UNION COUNTY GENERAL HOSPITAL

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

UNION COUNTY GENERAL HOSPITAL

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UNION COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF UNION COUNTY)
June 30, 2016

Official Roster

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Judith Cooper, President
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Ricci & Company

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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 years ended June 30, 2016 and 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 years ended June 30, 2016 and 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 and standards in Government Auditing Standards, issued by the Comptroller General of the U.S. 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, 2016 and 2015, and the changes in its financial position and cash flows, and the respective budget comparison schedule for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

Supplementary 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.

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 7, 2016, 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 7, 2016

UNION COUNTY GENERAL HOSPITAL
(A COMPONENT UNIT OF UNION COUNTY)
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

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, 2016. This section presents comparative information and balances for the years ended June 30, 2016, 2015 and 2014. Please read it in conjunction with the Hospital's basic financial statements, which follow this section.

Financial Highlights

- Current assets increased by $94,950 in 2016 or 1.7%.
- The Hospital's net position increased by $562,289 in 2016 and $207,944 in 2015, or 7.5% and 2.8%, 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.

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 2016 by $562,289, or 7.5%, and increased in 2015 by $207,944 or 2.8%, as shown in the following table:

UNION COUNTY GENERAL HOSPITAL
BALANCE SHEETS
June 30, 2016 and 2015 and 2014

ASSETS		**2016**	2015	2014
Current Assets	$	**5,703,235**	5,608,285	2,947,778
Assets limited as to use		**1,491,414**	1,332,032	1,627,342
Property and Equipment-Net of Depreciation		**9,589,609**	9,846,278	10,006,363
Other assets		**24,056**	132,830	142,180
TOTAL ASSETS	$	**16,808,314**	16,919,425	14,723,663
LIABILITIES AND NET POSITION				
Current Liabilities	$	**2,992,151**	3,249,917	1,144,263
Debt borrowings, net of current maturities		**5,736,808**	6,152,442	6,270,278
Total liabilities		**8,728,959**	9,402,359	7,414,541
Net Position		**8,079,355**	7,517,066	7,309,122
Total Liabilities and Net Position	$	**16,808,314**	16,919,425	14,723,663

See Notes to Financial Statements.

UNION COUNTY GENERAL HOSPITAL
Statement of Revenue, Expenses, & Change in Net Position
Years Ended June 30, 2016, 2015, an

		2016	2015	2014
Net Patient Revenue	$	6,545,117	8,647,038	7,302,722
SCH Funds		-	13,348	2,098,672
SNCP Funds		4,819,779	1,085,777	657,841
Other operating revenues		51,966	374,629	323,355
Total Revennes		11,416,862	10,120,792	10,382,590
Expenses				
Salaries,Benefits, Contract Labor		5,423,396	4,972,479	5,673,892
Purchased services, Supplies		4,468,965	3,711,652	3,235,261
Other Operating Expenses		1,932,793	1,703,801	1,653,343
Depreciation, Interest		888,218	971,134	1,149,760
Total expenses		12,713,372	11,359,066	11,712,256
Operating income (loss)		(1,296,510)	(1,238,274)	(1,329,666)
Non Operating Revenue				
Tax revenues		1,258,128	964,335	878,116
Other non operating revenues		600,671	481,883	589,755
Total Non Operating Revenue		1,858,799	1,446,218	1,467,871
Change in Net Position	$	562,289	207,944	138,205
Net Position Beginning of Year		7,517,066	7,309,122	7,170,917
Net Position ot End of Year	$	8,079,355	7,517,066	7,309,122

The increase in net position of $562,289 in 2016, as opposed to the increase of $207,944 in 2015, was due to higher SNCP funding in 2016 than in 2015.

