



Service plus value, it all adds up.

6200 Uptown Blvd., NE Suite 400

Albuquerque, NM 87110

505 338 0800 office riccicpa.com

**CLAYTON HEALTH
SYSTEMS, INC.
DBA UNION COUNTY
GENERAL HOSPITAL**

**FINANCIAL STATEMENTS
AND INDEPENDENT
AUDITOR'S REPORT**

JUNE 30, 2018 AND 2017

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL**

TABLE OF CONTENTS

Official Roster	1
Independent Auditor’s Report	2
Management’s Discussion and Analysis	4
FINANCIAL STATEMENTS	
Statements of Net Position	7
Statements of Revenues, Expenses and Changes in Net Position	8
Statements of Cash Flows	9
Notes to Financial Statements	10
SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenses and Changes in Net Position- Budget and Actual (2018)	24
Schedule of Revenues, Expenses and Changes in Net Position- Budget and Actual (2017)	25
NM STATE AUDITOR’S SUPPLEMENTARY INFORMATION	
Schedule of Pledged Collateral (2018)	26
Schedule of Individual Deposit and Investment Accounts (2018)	27
Schedule of Pledged Collateral (2017)	28
Schedule of Individual Deposit and Investment Accounts (2017)	29
Schedule of Indigent Care Cost and Funding Report (2018, 2017 & 2016)	30
Schedule of Calculations of Cost of providing Indigent Care (2018,2017&2016)	31
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>	32
Schedule of Findings and Responses	34
Summary of Prior Audit Findings	36
Exit Conference	37

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL**

June 30, 2018

Official Roster

Board of Trustees

Judith Cooper, President
Judy Steen, Vice-President
Robert Williams, Secretary/Treasurer
Craig Reeves, Member
Paul Briesch, Member

Principal Employees

Tammie Stump, Chief Executive Officer
Steve Bishop, Chief Financial Officer



Service plus value, it all adds up.

6200 Uptown Blvd., NE, Suite 400
Albuquerque, NM 87110
505 338 0800 office www.riccicpa.com

Independent Auditor's Report

To the Board of Directors
Clayton Health Systems, Inc.
dba Union County General Hospital
Clayton, New Mexico
and
Wayne Johnson, 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") which include the statements of net position, the statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and the budget comparison schedule, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 and the budget comparison schedule as of June 30, 2018 and 2017, and the respective changes in financial position and where applicable, cash flows thereof, 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.

Other 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, indigent care cost and funding report, and calculations of cost of providing indigent care, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018, 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* in considering the hospital's internal control over financial reporting and compliance.

Ricci & Company LLC

Albuquerque, New Mexico

October 15, 2018

**UNION COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

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, 2018. This section presents comparative information and balances for the years ended June 30, 2018 and 2017. Please read it in conjunction with the Hospital's basic financial statements, which follow this section.

Financial Highlights

- Total assets decreased by \$(1,439,459) in 2018 to \$14,942,865 or 7.0% decrease from 2017.
- The Hospital's net position decreased by \$(2,035,330) in 2018 and had increased \$1,178,756 in 2017, or 22% decrease and 12.7% increase, respectively.

Using This Annual Report

The Hospital's financial statements consist of three statements: statements of net position; 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 Statement of Net Position 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.

**UNION COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 20178**

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 decreased by \$(2,035,330) in 2018 and increased by \$1,178,756 in 2017, or 22% and 12.7%, respectively. The decrease in net position is due to decrease in net patient service revenues.

Operating Results and Changes in the Hospital's Net Position

The Hospital's operating loss in 2018 was \$(3,705,885), a 483% increase in the operating loss compared to 2017 results. In 2017, the operating loss was \$(636,078).

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 2018 of \$(3,705,885), an increased loss of \$(3,069,807) compared to the 2017 operating loss of \$(636,078). The primary components of the operating results are:

- Decrease in net patient service revenue of \$2,709,300 was due in large part to current year and past year cost report settlements.
- The additional Safety Net Care Pool Program 2016 repayment obligation of \$1,200,651 and the \$664,524 payback resulted in a decrease in total funding of \$1,865,175.
- Salaries and employee benefits increased \$1,121,300 with the addition of Dr. Van Wormer and Dr. Weaver and Bob Williams, CRNA. Contract labor and professional fees decreased by \$1,270,552 compared to the prior year with the leaving of Dr. Foutch and the employment of Bob Williams.
- Total expenses for 2018 were \$11,494,886 or 4% under total expenses reported in 2017.
- Total operating loss for 2018 of \$(3,705,885) was 483% more than the operating loss for 2017 of \$(636,078).

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 \$144,279. Nonoperating revenue for 2018 was \$1,670,555 and was \$1,814,834 for 2017.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenues and expenses.

