,343
Other receivables	436,494	497,256
Inventories	256,085	238,817
Prepaid expenses and other current assets	84,919	56,482
<b>Total current assets</b>	<b>3,382,886</b>	<b>2,947,778</b>
Assets limited as to use	<b>3,557,431</b>	1,627,342
Property and Equipment		
Building and improvements	11,481,995	11,481,995
Fixed and major moveable equipment	1,508,212	1,703,229
Construction in progress	51,035	14,937
	<b>13,041,242</b>	13,200,161
Less accumulated depreciation	<b>(3,194,964)</b>	<b>(3,193,798)</b>
<b>Total property and equipment</b>	<b>9,846,278</b>	<b>10,006,363</b>
Other assets	<b>132,830</b>	142,180
<b>Total assets</b>	<b>\$ 16,919,425</b>	<b>14,723,663</b>

**LIABILITIES AND NET ASSETS**

Current Liabilities		
Current maturities of debt borrowings	\$ 582,759	361,736
Accounts payable and accrued expenses	729,470	425,320
Accrued payroll and related liabilities	191,634	221,771
Estimated third party payor settlements	1,746,054	135,436
<b>Total current liabilities</b>	<b>3,249,917</b>	<b>1,144,263</b>
Debt borrowings, net of current maturities	<b>6,152,442</b>	6,270,278
<b>Total liabilities</b>	<b>9,402,359</b>	<b>7,414,541</b>
Net Position		
Net Investment in Capital Assets	3,111,077	3,374,349
Unrestricted Net Assets	4,355,989	3,884,773
Temporarily restricted net assets	50,000	50,000
<b>Total net position</b>	<b>7,517,066</b>	<b>7,309,122</b>
<b>Total liabilities and net position</b>	<b>\$ 16,919,425</b>	<b>14,723,663</b>

*See Notes to Financial Statements.*

**UNION COUNTY GENERAL HOSPITAL**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Years Ended June 30, 2015 and 2014**

	2015	2014
<b>Operating Revenue</b>		
Net patient service revenues	\$ 8,647,038	7,302,722
Other revenues, gains, and other support:		
SCH Funds	13,348	2,098,672
SNCP Funds	1,085,777	657,841
Other operating revenues	374,629	323,355
	<hr/>	<hr/>
<b>Total operating revenues</b>	<b>10,120,792</b>	<b>10,382,590</b>
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Salaries and wages	3,151,175	4,034,387
Employee benefits	448,399	609,658
Contract labor	1,372,905	1,029,847
Professional fees	891,545	678,781
Supplies	1,348,088	1,148,644
Purchased services	1,136,817	1,055,575
Repairs and maintenance	335,202	352,261
Rent	541,926	547,097
Utilities and phone	189,875	188,909
Insurance	332,334	408,130
Interest	226,462	288,657
Depreciation and amortization	744,672	861,103
Other operating expenses	639,666	509,207
	<hr/>	<hr/>
<b>Total operating expenses</b>	<b>11,359,066</b>	<b>11,712,256</b>
	<hr/>	<hr/>
<b>Operating income (loss)</b>	<b>(1,238,274)</b>	<b>(1,329,666)</b>
	<hr/>	<hr/>
<b>Non Operating Revenue</b>		
Tax revenues	964,335	878,116
Other non operating revenues, net	481,883	589,755
<b>Total non operating revenue</b>	<hr/> <b>1,446,218</b>	<hr/> <b>1,467,871</b>
	<hr/>	<hr/>
<b>Change in Net Position</b>	<b>207,944</b>	<b>138,205</b>
	<hr/>	<hr/>
Net Position, Beginning of Year	7,309,122	7,170,917
	<hr/>	<hr/>
Net Position, End of Year	<b>\$ 7,517,066</b>	<b>7,309,122</b>
	<hr/> <hr/>	<hr/> <hr/>

*See Notes to Financial Statements.*

**UNION COUNTY GENERAL HOSPITAL  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2015 and 2014**

	2015	2014
Cash Flows From Operating Activities		
Change in net position adjustments to reconcile the change in net position to net cash provided by operating activities:	\$ 207,944	138,205
Depreciation and amortization	735,322	851,753
Provision for bad debts	2,464,828	2,353,541
Changes in operating assets and liabilities:		
Patient accounts receivable	(2,677,876)	(1,797,143)
Other receivables	60,762	958,476
Inventories	(17,268)	16,113
Prepaid expenses and other current assets	(28,437)	(1,264)
Accounts payable and accrued expenses	304,150	(497,385)
Accrued payroll and related liabilities	(30,137)	(52,635)
Estimated third party payor settlements	1,610,618	(701,783)
<b>Net cash provided by operating activities</b>	<b>2,629,906</b>	<b>1,267,878</b>
Cash Flows From Investing Activities		
Purchases of property and equipment, net of disposals	(209,286)	(181,706)
(Increase) decrease in assets limited as to use	(1,930,089)	48,463
Decrease (increase) in other assets	9,350	(14,706)
<b>Net cash used by investing activities</b>	<b>(2,130,025)</b>	<b>(147,949)</b>
Cash Flows From Financing Activities		
Temporarily restricted contributions	-	50,000
Net repayments of debt borrowings	(262,764)	(1,054,965)
<b>Net cash used for financing activities</b>	<b>(262,764)</b>	<b>(1,004,965)</b>
<b>Net increase in cash and cash equivalents</b>	<b>237,117</b>	<b>114,964</b>
Cash and cash equivalents, beginning of year	1,054,880	939,916
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,291,997</b>	<b>1,054,880</b>
Non-cash transactions		
<b>Equipment financed with capital lease</b>	<b>\$ 365,954</b>	<b>-</b>

*See Notes to Financial Statements.*

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity.** Clayton Health Systems, Inc. (the Corporation), dba Union County General Hospital (the Hospital) is a not-for-profit acute care hospital located in Clayton, New Mexico. The Hospital is a 25-bed licensed facility providing acute care to residents of the Clayton, New Mexico region. The primary interest of the Hospital is to provide medical services to the residents of Clayton, Union County, and the surrounding area. The Hospital is a component unit of Union County (County) and the Board of County Commissioners appoints the members to the Board of Trustees of the Hospital. The Hospital does not have component units as defined by Governmental Accounting Standards Board (GASB) *Codification*, Section 2300.106(a)(2).