Operating Results and Changes in the Hospital's Net Position

The Hospital's operating loss in 2016 was $(1,296,510), a 4.7% increase in the operating loss compared to 2015 results. In 2015, the operating loss was $(1,238,274). This compares to 2014 operating loss of $(1,329,666). These results are shown in the table above:

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 2016 of $(1,296,510), an increase of $58,236 compared to the 2015 operating loss of $(1,238,274). The primary components of the operating results in 2015 are as follows:

- Decrease in net patient service revenue of ($2,101,921), or 24%, was due in large part to a decline in volumes due to the loss of physician surgeon services.
- The replacement of the Sole Community Provider (SCP) funding with the Safety Net Care Pool Program resulted in an increase in total funding of $3,720,654 during the year ended June 30, 2016 over the year ended June 30, 2015.
- Salaries, employee benefits, contract labor, and professional fees increased by $1,131,857 compared to the prior year. There was an increase in health benefits and higher professional fees due to contracted labor for provider services, primarily in the Emergency Room.
- Purchased services and other increased by $476,389 in 2016, or 14%, due primarily to increased fees paid for contracted services in medical records and billing.
- Total expenses for 2016 were $12,713,372 or 11.9% over total expenses reported in 2015.
- Total operating loss for 2016 of $(1,296,510) was 4.7% above the operating loss for 2015 of $(1,238,274).

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, increased by $412,581. Nonoperating revenue for 2016 was $1,858,799 and was $1,446,218 for 2015.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2016, 2015 and 2014 discussed earlier.

Capital Assets and Debt Administration

Capital Assets

At the end of 2016, the Hospital had $9.6 million invested in capital assets, net of accumulated depreciation. In 2016, the Hospital invested approximately $513,347 for the purchase of capital equipment and renovation projects. The capital asset additions above consisted of approximately $198,140 for a new ultrasound equipment and other minor equipment and approximately $315,207 for construction for new Rural Health Center.

Budget Highlights

There were budget modifications during the fiscal year of 2016. Total operating revenues were greater than the budget by approximately $2,136,587 due primarily to higher SNCP revenues. Operating expenses were $1,863,366 above budget, primarily due to higher professional fees and purchased services.

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 4,356. Predictions are that the population will remain stable. Major employers are ranchers, 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, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	**3,094,255**	3,517,396
Patient accounts receivable, net of allowances	**752,393**	1,313,391
Other receivables	**1,599,099**	436,494
Inventories	**170,148**	256,085
Prepaid expenses and other current assets	**87,340**	84,919
Total current assets	**5,703,235**	5,608,285
Assets limited as to use	**1,491,414**	1,332,032
Property and Equipment		
Building and improvements	**11,428,573**	11,481,995
Fixed and major moveable equipment	**1,691,407**	1,508,212
Construction in progress	**361,242**	51,035
	13,481,222	13,041,242
Less accumulated depreciation	**(3,891,613)**	(3,891,613)
Total property and equipment	**9,589,609**	9,846,278
Other assets	**24,056**	132,830
Total assets	**$ 16,808,314**	16,919,425
LIABILITIES AND NET ASSETS		
Current Liabilities		
Current maturities of debt borrowings	**$ 668,060**	582,759
Accounts payable and accrued expenses	**429,878**	729,470
Accrued payroll and related liabilities	**254,757**	191,634
Estimated third party payor settlements	**1,639,456**	1,746,054
Total current liabilities	**2,992,151**	3,249,917
Net increase (decrease) in cash and cash equivalents		
Debt borrowings, net of current maturities	**5,736,808**	6,152,442
Total liabilities	**8,728,959**	9,402,359
Net Position		
Net Investment in Capital Assets	**3,184,741**	3,111,077
Unrestricted Net Assets	**4,844,614**	4,355,989
Temporarily restricted net assets	**50,000**	50,000
Total net position	**8,079,355**	7,517,066
Total liabilities and net position	**$ 16,808,314**	16,919,425

See Notes to Financial Statements.