**UNION COUNTY GENERAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018**

Capital Assets and Debt Administration

Capital Assets

At the end of 2018, the Hospital had \$9.65 million invested in capital assets, net of accumulated depreciation.

Other Economic Factors

The Hospital's service area is comprised of the entirety of Union County. Over 90% of our patients are County residents. Major employers are ranchers, the local prison, the school system, government, retailing, and the hospitality industry. 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 Raton, NM, Albuquerque, NM, Amarillo, TX or Dalhart, TX 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

FINANCIAL STATEMENTS

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
STATEMENTS OF NET POSITION
June 30, 2018 and 2017**

ASSETS

	2018	2017
Current Assets		
Cash and cash equivalents	2,531,117	2,604,776
Patient accounts receivable, net of allowances	776,133	862,782
Other receivables	837,550	1,134,889
Inventories	179,415	207,751
Estimated third party payor settlements	-	210,239
Prepaid expenses and other current assets	43,409	82,551
Total current assets	4,367,624	5,102,988
Assets limited as to use	901,064	1,122,685
Property and Equipment		
Building and improvements	12,644,088	12,640,667
Fixed and major moveable equipment	2,155,723	2,008,733
Construction in progress	92,752	86,453
	14,892,563	14,735,853
Less accumulated depreciation	(5,242,442)	(4,603,258)
Total property and equipment	9,650,121	10,132,595
Other assets	24,056	24,056
Total assets	\$ 14,942,865	16,382,324

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable and accrued expenses	1,941,357	1,679,513
Accrued payroll and related liabilities	367,837	268,970
Estimated third party payor settlements	912,318	-
Current maturities of debt borrowings	666,158	672,650
Total current liabilities	\$ 3,887,670	2,621,133
Debt borrowings, net of current maturities	3,832,414	4,503,080
Total liabilities	7,720,084	7,124,213
Net Position		
Net Investment in Capital Assets	5,151,549	4,956,865
Restricted	50,000	50,000
Unrestricted	2,021,232	4,251,246
Total net position	7,222,781	9,258,111
Total liabilities and net position	\$ 14,942,865	16,382,324

See Notes to Financial Statements.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2018 and 2017**

	2018	2017
Operating Revenue		
Net patient service revenues	\$ 7,683,250	10,392,550
Other revenues, gains, and other support:		
SNCP Funds	(156,123)	759,841
Other operating revenues	261,874	194,272
	<hr/>	<hr/>
Total operating revenues	7,789,001	11,346,663
	<hr/>	<hr/>
Operating Expenses		
Salaries and wages	4,870,958	4,002,512
Employee benefits	852,061	599,207
Contract labor	392,439	1,245,972
Professional fees	697,144	1,114,163
Supplies	803,467	903,412
Purchased services	1,078,686	1,004,044
Repairs and maintenance	324,651	421,657
Rent	488,537	532,733
Utilities and phone	215,599	204,656
Insurance	295,079	360,684
Interest	176,750	198,451
Depreciation and amortization	639,183	711,646
Other operating expenses	660,332	683,304
	<hr/>	<hr/>
Total operating expenses	11,494,886	11,982,441
	<hr/>	<hr/>
Operating loss	(3,705,885)	(636,078)
	<hr/>	<hr/>
Non Operating Revenue		
Tax revenues	1,123,011	1,223,663
Other non operating revenues, net	547,544	591,171
	<hr/>	<hr/>
Total non operating revenue	1,670,555	1,814,834
	<hr/>	<hr/>
Change in Net Position	(2,035,330)	1,178,756
	<hr/>	<hr/>
Net Position, Beginning of Year	9,258,111	8,079,355
	<hr/>	<hr/>
Net Position, End of Year	\$ 7,222,781	9,258,111
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Cash received from customers and third-party payors	\$ 6,667,807	10,397,201
Cash payments to suppliers	(1,783,184)	(4,752,997)
Cash paid for payroll, payroll taxes, and benefits	(6,016,591)	(5,833,478)
	<hr/>	<hr/>
Net cash used by operating activities	(1,131,968)	(189,274)
Cash Flows From Investing Activities		
Purchases of property and equipment, net of disposals	(156,709)	(1,254,630)
Decrease in assets limited as to use	221,621	368,729
Cash received from ad valorem taxes and other	1,670,555	1,814,834
	<hr/>	<hr/>
Net cash provided by investing activities	1,735,467	928,933
Cash Flows From Financing Activities		
Debt borrowings	-	459,962
Repayments of debt borrowings	(677,158)	(1,689,100)
	<hr/>	<hr/>
Net cash used for financing activities	(677,158)	(1,229,138)
Net decrease in cash and cash equivalents	(73,659)	(489,479)
Cash and cash equivalents, beginning of year	<hr/> 2,604,776	<hr/> 3,094,255
Cash and cash equivalents, end of year	<hr/> \$ 2,531,117 <hr/>	<hr/> 2,604,776 <hr/>
Reconciliation of Operating Loss to Net		
Cash Used by Operating Activities		
Operating loss	\$ (3,705,885)	(636,078)
Adjustments to reconcile the change in net position to net cash provided by operating activities:		
Depreciation and amortization	639,183	711,946
Provision for uncollectible accounts	1,489,674	1,303,293
Changes in operating assets and liabilities:		
Patient accounts receivable	(1,403,026)	(1,413,672)
Other receivables	297,339	464,210
Inventories	28,336	(37,603)
Prepaid expenses and other current assets	39,142	4,789
Accounts payable and accrued expenses	261,844	1,249,323
Accrued payroll and related liabilities	98,867	14,213
Estimated third party payor settlements	1,122,557	(1,849,695)
	<hr/>	<hr/>
Net cash used by operating activities	(1,131,969)	(189,274)