The Corporation operates the Hospital through an operating agreement with Union County, New Mexico (the County). The agreement was first entered into by the Corporation and the County on June 28, 1996. Since then, the agreement has been amended several times. With the most recent update in August 2014, the agreement is now set to expire on August 11, 2019. The County owns the real property and certain personal property (mainly equipment) used in the operations of the Hospital. The Corporation generally owns the working capital arising out of the operations of the Hospital.

A management company manages the operations of the Hospital for the Corporation pursuant to a management agreement. Under the provisions of this agreement, the management company has the authority and responsibility to conduct, supervise and manage the day-to-day operations of the Hospital. As a not-for-profit entity, the Hospital is generally not subject to state or federal income taxes but is subject to form 990 and related state forms. The tax years of 2012 through 2014 remain open and subject to possible examination by appropriate government agencies in the United States and New Mexico.

This summary of significant accounting policies of the Hospital is presented to assist in the understanding of the financial statements. The financial statements and notes are the representations of the Hospital's management who is responsible for their integrity and objectivity. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to healthcare entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Hospital's accounting policies are described below.

**Basis of Presentation.** The Hospital's financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange takes place, while those from government-mandated non-exchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated non-exchange transactions in providing health care services, the Hospital's principal activity. Government-mandated non-exchange transactions that are not program-specific (such as county appropriations), ad valorem taxes, investment income, losses on sales of capital assets, changes in unrealized losses of certificate of deposit, and other income and expenses are included in nonoperating revenues and expenses. The Hospital prepares its financial statements as a business-type activity in conformity with applicable GASB pronouncements.

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*Use of Estimates.* The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents.* Cash and cash equivalents include investments in highly liquid debt instruments, when present, with a short-term maturity or subject to withdrawal upon request. The Hospital routinely invests its surplus operating funds in interest-bearing funds such as highly liquid obligations, mutual funds and money market accounts.

*Patient Accounts Receivable and Allowance.* Patient accounts receivable represent the amount billed but uncollected for services provided to patients. Such receivables are carried at the billed amount less estimates for contractual discounts and allowances as well as for doubtful accounts. Management determines the allowance for doubtful accounts by examining aging categories by payor and by using historical experience applied to the aging. Individual accounts receivable are written off when deemed uncollectible. Recoveries of patient accounts receivable previously written off are recorded when received. Delinquent status is based on how recently payments have been received. The Hospital does not accrue interest on past-due accounts.

Management believes that the allowances for doubtful accounts and contractual allowances are adequate. Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is a possibility that recorded estimates of the allowance for doubtful accounts and contractual allowances may change in the near term.

*Inventories.* Inventories are consistently reported from year-to-year at cost, generally determined by replacement value, which is not in excess of market.

*Assets Limited as to Use.* Assets limited as to use can include donor restricted funds, amounts designated by the Board of Directors for replacement or purchase of property and equipment and other specific purposes, and amounts held by bond trustees under indenture agreements. Amounts, if any, required to meet current liabilities of the Hospital are reclassified as current assets in the balance sheet.

*Property and Equipment.* Property and equipment are reported on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation. Routine maintenance and repairs are charged to expense as incurred. Expenditures which increase values, change capacities, or extend useful lives are capitalized. Depreciation of property and equipment and amortization of property under capital leases are computed by the straight-line method for both financial reporting and cost reimbursement purposes over the estimated useful lives of the assets, which range from 5 to 40 years for buildings and improvements and 5 to 20 years for equipment. Interest cost incurred on borrowed funds, net of related interest earnings, is capitalized during periods of construction of capital assets as a component of acquiring those assets.

*Other Assets.* Other assets include debt issue costs and certain pledged receivables. For pledges receivable which are considered collectible, no allowance has been established. For those considered to be questionable as to collection, an allowance has been established.



**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Compensated Absences.** The Hospital's employees earn vacation benefits at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. Both benefits can accumulate up to specified maximum levels. Employees are not paid for accumulated sick leave benefits if they leave either upon termination or before retirement. However, accumulated vacation benefits are paid to an employee upon either termination or retirement. Accrued vacation liabilities as of June 30, 2015 and 2014 are \$95,022 and \$104,752, respectively.

**Risk Management.** The Hospital 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 medical malpractice. Commercial insurance and/or equivalent risk-pool coverage is purchased for claims arising from such matters.

**Net Position.** The Hospital follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Accordingly, the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is referred to as net position. Net position is categorized as follows:

- Net Investment in Capital Assets - Is intended to reflect the portion of net position which is associated with capital assets less outstanding capital asset related debt, if any. The Hospital has no capital asset related debt at fiscal year-end.
- Restricted Net Position - Restricted net position results when constraints placed on an assets' use are either externally imposed by donors, creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net position - Represents net position not otherwise classified as invested in capital assets or restricted net position. The Hospital first applies restricted net position when an expense or out lay is incurred for purposes for which both restricted and unrestricted net positions are available.

**Change in Net Position.** The accompanying statements of revenues, expenses and changes in net position may include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

**Net Patient Service Revenues.** The Hospital has agreements with third party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per day, discharge or visit, reimbursed costs, discounted charges and per diem payments. Net patient service revenues are reported in the period at the estimated net realized amounts from patients, third party payors and others including estimated retroactive adjustments under reimbursement agreements with third party programs. Normal estimation differences between final reimbursement and amounts accrued in previous years are reported as adjustments of current year's net patient service revenues.

**Charity Care.** The Hospital generally accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenues. Services provided are recorded as gross patient service revenues and then written off entirely as an adjustment to net patient service revenues.

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**County Revenues and Reimbursements.** The County from time-to-time will provide the Hospital with working capital in the form of the gross tax receipts (GRT) program. During the years ended June 30, 2015 and 2014, the County provided \$111,000 and \$0, respectively, to the Hospital under this program. Other transactions of the GRT program allows the County to reimburse the Hospital for qualified expenditures paid for by the Hospital. These expenditures are funded by the County with revenues from a mill levy pursuant to the Hospital Funding Act. Mill levy revenues for the years ended June 30, 2015 and 2014 were \$693,986 and \$718,855, respectively. This reimbursement program will continue as funds are available. The Hospital also received \$159,349 in 2015 and \$159,261 in 2014 from the County to pay NMFA loan #7.

**Donor-Restricted Assets.** Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are generally reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year are received and reported as unrestricted contributions in the accompanying financial statements.

**Statements of Cash Flows.** For purposes of the statements of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash paid for interest expense during the years ended June 30, 2015 and 2014 was \$226,462 and \$288,657, respectively.