UNION COUNTY GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Revenue		
Net patient service revenues	$ **6,545,117**	8,647,038
Other revenues, gains, and other support:		
SCH Funds	**-**	13,348
SNCP Funds	**4,819,779**	1,085,777
Other operating revenues	**51,966**	374,629
Total operating revenues	**11,416,862**	10,120,792
Operating Expenses		
Salaries and wages	**3,523,078**	3,151,175
Employee benefits	**635,191**	448,399
Contract labor	**1,265,127**	1,372,905
Professional fees	**1,572,485**	891,545
Supplies	**1,032,625**	1,348,088
Purchased services	**1,605,931**	1,136,817
Repairs and maintenance	**257,924**	335,202
Rent	**558,708**	541,926
Utilities and phone	**175,742**	189,875
Insurance	**368,076**	332,334
Interest	**182,667**	226,462
Depreciation and amortization	**705,551**	744,672
Other operating expenses	**830,267**	639,666
Total operating expenses	**12,713,372**	11,359,066
Operating (loss) income	**(1,296,510)**	(1,238,274)
Non Operating Revenue		
Tax revenues	**1,258,128**	964,335
Other non operating revenues, net	**600,671**	481,883
Total non operating revenue	**1,858,799**	1,446,218
Ne **Change in Net Position**	**562,289**	207,944
Net Position, Beginning of Year	**7,517,066**	7,309,122
Net Position, End of Year	$ **8,079,355**	7,517,066

See Notes to Financial Statements.

UNION COUNTY GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Operating (loss) income	**$ (1,296,510)**	(1,238,274)
Adjustments to reconcile the change in net position to net cash provided by operating activities:		
Depreciation and amortization	**705,551**	735,322
Provision for bad debts	**1,625,089**	2,464,828
Changes in operating assets and liabilities:		
Patient accounts receivable	**(1,064,091)**	(2,677,876)
Other receivables	**696,194**	1,506,980
Inventories	**85,937**	(17,268)
Prepaid expenses and other current assets	**(2,421)**	(28,437)
Accounts payable and accrued expenses	**(299,592)**	304,150
Accrued payroll and related liabilities	**63,123**	(30,137)
Estimated third party payor settlements	**(106,598)**	1,610,618
Net cash provided by operating activities	**406,682**	2,629,906
Cash Flows From Investing Activities		
Purchases of property and equipment, net of disposals	**(269,644)**	(209,286)
(Increase) decrease in assets limited as to use	**(159,382)**	(126,963)
Decrease in other assets	**99,872**	9,350
Net cash used by investing activities	**(329,154)**	(326,899)
Cash Flows From Financing Activities		
Debt borrowings	**1,171,793**	-
Net repayments of debt borrowings	**(1,672,462)**	(262,764)
Net cash used for financing activities	**(500,669)**	(262,764)
Net increase (decrease) in cash and cash equivalents	**(423,141)**	2,040,243
Cash and cash equivalents, beginning of year	**3,517,396**	1,477,153
Cash and cash equivalents, end of year	**$ 3,094,255**	3,517,396
Non-cash transactions		
Equipment financed with capital lease	**$ 170,336**	365,954

See Notes to Financial Statements.

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.

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. Acquisitions of property and equipment are recorded at cost when the useful life exceeds one year and $5,000 in accordance with Section 12-6-10 NMSA 1978. 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.

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.

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.

- 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 outlay 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.

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, 2016 and 2015, the County provided $363,794 and $111,000, 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, 2016 and 2015 were $735,101 and $693,986, respectively. This reimbursement program will continue as funds are available. The Hospital also received $159,233 in 2016 and $159,349 in 2015 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, 2016 and 2015 was $182,667 and $226,462, 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.

Recent Accounting Pronouncements. In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-2, *Leases*, to make leasing activities more transparent and comparable. This new standard will require all leases with terms of more than 12 months be recognized by lessees as a right-of-use asset and a corresponding lease liability on the balance sheet. It will apply to both capital (or finance) leases and operating leases. In addition, ASU 2016-2 requires retrospective application to leases that exist at the beginning of the earliest comparative period presented. Management has not yet evaluated the effects of the new standard. The standard is effective for fiscal years beginning after December 15, 2019. Early

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2016, cost reports through June 30, 2014 have been audited or otherwise final settled. Management believes that the estimated settlement liability of $1,639,456 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, 2016 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, 2016 and 2015, summarized by service area, are as follows:

	2016	2015
Inpatient acute care	$ 4,890,409	8,187,399
Outpatient acute care	14,194,857	16,080,643
Home health services	186,614	333,953
Total acute and clinic services	19,271,880	24,601,995
Less deductions from revenue (including supplementals)	(12,726,763)	(15,954,957)
Net patient service revenues	$ 6,545,117	8,647,038

NOTE 2. NET PATIENT SERVICE REVENUES (CONTINUED)

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.

All SNCP hospitals are to complete an application to the State by December 31 for funding based upon prior year indigent costs. State funding for SNCP is currently limited. Prior overpayments to a hospital can be recouped. Based upon information previously provided, the State authorized an additional payment of $856,202 to which he Hospital has established a receivable at June 30, 2016.

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, 2016 and 2015 is as follows:

	2016	2015
Medicare	$ 1,209,980	1,029,210
Medicaid	147,878	1,234,194
Other third-party payors	757,873	1,396,917
Self pay, collections, DME and other	2,051,816	3,228,461
Gross patient accounts receivable	4,167,547	6,888,782
Less allowances for contractual adjustments and uncollectible accounts	(3,415,154)	(5,575,391)
Net patient accounts receivable	$ 752,393	1,313,391

NOTE 4. CASH, CASH EQUIVALENTS AND ASSETS LIMITED AS TO USE

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, 2016 the Hospital was in compliance with the state regulations, it was not in compliance at June 30, 2015.

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

	2016	2015
Certificate of deposit	$ 181,779	181,415
Deposits	1,309,635	1,150,617
Assets limited as to use	$ 1,491,414	1,332,032

At June 30, 2016 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
Certificate of deposit	$ 181,779	181,779	-	-	-
Deposits	1,309,635	1,309,635	-	-	-
Total	$ 1,491,414	1,491,414	-	-	-

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
Certificate of deposit	$ 181,415	181,415	-	-	-
Deposits	1,150,617	1,150,617	-	-	-
Total	$ 1,332,032	1,332,032	-	-	-

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.

NOTE 5. OTHER RECEIVABLES

Other receivables as of June 30, 2016 and 2015 are comprised of the following:

	2016	2015
Taxes receivable	$ 517,675	353,751
Grants and other receivables	225,222	11,439
Safety net care pool program	856,202	71,304
Total other receivables	$ 1,599,099	436,494

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, 2016 and 2015, the Hospital has only minor agreements with physicians.

NOTE 6. ASSETS LIMITED AS TO USE

Assets limited as to use as of June 30, 2016 and 2015 were comprised of the following:

	2016	2015
Cash and cash equivalents designated by the Board	$ 321,370	261,161
Cash and cash equivalents held in trust for debt service	1,170,044	1,070,871
Total assets limited as to use	$ 1,491,414	1,332,032

NOTE 7. PROPERTY AND EQUIPMENT

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

2016

	Beginning Balance 7/1/2015	Additions	Disposals and Retirements	Transfers	Ending Balance 6/30/2016
Capital assets not being depreciated					
Construction in progress	$ 51,035	310,207	-	-	361,242
Land Improvement	6,750	5,000	-	-	11,750
Total capital assets not being depreciated	57,785	315,207	-	-	372,992
Capital assets being depreciated					
Major Equipment - Hospital	947,528	182,295	-	-	1,129,823
Major Equipment - Clinic	7,984	-	-	-	7,984
Buildings & Improvements	11,475,245	14,945	(73,366)	-	11,416,824
E H R Equipment	552,699	900	-	-	553,599
Total capital assets being depreciated	12,983,456	198,140	(73,366)	-	13,108,230
Less accumulated depreciation for					
Major Equipment - Hospital	268,911	164,746	-	-	433,657
Major Equipment - Clinic	3,061	-	-	-	3,061
Buildings & Improvements	2,697,790	421,364	-	-	3,119,154
E H R Equipment	225,201	110,540	-	-	335,741
Total accumulated depreciation	3,194,963	696,650	-	-	3,891,613
Total capital assets being depreciated, net	9,788,493	(498,510)	(73,366)	-	9,216,617
Total capital assets, net	$ 9,846,278	(183,303)	(73,366)	-	9,589,609