**Budget Process.** The Hospital's budget is prepared on a basis consistent with generally accepted accounting principles (GAAP), using an estimate of the anticipated revenues and expenditures. Budgets are approved and amended by the Board of Trustees. Formal budgetary integration is employed as a management control device during the year. Since the Hospital is a proprietary entity and does not receive legislative appropriations, the budget is not a binding budget.

**Fair Value of Financial Instruments.** Financial instruments include various cash equivalents, receivables, and payables. The carrying amount of those financial instruments has been estimated by management to approximate fair value due to their short maturity.

**Concentrations of Credit and Market Risk.** Financial instruments that potentially expose the Hospital to concentrations of credit and market risk consist primarily of cash and cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution. The Hospital has not experienced any losses on its cash equivalents. The Hospital's investments do not represent significant concentrations of market risk since the Hospital's investment portfolio is adequately diversified among issuers.

**Reclassifications.** Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. The reclassifications have no effect on the changes in net position.

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 2. NET PATIENT SERVICE REVENUES**

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

*Medicare:* Payments for acute care services rendered to Medicare program beneficiaries are based on allowable costs under Medicare's Critical Access program for inpatient and certain outpatient services. Other outpatient services are reimbursed under established fee schedules. The Hospital became designated as a Critical Access Hospital effective March 19, 2001. The Hospital is paid for the cost reimbursable services at an interim rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. At June 30, 2015, cost reports through June 30, 2013 have been audited or otherwise final settled. Management believes that the estimated settlement liability of \$1,746,054 is adequate to settle open cost reports and provide an allowance for other related matters.

*Medicaid:* On June 1, 1998, the Hospital began participation in the New Mexico Medicaid managed care program. Under the managed care program, inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined per diem amounts. Outpatient services are reimbursed under prospectively determined fee schedules and discounts from established charges.

*Other:* Payments for services rendered to other than Medicare and Medicaid patients are based on established rates or on agreements with certain commercial insurance companies, health maintenance organizations, and preferred provider organizations which provide for various discounts from established 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. Management believes that estimated settlement amounts accrued for at June 30, 2015 are adequate to provide for the settlement of all open cost reports. Estimates are continually monitored and reviewed, and as settlements are made or more information becomes available to improve estimates, differences are reflected in current operations.

Patient service revenues for the years ended June 30, 2015 and 2014, summarized by service area, are as follows:

	2015	2014
Inpatient acute care	\$ 8,187,399	5,075,813
Outpatient acute care	16,080,643	12,400,258
Home health services	333,953	166,894
Total acute and clinic services	24,601,995	17,642,965
Less deductions from revenue (including supplementals)	<u>(15,954,957)</u>	<u>(10,340,243)</u>
<b>Net patient service revenues</b>	<b><u>\$ 8,647,038</u></b>	<b><u>7,302,722</u></b>

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 2. NET PATIENT SERVICE REVENUES (CONTINUED)**

*Sole Community Provider Indigent Care Program (SCP):* The Hospital, due to its isolated location and service to indigent patients, participated in a sole community provider indigent care program that was administered by the State of New Mexico. The program was funded by the County by way of an intergovernmental transfer, which paid the County's share amount to the State that was required to draw down federal monies. The supplemental payments were based on service to indigent and Medicaid patients as well as consideration of the Hospital's Medicaid contractual write-offs. Revenue from the SCP program was approximately \$2.1 million for fiscal year 2014. The SCP was terminated and replaced with the Safety Net Care Pool Program at December 31, 2013.

*Safety Net Care Pool Program (SNCP):* Senate Bill 314 amended and repealed various sections of existing statute to comply with federally approved changes to the Sole Community Provider Funds. The law provides for a county-imposed tax of one-twelfth percent of gross receipts be permanently transferred to the "Safety Net Care Pool Fund" and expended pursuant to the Indigent Hospital and County Health Care Act. The law allows counties to budget for expenditures on ambulance services, burial expenses, and hospital or medical expenses for indigent residents of their county. The law requires that qualifying hospitals receiving payment from the Safety Net Care Pool file a quarterly report on all indigent health care funding with the Human Services Department (HSD) and the County Commission, and the HSD to submit a quarterly report to the Legislative Finance Committee containing the previous quarter's Safety Net Care Pool Fund receipts and the disposition of funds. Revenues from the SNCP were approximately \$1.1 million and \$658 thousand for the years ended June 30, 2015 and 2014, respectively.

All SNCP hospitals are to complete an application to the State by December 31, 2015 for funding based upon 2014 indigent costs. State funding for SNCP is currently limited. With recent expanded Medicaid eligibility and a Medicaid rate increase, the amount allocable to a hospital may decrease. Prior overpayments to a hospital could be recouped once the State makes a determination of the amount. Accordingly, the Hospital has established an allowance for possible repayment.

**NOTE 3. CONCENTRATIONS OF CREDIT RISK**

The Hospital grants credit without collateral to its patients and third-party payors. Patient accounts receivable from government agencies represent the only concentrated group of credit risk for the Hospital and management does not believe that there are any credit risks associated with these governmental agencies. Contracted and other patient accounts receivable consist of various payors, including individuals involved in diverse activities subject to differing economic conditions and do not represent any concentrated credit risks to the Hospital. Management believes that estimates made for the allowance for contractual adjustments and uncollectible accounts are adequate. Concentration of patient accounts receivable at June 30, 2015 and 2014 is as follows:

	2015	2014
Medicare	\$ 1,029,210	840,321
Medicaid	1,234,194	579,724
Other third-party payors	1,396,917	1,291,996
Self pay, collections, DME and other	<u>3,228,461</u>	<u>7,220,657</u>
Gross patient accounts receivable	6,888,782	9,932,698
Less allowances for contractual adjustments and uncollectible accounts	<u>(5,575,391)</u>	<u>(8,832,355)</u>
<b>Net patient accounts receivable</b>	<b><u>\$ 1,313,391</u></b>	<b><u>1,100,343</u></b>

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 4. CASH and CASH EQUIVALENTS**

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. In accordance with Section 6-10-17, NMSA, 1978 compilation, the Hospital 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. As of June 30, 2015 and 2014, the Hospital was not in compliance with the state regulations.

Assets limited as to use are stated at fair value (which approximates cost) and are comprised of the following at June 30:

	2015	2014
Certificates of deposit	\$ 549,723	547,416
Deposits and money market	<u>3,007,708</u>	<u>1,079,926</u>
<b>Assets limited as to use</b>	<u>\$ 3,557,431</u>	<u>1,627,342</u>

At June 30, 2015 the Hospital had deposits and investments with the following maturities:

	Maturities in years				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
CD's	\$ 549,723	-	549,723	-	-
Deposits	<u>3,007,708</u>	<u>3,007,708</u>	-	-	-
<b>Total</b>	<u>\$ 3,557,431</u>	<u>3,007,708</u>	<u>549,723</u>	-	-

At June 30, 2014 the Hospital had deposits and investments with the following maturities:

	Maturities in years				
	Fair Value	Less than 1	1-5	6-10	More than 10
CD's	\$ 547,416	-	547,416	-	-
Deposits	<u>1,079,926</u>	<u>1,079,926</u>	-	-	-
<b>Total</b>	<u>\$ 1,627,342</u>	<u>1,079,926</u>	<u>547,416</u>	-	-

*Interest Rate Risk* - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's practice is to invest in certificates of deposits with maturities of less than five years.

*Custodial Credit Risk* - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital 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 Hospital places no limit on the amount that may be invested in any one issuer.

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 5. OTHER RECEIVABLES**

Other receivables as of June 30, 2015 and 2014 are comprised of the following:

	2015	2014
Taxes receivable	\$ 353,751	90,439
Grants and other receivables	11,439	66,411
Safety net care pool program	<u>71,304</u>	<u>340,406</u>
<b>Total other receivables</b>	<b><u>\$ 436,494</u></b>	<b><u>497,256</u></b>

At times the Hospital may advance working capital to physicians in the form of advances. These advances to physicians are generally comprised of physician income guarantees and/or business loans to those physicians requiring assistance to begin a local practice. The income guarantees are generally entered into with certain physicians whereby the Hospital may guarantee the physician's income for a specified period of time. These agreements are structured so that if a physician maintains a practice in the area for a specified period of time, the income guarantee advances are forgiven. As of June 30, 2015 and 2014, the Hospital has only minor agreements with physicians.

**NOTE 6. ASSETS LIMITED AS TO USE**

Assets limited as to use as of June 30, 2015 and 2014 were comprised of the following:

	2015	2014
Cash and cash equivalents designated by the Board	\$ 2,486,560	623,307
Cash and cash equivalents held in trust for debt service	<u>1,070,871</u>	<u>1,004,035</u>
<b>Total assets limited as to use</b>	<b><u>\$ 3,557,431</u></b>	<b><u>1,627,342</u></b>

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 7. PROPERTY AND EQUIPMENT**

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

	2015				Ending Balance 6/30/2015
	Beginning Balance 7/1/2014	Additions	Disposals and Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 14,937	36,098	-	-	51,035
Land Improvement	6,750	-	-	-	6,750
Total capital assets not being depreciated	<u>21,687</u>	<u>36,098</u>	<u>-</u>	<u>-</u>	<u>57,785</u>
<i>Capital assets being depreciated</i>					
Major Equipment - Hospital	1,263,277	418,067	(733,816)	-	947,528
Major Equipment - Clinic	7,984	-	-	-	7,984
Buildings & Improvements	11,475,245	-	-	-	11,475,245
E H R Equipment	431,967	120,732	-	-	552,699
Total capital assets being depreciated	<u>13,178,473</u>	<u>538,799</u>	<u>(733,816)</u>	<u>-</u>	<u>12,983,456</u>
<i>Less accumulated depreciation for</i>					
Major Equipment - Hospital	833,811	179,490	(744,390)	-	268,911
Major Equipment - Clinic	1,464	1,597	-	-	3,061
Buildings & Improvements	2,234,532	465,167	(1,909)	-	2,697,790
E H R Equipment	123,991	101,210	-	-	225,201
Total accumulated depreciation	<u>3,193,798</u>	<u>747,464</u>	<u>(746,299)</u>	<u>-</u>	<u>3,194,963</u>
Total capital assets being depreciated, net	<u>9,984,675</u>	<u>(208,665)</u>	<u>12,483</u>	<u>-</u>	<u>9,788,493</u>
<b>Total capital assets, net</b>	<b>\$ 10,006,362</b>	<b>(172,567)</b>	<b>12,483</b>	<b>-</b>	<b>9,846,278</b>

	2014				Ending Balance 6/30/2014
	Beginning Balance 7/1/2013	Additions	Disposals and Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ -	14,937	-	-	14,937
Land Improvement	6,750	-	-	-	6,750
Total capital assets not being depreciated	<u>6,750</u>	<u>14,937</u>	<u>-</u>	<u>-</u>	<u>21,687</u>
<i>Capital assets being depreciated</i>					
Major Equipment - Hospital	1,634,147	61,099	-	(431,968)	1,263,278
Major Equipment - Clinic	-	-	-	7,984	7,984
Buildings & Improvements	11,377,558	97,687	-	-	11,475,245
E H R Equipment	-	-	-	431,968	431,968
Total capital assets being depreciated	<u>13,011,705</u>	<u>158,786</u>	<u>-</u>	<u>7,984</u>	<u>13,178,475</u>
<i>Less accumulated depreciation for</i>					
Major Equipment - Hospital	671,372	200,544	-	(38,105)	833,811
Major Equipment - Clinic	-	1,464	-	-	1,464
Buildings & Improvements	1,583,322	651,210	-	-	2,234,532
E H R Equipment	-	85,886	-	38,105	123,991
Total accumulated depreciation	<u>2,254,694</u>	<u>939,104</u>	<u>-</u>	<u>-</u>	<u>3,193,798</u>
Total capital assets being depreciated, net	<u>10,757,011</u>	<u>(780,318)</u>	<u>-</u>	<u>7,984</u>	<u>9,984,676</u>
<b>Total capital assets, net</b>	<b>\$ 10,763,761</b>	<b>(765,381)</b>	<b>-</b>	<b>7,984</b>	<b>10,006,363</b>

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 8. DEBT BORROWINGS**

As of June 30, 2015 and 2014 the Hospital had different forms of debt borrowings as follows:

	2015	2014
Note payable to NMFA; payable in monthly installments of \$23,402 including interest of 1.9%, matures May 2025, collateralized by Hospital revenues and County tax revenues	\$ 2,364,457	2,434,093
Note payable to NMFA; payable in monthly installments of \$11,366 including interest of 4.1%, matures May 2026, collateralized by Hospital revenues and County tax revenues	1,182,247	1,266,087
Note payable to NMFA; payable in monthly installments of \$13,271 including interest of 4.1%, matures May 2027, collateralized by Hospital revenues and County tax revenues	1,088,442	1,088,442
Note payable to NMFA; payable in monthly installments of \$14,075 including interest of 4.0%, matures May 2029, collateralized by Hospital revenues and County tax revenues	1,746,989	1,843,392
Capital lease obligation payable to a financing company; payable in monthly installments of \$6,786 including interest of 4.281%, matures April 2020, collateralized by Hospital equipment	353,066	-
	<u>6,735,201</u>	<u>6,632,014</u>
Less current maturities	<u>(582,759)</u>	<u>(361,736)</u>
<b>Total</b>	<b><u>\$ 6,152,442</u></b>	<b><u>6,270,278</u></b>

Future principal maturities for debt borrowings for the next succeeding five years are: \$582,759 in 2016; \$591,133 in 2017; \$606,490 in 2018; \$623,296 in 2019, \$628,209 in 2020, and \$3,703,314 thereafter.