2015

	Beginning Balance 7/1/2014	Additions	Disposals and Retirements	Transfers	Ending Balance 6/30/2015
Capital assets not being depreciated					
Construction in progress	$ 14,937	36,098	-	-	51,035
Land Improvement	6,750	-	-	-	6,750
Total capital assets not being depreciated	21,687	36,098	-	-	57,785
Capital assets being depreciated					
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	13,178,473	538,799	(733,816)	-	12,983,456
Less accumulated depreciation for					
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	3,193,798	747,464	(746,299)	-	3,194,963
Total capital assets being depreciated, net	9,984,675	(208,665)	12,483	-	9,788,493
Total capital assets, net	$ 10,006,362	(172,567)	12,483	-	9,846,278

NOTE 8. DEBT BORROWINGS

As of June 30, 2016 and 2015 the Hospital had different forms of debt borrowings as follows:

	2016	2015
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	$ 2,140,023	2,364,457
Note payable to NMFA; payable in monthly installments of $11,149 including interest of 4.1%, matures May 2026, collateralized by Hospital revenues and County tax revenues,	1,153,700	-
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, paid in October 2015	-	1,182,247
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	1,016,697	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	1,648,280	1,746,989
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	280,563	353,066
Capital lease obligation payable to a financing company; payable in monthly installments of $5,015 including interest of 4.281%, matures April 2019, collateralized by Hospital equipment	165,605	-
	6,404,868	6,735,201
Less current maturities	(668,060)	(582,759)
Total	$ 5,736,808	6,152,442

Future principal maturities for debt borrowings for the next succeeding five years are: $668,060 in 2017; $662,881 in 2018; $671,741 in 2019; $622,650 in 2020, $578,335 in 2021, and $3,201,201 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.

NOTE 8. DEBT BORROWINGS (CONTINUED)

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.

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 improvements to the Hospital. On October 16,2009, an agreement was entered into with the NMFA in the amount of $2,260,338 in order to finish funding the building of hospital improvements. In October 2015, the borrowing from 2006 was paid off with a new agreement for $1,171,793.

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 $125,000. As of June 30, 2016 and 2015, 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 2016 and 2015:

	Balance 2015	Additions	Reductions	Balance 2016
NMFA				
	$ 2,364,457	-	224,434	2,140,023
	-	1,171,793	18,093	1,153,700
	1,182,247	-	1,182,247	-
	1,088,442	-	71,745	1,016,697
	1,746,989	-	98,709	1,648,280
Capital leases				
	353,066	170,336	77,234	446,168
Total	$ 6,735,201	1,342,129	1,672,462	6,404,868

	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
Total	$ 6,632,014	365,954	262,764	6,735,201

NOTE 9. ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30:

	2016	2015
Accrued compensated absences	$ 120,064	95,022
Accrued wages	128,379	83,416
Accrued payroll taxes	6,314	13,195
Total accrued liabilities	$ 254,757	191,634

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

2016				
Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
$ 95,022	273,158	(248,116)	120,064	120,064

2015				
Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
$ 112,765	245,088	(262,831)	95,022	95,022

NOTE 10. COMMITMENTS AND CONTINGENCIES

Construction-in-Progress. As of June 30, 2016 and 2015, the Hospital has $361,242 and $51,035, 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, 2016 and 2015, 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 statues 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.

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, 2016 and 2015, 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, 2016 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, 2016 and 2015, the Hospital's expense to fund their share of the plan was $31,360 and $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, 2016 and 2015, in terms of services to the poor and benefits to the broader community:

	2016	2015
Benefits for the poor:		
Traditional charity care	$ 314,251	735,975
Unpaid Medicaid program charges	398,542	806,487
Total quantifiable benefits for the poor	712,793	1,542,462
Benefits for the broader community:		
Unpaid Medicare program charges	4,158,551	5,918,668
Total quantifiable benefits for the broader community	4,158,551	5,918,668
Total quantifiable community benefits	$ 4,871,344	7,461,130

NOTE 13. SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through October 7, 2016, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

UNION COUNTY GENERAL HOSPTIAL
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts			Variance with Final Budget - Favorable
	Original	Final	Actual	(Unfavorable)
Operating Revenue	$ 9,280,275	9,280,275	11,416,862	2,136,587
Operating Expenses				
Salaries and wages	3,305,805	3,305,805	3,523,078	(217,273)
Fringe benefits	615,508	615,508	635,191	(19,683)
Contract labor	925,555	925,555	1,265,127	(339,572)
Physicians Fees	648,785	648,785	1,421,876	(773,091)
Purchased services	1,015,061	1,015,061	1,605,931	(590,870)
Legal fees	80,551	80,551	150,609	(70,058)
Supply expense	1,210,619	1,210,619	1,032,625	177,994
Utilities	192,177	192,177	175,742	16,435
Repairs and maintenance	345,059	345,059	257,924	87,135
Insurance expense	378,442	378,442	368,076	10,366
All other operating expenses	998,180	998,180	830,267	167,913
Leases and rentals	82,782	82,782	558,708	(475,926)
Depreciation	765,597	765,597	705,551	60,046
Interest expense	285,885	285,885	182,667	103,218
Total operating expenses	10,850,006	10,850,006	12,713,372	(1,863,366)
Operating income (loss)	(1,569,731)	(1,569,731)	(1,296,510)	273,221
Nonoperating Revenue				
Income derived from taxes	649,487	649,487	1,258,128	608,641
Other non-operating income (loss)	726,048	726,048	600,671	(125,377)
Total nonoperating income (loss)	1,375,535	1,375,535	1,858,799	483,264
Change in net position	$ (194,196)	(194,196)	562,289	756,485
Net position, beginning of year			7,517,066	
Net position, end of year			$ 8,079,355	

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 HOSPTIAL
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts			Variance with Final Budget - Favorable
	Original	Final	Actual	(Unfavorable)
Operating Revenue	$ 9,285,552	9,285,552	10,120,792	835,240
Operating Expenses				
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
Nonoperating Revenue				
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)
Total nonoperating income (loss)	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 HOSPTIAL
SCHEDULE OF PLEDGED COLLATERAL
FOR THE YEAR ENDED JUNE 30, 2016

FNB NM	Account Name	Balance 6/30/2016	Description	Amount over FDIC Ins $250K
OP	Operating Account	$ 652,824.63	Operating Account	$ 402,824.63
DA	MMDA	$ 139,590.18	Reserve for NMFA Loan Payments	$ 139,590.18
DA	MMDA	$ 1,059,072.55	Cash Reserve-CMS, HVAC HVAC $700,000.00 CMS $1,157,090.92	$ 1,059,072.55
CD	CD	$ 500,000.00	CD - Cash Reserve matures 8/2/16	$ 250,000.00
CD	CD	$ 181,779.14	CD - Cash Reserve , matures 7/26/17	$ 181,779.14
FNB NM Total		$ 2,533,266.50		
Total $ Amount uninsured public funds				$ 2,033,266.50
Collateral required at 50%				$ 1,016,633.25

Pledged Collateral

Pledge-TX#	Total Par	Maturity	CUSIP	Description	Collateral Value
1510290002	$40,281.46	12/1/2025	312PTJ63	FHLMC POOL j13885	$42,821.18
1510290003	$15,000.00	10/1/2016	780040BC4	Roy NM Sch Dist No 003	$15,265.20
1510290004	$15,000.00	10/1/2017	780040BD2	Roy NM Sch Dist No 003	$15,679.20
1510290005	$15,000.00	10/1/2018	780040BE0	Roy NM Sch Dist No 003	$16,093.65
1510290006	$10,000.00	10/1/2019	780040BF7	Roy NM Sch Dist No 003	$10,986.00
1510290007	$967,602.92	8/25/2022	3136A7TJ5	FNA Series - 2012-M12 Class 1A	$1,034,934.08
1606150125	$220,640.46	12/16/1956	38379UFP6	GNMA Series 2016-24 Class AE	$224,107.93
				FNB Collateral	$1,359,887.24
				Over/(Under) Collateralized	$ 343,253.99