*New Mexico Finance Authority.* On April 1, 2005, the County entered into a loan agreement with the New Mexico Finance Authority (NMFA) for \$3,836,690. The loan, funded from previously issued NMFA Public Project Revolving Fund Revenue Bonds, was entered into by the County on behalf of the Corporation in order to finance the costs of improvements to the Union County General Hospital.

The loan is secured by the net pledged revenues of the Corporation and the County's tax revenues. Concurrent with this loan agreement, the Corporation entered into an amended and restated operating agreement with the County to require loan payments in amounts equal to all debt service payments required under the County's loan agreement with NMFA. Upon the expiration of the operating agreement, or upon earlier termination, the Corporation is required to surrender all improvements to the County. This agreement requires certain trust funds to be established with a trustee. Accordingly, these funds are included as assets limited as to use as referred to in Note 6.



**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 8. DEBT BORROWINGS (CONTINUED)**

On July 21, 2006, the Corporation and the County re-entered into generally the same operating agreement in order to extend borrowings under this arrangement with the County and the NMFA in the amount of \$1,836,505. On September 1, 2007, another similar agreement was entered into with the NMFA in the amount of \$2,093,796, again for the purpose of cost improvements to the Hospital. Finally on October 16, 2009, the final agreement was entered into with the NMFA in the amount of \$2,260,338 in order to finish funding the building of hospital improvements.

**Capital Lease Obligation.** Effective February 12, 2015, the Corporation entered into a capital lease obligation with a financing corporation in order to purchase a CT scanner. Interest is imputed at 4.281%. The cost of the equipment was \$365,954 and accumulated depreciation on this equipment as of June 30, 2015 was \$24,397.

**Line of Credit.** The Hospital has a line of credit with a local bank which has agreed to provide a revolving commitment of up to \$350,000. As of June 30, 2015 and 2014, borrowings on this line of credit were \$0. Interest on the line of credit borrowings is charged at the bank lending rate. Any borrowings on the line of credit are collateralized by a Hospital's certificate of deposit.

The following summarizes debt borrowing activity for 2015 and 2014:

	Balance 2014	Additions	Reductions	Balance 2015
NMFA				
	\$ 2,434,093	-	69,636	2,364,457
	1,266,087	-	83,840	1,182,247
	1,088,442	-	-	1,088,442
	1,843,392	-	96,403	1,746,989
Capital lease	-	365,954	12,885	353,066
<b>Total</b>	<b>\$ 6,632,014</b>	<b>365,954</b>	<b>262,764</b>	<b>6,735,201</b>

	Balance 2013	Additions	Reductions	Balance 2014
NMFA				
	\$ 2,609,448	-	175,355	2,434,093
	1,346,769	-	80,682	1,266,087
	1,298,471	-	210,029	1,088,442
	1,937,755	-	94,363	1,843,392
Capital lease	150,771	-	150,771	-
Line of credit	343,765	-	343,765	-
<b>Total</b>	<b>\$ 7,686,979</b>	<b>-</b>	<b>1,054,965</b>	<b>6,632,014</b>

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 9. ACCRUED LIABILITIES**

Accrued liabilities consist of the following at June 30:

	2015	2014
Accrued compensated absences	\$ 95,022	112,765
Accrued wages	83,416	106,779
Accrued payroll taxes	13,195	2,227
<b>Total accrued liabilities</b>	<u>\$ 191,634</u>	<u>221,771</u>

A schedule of changes in the Hospital's accrued compensated absences for the years ended June 30, is as follows:

2015				
Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
\$ 112,765	4,800	(22,543)	95,022	95,022
<hr/>				
2014				
Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
\$ 172,558	4,400	(64,193)	112,765	112,765
<hr/>				

**NOTE 10. COMMITMENTS AND CONTINGENCIES**

**Construction-in-Progress.** As of June 30, 2015 and 2014, the Hospital has \$51,035 and \$14,937, respectively, in recorded construction-in-progress representing costs capitalized for various remodeling, major repair, and expansion projects on the Hospital's premises. Commitments for construction completion as of June 30, 2015 and 2014, were considered minor.

**Health Insurance Portability and Accountability Act.** The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to ensure health insurance portability, reduce health care fraud and abuse, guarantee security and privacy of health information, and enforce standards for health information. Organizations are subject to significant fines and penalties if found not to be compliant with the provisions outlined in the regulations. Management believes that the operations of the Hospital are in compliance with HIPAA regulations.

**Health Care Reform.** The health care 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, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse as well as other applicable government laws and regulations. While no material 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.

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**Medical Malpractice Coverage and Claims.** The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium. Accounting principles require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported or unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual is considered necessary at this time.

**Employee Health Insurance.** Under the plan, the Hospital is responsible for the first \$30,000 of medical expenses (the specific deductible) for each participant in the plan. Stop Loss Insurance has been purchased for coverage above \$30,000 as well as other administrative services. A Preferred Provider Organization (PPO) provides a national network of healthcare providers. As of June 30, 2015 and 2014, there is no anticipated IBNR remaining for which the Hospital would be at risk.

**Other.** The Hospital may from time-to-time be involved in litigation, regulatory investigations and other matters which arise in the normal course of doing business. After consultation with legal counsel, management estimates that matters existing as of June 30, 2015 have been appropriately allowed for and will be resolved without material adverse effect on the Hospital's future financial position, results from operations or cash flows.

**NOTE 11. RETIREMENT PLAN**

The Hospital has an "incentive retirement plan" under Section 403(b) of the Internal Revenue Code for which all employees are eligible after 90 days of initial and consecutive employment. Under this plan, employees may elect to defer a portion of their income for which the Hospital has elected to match up to 3.5%. In the fiscal years ended June 30, 2015 and 2014, the Hospital's expense to fund their share of the plan was \$0.

The Hospital also offers its employees a cafeteria plan under Section 125 of the Internal Revenue Code. Employees who elect participate in the plan make contributions through a reduction in salary and are allowed to choose among various investment alternatives offered by a funding agency selected by the Hospital. The investments of the cafeteria plan and earnings thereon are held by fiduciaries for the benefit of the employees. Accordingly, the plan assets and liabilities to the participants are excluded from the Hospital's financial statements.

**NOTE 12. CHARITY CARE AND COMMUNITY BENEFIT EXPENSE**

The Hospital maintains records to identify and monitor the level of charity care and community service it provides. These records include: the amount of charges foregone, (based on established rates), for services and supplies furnished under its charity care and community service policies, the estimated cost of those services and supplies, and statistics quantifying the level of charity care as a percentage of expenses of the Hospital as a whole. The following is a summary of the Hospital's charity care and community benefit expense for the years ended June 30, 2015 and 2014, in terms of services to the poor and benefits to the broader community:

	2015	2014
Benefits for the poor:		
Traditional charity care	\$ 735,975	817,444
Unpaid Medicaid program charges	806,487	570,782
Total quantifiable benefits for the poor	<u>1,542,462</u>	<u>1,338,226</u>
Benefits for the broader community:		
Unpaid Medicare program charges	<u>5,918,668</u>	<u>3,556,011</u>
Total quantifiable benefits for the broader community	<u>5,918,668</u>	<u>3,556,011</u>
<b>Total quantifiable community benefits</b>	<u>\$ 7,461,130</u>	<u>4,894,237</u>

**UNION COUNTY GENERAL HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2015 and 2014**

**NOTE 13. SUBSEQUENT EVENTS**

Management evaluated the effect of subsequent events on the financial statements through October 27, 2015, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

**UNION COUNTY GENERAL HOSPITAL  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
<b>Operating Revenue</b>	\$ 9,285,552	9,285,552	10,120,792	835,240
<b>Operating Expenses</b>				
Salaries and wages	3,305,808	3,305,808	3,151,175	154,633
Fringe benefits	615,516	630,402	448,399	182,003
Contract labor	925,560	925,560	1,372,905	(447,345)
Physicians Fees	648,792	648,792	891,545	(242,753)
Purchased services	1,095,612	1,095,612	1,136,817	(41,205)
Supply expense	1,210,620	1,210,620	1,348,088	(137,468)
Utilities	192,168	192,168	189,875	2,293
Repairs and maintenance	345,060	315,276	335,202	(19,926)
Insurance expense	378,444	419,784	332,334	87,450
All other operating expenses	542,018	542,018	639,666	(97,648)
Leases and rentals	538,942	538,942	541,926	(2,984)
Depreciation	765,588	765,588	744,672	20,916
Interest expense	285,876	285,876	226,462	59,414
Total operating expenses	10,850,004	10,876,446	11,359,066	(482,620)
Operating income (loss)	(1,564,452)	(1,590,894)	(1,238,274)	352,620
<b>Nonoperating Revenue</b>				
Income derived from taxes	808,752	808,752	964,335	155,583
Other non-operating income (loss)	561,504	561,504	481,883	(79,621)
<b>Total nonoperating income (loss)</b>	1,370,256	1,370,256	1,446,218	75,962
Change in net position	\$ (194,196)	(220,638)	207,944	428,582
Net position, beginning of year			7,309,122	
Net position, end of year			\$ 7,517,066	

**Note to Schedule**

Annual budgets are adopted as required by New Mexico statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America.

This is for informational purposes only because the Hospital is a proprietary entity and does not receive legislative appropriations; therefore, the budget is not a binding budget.

**UNION COUNTY GENERAL HOSPITAL  
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted	Actual	Variance with Final Budget - Favorable (Unfavorable)
<b>Operating Revenue</b>	\$ 11,480,292	10,382,590	1,097,702
<b>Operating Expenses</b>			
Salaries	4,137,632	4,034,386	103,246
Benefits	602,220	609,657	(7,437)
Contract labor	622,284	1,029,847	(407,563)
Professional Fees	708,720	480,119	228,601
Supplies	1,175,881	1,148,644	27,237
Purchased services	876,114	1,254,239	(378,125)
Repairs and maintenance	388,800	352,261	36,539
Rent	102,298	90,932	11,366
Utilities	188,470	188,909	(439)
Insurance	394,480	408,129	(13,649)
Interest	285,420	288,657	(3,237)
Depreciation	769,963	861,103	(91,140)
Other operating expense	1,148,011	965,373	182,638
Total operating expenses	11,400,293	11,712,256	(311,963)
Operating income (loss)	79,999	(1,329,666)	(1,409,665)
<b>Nonoperating Revenue</b>			
Income Derived from Taxes	159,280	878,115	718,835
Other non-operating income (loss)	612,592	589,756	(22,836)
<b>Total nonoperating income (loss)</b>	771,872	1,467,871	695,999
Change in net position	\$ 851,871	138,205	(713,666)
Net position, beginning of year		7,170,917	
Net position, end of year		\$ 7,309,122	

**Note to Schedule**

Annual budgets are adopted as required by New Mexico statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America.

This is for informational purposes only because the Hospital is a proprietary entity and does not receive legislative appropriations; therefore, the budget is not a binding budget.

**UNION COUNTY GENERAL HOSPITAL  
SCHEDULE OF PLEDGED COLLATERAL  
FOR THE YEAR ENDED JUNE 30, 2015**

<b>FNB NM</b>	<b>Account Name</b>	<b>Balance 6/30/2015</b>	<b>Description</b>	<b>Amount over FDIC Ins \$250K</b>
OP	Operating Account	\$ 1,287,128.70	Operating Account	\$ 1,037,128.70
DA	MMDA	\$ 79,746.03	Reserve for NMFA Loan Payments	\$ -
DA	MMDA	\$ 1,857,090.92	Cash Reserve-CMS, HVAC HVAC \$700,000.00 CMS \$1,157,090.92	\$ 1,607,090.92
CD	CD	\$ 181,415.03	CD - Cash Reserve on 4/27/15 Matures 7/26/2015	\$ -
<b>FNB NM Total</b>		<b>\$ 3,405,380.68</b>		

<b>F&amp;S Bank</b>	<b>Account Name</b>	<b>Balance 6/30/2015</b>	<b>Description</b>	
PR	Payroll Account	\$ 2,468.54	Payroll Account	\$ -
CD	CD	\$ 243,506.32	CD - Cash Reserve on 4/17/15 Matures 7/20/2015	\$ -
CD	CD	\$ 124,801.79	CD - Cash Reserve on 4/17/15 Matures 7/20/2015	\$ -
	<b>CDs Total</b>	<b>\$ 368,308.11</b>		
<b>F&amp;S Bank Total</b>		<b>\$ 370,776.65</b>		