F&S Bank	Account Name	Balance 6/30/2016	Description	
PR	Payroll Account	$ 8,089.60	Payroll Account	$ -
CD	CD	$ 1,175,427.38	CDs - Cash Reserve Maturities thru 1/15/17	$ 925,427.38
F&S Bank Total		$ 1,183,516.98		
Total $ Amount uninsured public funds				$ 925,427.38
Collateral required at 50%				$ 462,713.69

Pledged Collateral

Pledge-TX#	Total Par	Maturity	CUSIP	Description	Collateral Value
3615000026	$500,000.00	11/4/2016	N/A	FHLB Letter of Credit	$ 500,000.00
				Over/(Under) Collateralized	$ 37,286.31

Total Bank Balance $ 3,716,783.48

UNION COUNTY GENERAL HOSPTIAL
CLAYTON HEALTH SYSTEM, INC.
SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2016

FNB NM	Account Name/Type	Bank Balance 6/30/2016	Deposits in Transit	Outstanding Checks	Book Balance 6/30/2016
FNB NM	Operating Account	$ 652,824.63	$ (192.03)	$ (297,645.08)	$ 354,987.52
FNB NM	MMDA	$ 1,059,072.55	$ -	$ -	$ 1,059,072.55
FNB NM	MMDA	$ 139,590.18	$ -	$ -	$ 139,590.18
FNB NM	CD	$ 181,779.14	$ -	$ -	$ 181,779.14
FNB NM	CD	$ 500,000.00	$ -	$ -	$ 500,000.00
FNB NM Total		**$ 2,533,266.50**	**$ (192.03)**	**$ (297,645.08)**	**$ 2,235,429.39**

F&S Bank	Account Name	Bank Balance 6/30/2016	Deposits in Transit	Outstanding Checks	Book Balance 6/30/2016
F&S Bank	Payroll Account	$ 8,089.60	$ -	$ (5,722.48)	$ 2,367.12
F&S Bank	CD	$ 1,175,427.38	$ -	$ -	$ 1,175,427.38
F&S Bank Total		**$ 1,183,516.98**	**$ -**	**$ (5,722.48)**	**$ 1,177,794.50**
Cash Total by Bank		**$ 3,716,783.48**	**$ (192.03)**	**$ (303,367.56)**	**$ 3,413,223.89**
NMFA Prepaid Bond Reserve		**$ 1,170,044.00**	**$ -**	**$ -**	**$ 1,170,044.00**

SUMMARY				
Operating/payroll	$ 660,914.23	$ (192.03)	$ (303,367.56)	$ 357,354.64
MMDA Cash Reserve	$ 1,198,662.73	$ -	$ -	$ 1,198,662.73
CD's Cash Reserve	$ 1,675,427.38	$ -	$ -	$ 1,675,427.38
Total Cash	**$ 3,535,004.34**	**$ (192.03)**	**$ (303,367.56)**	**$ 3,231,444.75**

Reconciliation to financial statement:	
Total Cash	$ 3,231,444.75
Other items	
Plus Petty Cash	$ 2,400.00
NMFA Prepaid Bond Reserve	$ 1,170,044.00
	$ 4,403,888.75
Assets limited to use	$ (1,491,413.32)
Cash and Cash Equivalents	$ 2,912,475.43

Union County General Hospital
SCHEDULE OF VENDOR INFORMATION for Purchases Exceeding $60,000 (excluding GRT)
For the Year Ended June 30, 2016
Prepared by Agency Staff Name: Pamela Gallagher Title: CFO