**Cash Total** \$ 3,776,157.33

**SUMMARY**

Operating/payroll	\$ 1,289,597.24
MMDA Cash Reserve	\$ 1,936,836.95
CD's Cash Reserve	\$ 549,723.14
<b>Cash Total</b>	<u><u>\$ 3,776,157.33</u></u>

Petty Cash \$ 2,400.00

Total \$ Amount uninsured public funds \$ 2,644,219.62

Collateral required at 50% \$ 1,322,109.81

Pledged Securities in name of hospital None

**UNION COUNTY GENERAL HOSPITAL  
 CLAYTON HEALTH SYSTEM, INC.  
 SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS  
 FOR THE YEAR ENDED JUNE 30, 2015**

<b>FNB NM</b>	<b>Account Name/Type</b>	<b>Bank Balance 6/30/2015</b>	<b>Deposits in Transit</b>	<b>Outstanding Checks</b>	<b>Book Balance 6/30/2015</b>
FNB NM	Operating Account	\$ 1,368,010.93	\$ 1,450.58	\$ (82,332.81)	\$ 1,287,128.70
FNB NM	MMDA	\$ 79,746.03	\$ -	\$ -	\$ 79,746.03
FNB NM	MMDA	\$ 1,857,090.92	\$ -	\$ -	\$ 1,857,090.92
FNB NM	CD	\$ 181,415.03	\$ -	\$ -	\$ 181,415.03
<b>FNB NM Total</b>		<b>\$ 3,486,262.91</b>	<b>\$ 1,450.58</b>	<b>\$ (82,332.81)</b>	<b>\$ 3,405,380.68</b>

<b>F&amp;S Bank</b>	<b>Account Name</b>	<b>Bank Balance 6/30/2015</b>	<b>Deposits in Transit</b>	<b>Outstanding Checks</b>	<b>Book Balance 6/30/2015</b>
F&S Bank	Payroll Account	\$ 6,660.45	\$ -	\$ (4,191.91)	\$ 2,468.54
F&S Bank	CD	\$ 243,506.32	\$ -	\$ -	\$ 243,506.32
F&S Bank	CD	\$ 124,801.79	\$ -	\$ -	\$ 124,801.79
	CDs Total	\$ 368,308.11	\$ -	\$ -	\$ 368,308.11
<b>F&amp;S Bank Total</b>		<b>\$ 374,968.56</b>	<b>\$ -</b>	<b>\$ (4,191.91)</b>	<b>\$ 370,776.65</b>

<b>Cash Total</b>	<b>\$ 3,861,231.47</b>	<b>\$ 1,450.58</b>	<b>\$ (86,524.72)</b>	<b>\$ 3,776,157.33</b>
-------------------	------------------------	--------------------	-----------------------	------------------------

**SUMMARY**

Operating/payroll	\$ 1,374,671.38	\$ -	\$ -	\$ 1,289,597.24
MMDA Cash Reserve	\$ 1,936,836.95	\$ -	\$ -	\$ 1,936,836.95
CD's Cash Reserve	\$ 549,723.14	\$ -	\$ -	\$ 549,723.14
<b>Cash Total</b>	<b>\$ 3,861,231.47</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,776,157.33</b>

<b>Petty Cash</b>	<b>\$ 2,400.00</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,400.00</b>
-------------------	--------------------	-------------	-------------	--------------------

**Assets limited to use**

MMDA Cash Reserve	\$ 1,936,836.95	\$ 1,936,836.95
CD's Cash Reserve	\$ 549,723.14	\$ 549,723.14
NMFA Prepaid Bond Reserve	\$ 1,070,871.40	\$ 1,070,871.40
<b>Total Assets Limited to use</b>	<b>\$ 3,557,431.49</b>	<b>\$ 3,557,431.49</b>

**Reconciliation to financial statement:**

Petty cash	\$ 2,400.00
NMFA prepaid bond reserve	\$ 1,070,871.40
Cash	\$ 3,776,157.33
	<b>\$ 4,849,428.73</b>

**Composed of:**

Cash and cash equivalents	\$ 1,291,997.00
Assets limited to use	\$ 3,557,431.00
	<b>\$ 4,849,428.00</b>



Union County General Hospital  
 SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding \$60,000 (excluding GRT)  
 For the Year Ended June 30, 2015  
 Prepared by Agency Staff Name: Al Altman Title: CFO Date: 10/22/2015

<i>RFB#/RFP#</i>	<i>Type of Procurement</i>	<i>Awarded Vendor</i>	<i>\$ Amount of Awarded Contract</i>	<i>\$ Amount of Amended Contract</i>	<i>Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded</i>	<i>In-State/Out-of-State Vendor (Y or N) (Based on Statutory Definition)</i>	<i>Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A</i>	<i>Brief Description of the Scope of Work</i>
N/A	Exempt	Toshiba 03/01/2015	\$365,952		N/A	N/A	N/A	New CT Scanner 5 Year lease Board Approved



6200 Uptown Blvd NE  
Suite 400  
Albuquerque, NM 87110  
505.338.0800

**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

To the Board of Trustees  
Union County General Hospital  
Clayton, New Mexico  
and  
Timothy Keller, State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Union County General Hospital (the "Hospital"), a component unit of Union County, (the "County"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2015, presented as supplementary information, and have issued our report thereon dated October 27, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital'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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 the 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. Given these limitations, during our audit we did identify deficiencies in internal control that we consider to be material weaknesses or significant deficiencies.

To the Board of Trustees  
Union County General Hospital  
and  
Timothy Keller, State Auditor

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2015-001, 2015-002, 2015-003, 2015-004, and 2015-005.

### **The Hospital's Response to Findings**

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

### **Purpose of this Report**

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

*Ricci & Company LLC*

Albuquerque, New Mexico  
October 27, 2015

**UNION COUNTY GENERAL HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2015**

**Section I – Financial Statement Findings  
2015-001 – Billing Activity – Material Weakness**

---

*Condition:* Management became aware of billing errors during the year and began an investigation. An allowance was established at June 30, 2015.

*Criteria:* Hospital revenue recognition and billing activity are somewhat complex and subject to regulatory aspects.

*Cause:* Incomplete or erroneous information exists in revenue records.

*Effect:* Based upon information gathered to date, an allowance reducing income became necessary.