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Nome	Did Vendor Win Contract?	$ Amount of Awarded Contract	$ Amount of Amended Contract	Physicol address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
2088	Union County General Hospital			N/A	ADAPTIVE NETWORK	N/A	$ 63,000	N/A	IRVING, TX	N/A	N/A	Informatin Technology	N/A
				N/A	ALLIANCE HEALTHCARE SERVICES	N/A	$ 61,200	N/A	NEWPORT BEACH, CA	N/A	N/A	Purchased Svs -MRI	N/A
				N/A	BARTON ASSOCIATES	N/A	$ 121,900	N/A	BOSTON, MA	N/A	N/A	Legal services	N/A
			Preferred Vendor	N/A	BROWNSTEIN HYATT FARBER SCHREC	N/A	$ 104,300	N/A	DENVER, CO	N/A	N/A	Legal services	N/A
				N/A	CARDINAL HEALTH 411, INC	N/A	$ 174,100	N/A	LOS ANGELES, CA	N/A	N/A	Medical Supplies	N/A
				N/A	CARE COMMUNICATIONS	N/A	$ 161,000	N/A	CHICAGO, IL	N/A	N/A	Transcription/coding	N/A
				N/A	CIGNA	N/A	$ 300,000	N/A	PHILADELPHIA, PA	N/A	N/A	Health Insurance	N/A
				N/A	COMMUNITY HOSPITAL CONSULTING	N/A	$ 824,000	N/A	PLANO, TX	N/A	N/A	Management Services	N/A
				N/A	CPSI	N/A	$ 187,100	N/A	MOBILE, AL	N/A	N/A	Technology/information	N/A
				N/A	HEALTHCARE SERVICES GROUP	N/A	$ 170,200	N/A	BENSALEM, PA	N/A	N/A	Housekeeping/laundry	N/A
				N/A	IPFS CORPORATION	N/A	$ 278,300	N/A	CHICAGO, IL	N/A	N/A	Malpractice Insurance	N/A
				N/A	LOCKTON LLC	N/A	$ 79,900	N/A	KANSAS CITY, MO	N/A	N/A	Malpractice Insurance	N/A
				N/A	MEDICAL SERVICES NETWORK	N/A	$ 289,800	N/A	KEENE, TX	N/A	N/A	Anesthesia Svs	N/A
				N/A	MEDPRO HEALTHCARE STAFFING	N/A	$ 64,000	N/A	SUNRISE, FL	N/A	N/A	Medical staffing	N/A
				N/A	MMODAL SERVICES LTD	N/A	$ 67,100	N/A	ATLANTA, GA	N/A	N/A	Transcription/coding	N/A
				N/A	PRO TOUCH STAFFING	N/A	$ 103,200	N/A	PLANO, TX	N/A	N/A	Medical staffing	N/A
				N/A	RHINO MEDICAL SERVICES	N/A	$ 1,154,000	N/A	GREENVILLE, SC	N/A	N/A	Medical staffing	N/A
				N/A	SIEMENS HEALTHCARE DIAGNOSTICS	N/A	$ 142,000	N/A	DALLAS, TX	N/A	N/A	Lab/Medical Supplies	N/A
				N/A	TOSHIBA AMERICA MEDICAL CREDIT	N/A	$ 74,400	N/A	PHILADELPHIA, PA	N/A	N/A	payment for CT Scanner	N/A
				N/A	UNION COUNTY NETWORK INC	N/A	$ 127,800	N/A	CLAYTON, NM	N/A	N/A	offset by revenue	N/A

Ricci &Company
Certified Public Accountants & Business Advisors

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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, 2016, 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, 2016, presented as supplementary information, and have issued our report thereon dated October 7, 2016.

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 not 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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 7, 2016

UNION COUNTY GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2016

NO FINDINGS

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

Prior year Number	Description	Current Status
2015-001	Billing Activity	Resolved
2015-002	Safety Net Care Pool	Resolved
2015-003	Documentation	Resolved
2015-004	Travel and Housing reporting	Resolved
2015-005	State Audit Rule	Resolved

UNION COUNTY GENERAL HOSPITAL
EXIT CONFERENCE
For the Year Ended June 30, 2016

Exit Conference and Board of Trustees Presentation
The contents of this report were discussed on October 14, 2016. The following individuals were in attendance.

Union County General Hospital	
Judith Cooper*	President
Jim Mayfield	Vice-President
Judy Steen	Member
Jim Brook	Member
Gerald Wiesner	Chief Executive Officer (CEO)
Pamela Gallagher	Chief Financial Officer (CFO)
Ricci & Company	
Wayne Brown, CPA	Director
Dock Livingston, CPA	Manager
Community Hospital Consulting	
Shelle Diehm	Vice President, Hospital Finance

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.