*Recommendation:* In addition to correcting the errors as soon as possible, we recommend that processes be reviewed for possible changes to help prevent such errors and that greater monitoring be conducted to detect other billing issues.

***Management Response:***

We agree with the findings.

Management put monitoring procedures before October 27, 2015 in place to insure that this problem does not happen again.

**UNION COUNTY GENERAL HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2015**

**Section I – Financial Statement Findings  
2015-002 Safety Net Care Pool – Significant Deficiency**

---

*Condition:* The Hospital established an allowance for possible recoupment by the State of 2014 receipts from the Pool at June 30, 2015 after discussion with the auditors.

*Criteria:* Recognition of revenue under generally accepted accounting principles is subject to estimation and judgment.

*Cause:* State funding for the Pool is currently limited. Expanded Medicaid eligibility and rate increase may reduce the revenue allocable to a hospital.

*Effect:* An allowance was necessary to estimate revenue from the Pool for 2015.

*Recommendation:* Allowances should be continued for future receipts to prevent overstatement of the Hospital's revenues.

***Management Response:***

We agree with the findings. During the onsite audit by Ricci & Company in September 2015, management learned that the SNCP Funds application for Calendar year 2016 (to be submitted by December 31, 2015) was going to be used to true up and reconcile the 2014 SNCP for all the hospitals in the state. After discussion with Ricci & Co auditors, prior to October 27, 2015 we decided to conservatively reserve 20% of the funds received in 2014. Al Altman will continue to reserve for any a portion (10%-20%) during the current year and future years.

**UNION COUNTY GENERAL HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2015**

**Section I – Financial Statement Findings**

**2015-003 Documentation – Findings that do not rise to the level of a significant deficiency**

---

*Condition:* Documentation supporting 40 disbursements testing was not easily located during our audit testing.

*Criteria:* Good accounting practice entails adequate documentation for transactions and its timely recovery.

*Cause:* Document filing was tardy or inconsistent.

*Effect:* Prolonged search time is necessary to retrieve information.

*Recommendation:* The filing of vendor payment information and documents supporting disbursements should be improved to allow easy retrieval and to aid in researching vendor issues.

***Management response:***

We agree with the findings. Prior to the audit in August 17-20, 2015, our AP clerk had given notice to leave and had left a backlog of AP filing to do. When the auditors were here, the filing back log presented a problem of finding paid invoices in a timely matter. This was rectified on August 20, when we hired our new AP clerk. She caught up the filing back log and has kept the filing current since that date. All invoices requested by auditors were provided.

**UNION COUNTY GENERAL HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2015**

**Section I – Financial Statement Findings**

**2015-004 Travel and Housing Reporting- Findings that do not rise to the level of a significant deficiency**

---

*Condition:* Audit testing noted that travel and housing reimbursements to two employees of the 40 tested for non-temporary assignments should be included in their W-2s.

*Criteria:* IRS code section 262 describes the conditions for inclusion of travel and housing reimbursements as wages to employees on assignments greater than one year.

*Cause:* The Hospital was unaware of different tax reporting between temporary and non-temporary assignments.

*Effect:* W-2 income reported for the individuals was understated.

*Recommendation:* The Hospital should compute and report income as described in code section 262.

***Management response:***

We agree with the findings. The two employees will be issued a W-2 for 2015 by Al Altman in January 2016 that include housing and travel. The two employees in question were hired as Interim employees. Even though the employees were put on payroll, there was no intent to hire them as a permanent employee as no employee benefits were given to these two individuals. The hospital supplied housing in lieu of motel, and agreed to pay for trips back to their respective homes every two weeks, and supply a rental car or mileage for travel to the airport just like any other personnel. There was never intent to hire them for a time frame over one year. During that time, there has been two interim CEO's here and two different management companies running the hospital. Our permanent CEO was not hired until late June 2015.

There have been some discussions of hiring them as regular full time employees, but no definite final decision has been made, only to keep them as personnel. The Titles of the two individuals were Interim CFO and Interim Business Office Director. These individuals are still on temporary assignment.

**UNION COUNTY GENERAL HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Year Ended June 30, 2015**

**Section I – Financial Statement Findings**

**2015-005 State Audit Rule – Findings that do not rise to the level of a significant deficiency**

---

*Condition:* As a component unit of Union County, the Hospital did not adhere to the State Audit Rule requirements concerning:

- Collateralization of bank deposits
- Audit report filing date of October 15
- Auditor contracting

*Criteria:* The State Audit Rule prescribes the audit and financial reporting requirements for New Mexico governmental units.

*Cause:* The Hospital did not realize it was a component unit.

*Effect:* The Hospital violates some requirements of the State Audit Rule.

*Recommendation:* The Hospital should understand and comply with all of the provisions of the State Audit Rule.

***Management Response:***

Management discussed the lack of pledged collateral with the Board of Trustees and the financial institutions. FNBNM made the required arrangements on 10-28-2015 to ensure proper collateralization of the public monies and compliance with the requirement Section 6-10-16 NMSA 1978.

Al Altman will comply with the audit report filing date next year (2016) and file the proper auditor RFP to the state auditor prior to engagement for the 6-30-2016 audit.



**UNION COUNTY GENERAL HOSPITAL  
SUMMARY OF PRIOR AUDIT FINDINGS  
For the Year Ended June 30, 2015**

<b>Prior-Year Number</b>	<b>Description</b>	<b>Current Status</b>
N/A	No findings	N/A

## **UNION COUNTY GENERAL HOSPITAL**

### **EXIT CONFERENCE**

**For the Year Ended June 30, 2015**

#### **Exit Conference and Board of Trustees Presentation**

Closed exit conference was held with the Hospital on October 15, 2015 in Clayton, New Mexico with the following attending or calling\*: Ms. Cooper and Mr. Brown met at the Ricci & Company Office.

#### **Union County General Hospital**

Judith Cooper*	President
Jim Mayfield	Vice-President
Gloria Rael	Member
Jim Brook	Member
Gerald Wiesner	Chief Executive Officer (CEO)
Alexander Altman	Chief Financial Officer (CFO)
Cassie Drumm	Administrative Assistant

#### **Ricci & Company**

Wayne Brown, CPA*	Director
Kenneth Johansen, CPA*	Manager

#### **Community Hospital Consulting**

Tod Beasley*	Senior Vice President of Financial Hospital Operations
--------------	---

#### Financial Statement Preparation

The Hospital's independent public accountants prepared the accompanying basic financial statements; however, the Hospital is responsible for the basic financial statement and disclosure content. The Hospital's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.