See Notes to Financial Statements.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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 2014 through 2017 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 non-operating revenues and expenses. The Hospital prepares its financial statements as a business-type activity in conformity with applicable GASB pronouncements.

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.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

In accordance with Section 6-10-7 NMSA 1978, deposits of public omnies are to be collateralized in an aggregate equal to 50% of deposits in excess of Federal Deposit Insurance Corporation (FDIC) insurance coverage. Deposits are exposed to custodial risks if they are not covered by depository insurance. FDIC insures the deposits of governmental accounts on a per Official Custodian basis as follows: the aggregate balance in demand deposit accounts are insured up to \$250,000 per Official Custodian and the aggregate balances in time and savings accounts are insured up to \$250,000 per Official Custodian.

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 is 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.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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. 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.

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.

County Revenues and Reimbursements. The County from time-to-time will provide the Hospital with working capital in the form of the gross receipts tax (GRT) program. During the years ended June 30, 2018 and 2017, the County provided \$275,500 and \$285,898, 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, 2018 and 2017 were \$725,000 and \$739,892, respectively. This reimbursement program will continue as funds are available. The Hospital also received \$120,561 in 2018 and \$197,873 in 2017 from the County to pay NMFA loan #7.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018 and 2017 was \$142,799 and \$198,451, 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. 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.

Recent Accounting Pronouncements. In March 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. This Statement applies to notes to financial statements of all periods presented. This standard will be implemented in a subsequent period.

In June 2017, the GASB issued Statement No. 87, Leases. The provisions of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. This standard will be implemented in a subsequent period.

In May 2017, the GASB issued Statement No. 86, Certain Debt Extinguishment Issues. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. This standard will be implemented in a subsequent period.

In March 2017, the GASB issued Statement No. 85, Omnibus 2017. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions of this Statement are effective for periods beginning after June 15, 2017. Earlier application is encouraged. This standard will be implemented in a subsequent period.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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, 2018, cost reports through June 30, 2017 have been audited or otherwise final settled. Management believes that the estimated settlement liability of \$912,318 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, as they did in 2018. Management believes that estimated settlement amounts accrued for at June 30, 2018 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, 2018 and 2017, summarized by service area, are as follows:

	2018	2017
Inpatient acute care	\$ 3,393,181	4,101,660
Outpatient acute care	10,920,481	11,867,073
Home health services	206,606	267,600
Total acute and clinic services	14,520,268	16,236,963
Less deductions from revenue (including supplementals)	(6,837,018)	(5,844,413)
Net patient service revenues	\$ 7,683,250	10,392,550

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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 available, included in accounts payable and accrued expenses is a reserve for any possible repayments has been established for \$1,460,826 at June 30, 2018 and \$924,698 at June 30, 2017. The amount of \$1,460,826 is the liability thru December 31, 2016 and will be paid back via offsetting of future SNCP funds received. The calculation has not yet been done by the Human Services Department for the calendar year ended December 31, 2017, it is management’s best estimate at this time that no payback will be necessary for 2017.

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, 2018 and 2017 is as follows:

	2018	2017
Medicare	\$ 777,371	1,052,858
Medicaid	420,494	233,228
Other third-party payors	1,159,185	733,010
Self pay, collections, DME and other	4,598,261	3,533,190
Gross patient accounts receivable	<u>6,955,311</u>	<u>5,552,286</u>
Less allowances for contractual adjustments and uncollectible accounts	<u>(6,179,178)</u>	<u>(4,689,504)</u>
Net patient accounts receivable	<u>\$ 776,133</u>	<u>862,782</u>

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4. 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, 2018 and June 30, 2017, the Hospital was 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:

	2018	2017
Certificate of deposit	\$ 183,325	182,211
Deposits with New Mexico Finance Authority	<u>717,739</u>	<u>940,474</u>
Assets limited as to use	<u>\$ 901,064</u>	<u>1,122,685</u>

At June 30, 2018 the Hospital had deposits with the following maturities:

	Maturities in years				
	Fair Value	Less than 1	1-5	6-10	More than 10
Certificate of deposit	\$ 183,325	183,325	-	-	-
Deposits	<u>717,739</u>	<u>717,739</u>	-	-	-
Total	<u>\$ 901,064</u>	<u>901,064</u>	<u>-</u>	<u>-</u>	<u>-</u>

At June 30, 2017 the Hospital had deposits with the following maturities:

	Maturities in years				
	Fair Value	Less than 1	1-5	6-10	More than 10
Certificate of deposit	\$ 182,211	182,211	-	-	-
Deposits	<u>940,474</u>	<u>940,474</u>	-	-	-
Total	<u>\$ 1,122,685</u>	<u>1,122,685</u>	<u>-</u>	<u>-</u>	<u>-</u>

Assets limited as to use as of June 30, 2018 and 2017 were comprised of the following:

	2018	2017
Designated by the Board	\$ 183,482	182,369
Held in trust for debt service with New Mexico Finance Authority	<u>717,582</u>	<u>940,316</u>
Total assets limited as to use	<u>\$ 901,064</u>	<u>1,122,685</u>

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4. ASSETS LIMITED AS TO USE (CONTINUED)

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, 2018 and 2017 are comprised of the following:

	2018	2017
Taxes receivable	\$ 178,715	169,383
Grants and other receivables	461,436	704,374
Safety net care pool program	<u>197,399</u>	<u>261,132</u>
Total other receivables	<u>\$ 837,550</u>	<u>1,134,889</u>

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, 2018 and 2017, the Hospital has only minor agreements with physicians.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 6. PROPERTY AND EQUIPMENT

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

	2018				Ending Balance
	Beginning Balance	Additions	Disposals and Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 86,453	27,359	-	(21,060)	92,752
Land Improvement	11,750	-	-	-	11,750
Total capital assets not being depreciated	<u>98,203</u>	<u>27,359</u>	<u>-</u>	<u>(21,060)</u>	<u>104,502</u>
<i>Capital assets being depreciated</i>					
Major Equipment - Hospital	1,227,191	86,743	-	-	1,313,934
Major Equipment - Clinic	15,224	-	-	-	15,224
Buildings & Improvements	11,627,537	3,421	-	-	11,630,958
Buildings & Improvements RHC	1,001,380	-	-	-	1,001,380
E H R Equipment	766,318	39,187	-	21,060	826,565
Total capital assets being depreciated	<u>14,637,650</u>	<u>129,351</u>	<u>-</u>	<u>21,060</u>	<u>14,788,061</u>
<i>Less accumulated depreciation for</i>					
Major Equipment - Hospital	784,502	151,383	-	-	935,885
Major Equipment - Clinic	10,401	301,118	-	-	311,519
Buildings & Improvements	3,496,462	29,061	-	-	3,525,523
Buildings & Improvements RHC	30,155	5,168	-	-	35,323
E H R Equipment	281,738	152,454	-	-	434,192
Total accumulated depreciation	<u>4,603,258</u>	<u>639,184</u>	<u>-</u>	<u>-</u>	<u>5,242,442</u>
Total capital assets being depreciated, net	<u>10,034,392</u>	<u>(509,833)</u>	<u>-</u>	<u>-</u>	<u>9,545,619</u>
Total capital assets, net	<u>\$ 10,132,595</u>	<u>(482,474)</u>	<u>-</u>	<u>-</u>	<u>9,650,121</u>
	2017				Ending Balance
	Beginning Balance	Additions	Disposals and Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ 361,243	726,590	-	(1,001,380)	86,453
Land Improvement	11,750	-	-	-	11,750
Total capital assets not being depreciated	<u>372,993</u>	<u>726,590</u>	<u>-</u>	<u>(1,001,380)</u>	<u>98,203</u>
<i>Capital assets being depreciated</i>					
Major Equipment - Hospital	1,129,823	97,368	-	-	1,227,191
Major Equipment - Clinic	7,984	7,240	-	-	15,224
Buildings & Improvements	11,416,824	210,713	-	-	11,627,537
Buildings & Improvements RHC	-	-	-	1,001,380	1,001,380
E H R Equipment	553,599	212,719	-	-	766,318
Total capital assets being depreciated	<u>13,108,230</u>	<u>528,040</u>	<u>-</u>	<u>1,001,380</u>	<u>14,637,650</u>
<i>Less accumulated depreciation for</i>					
Major Equipment - Hospital	433,657	350,845	-	-	784,502
Major Equipment - Clinic	3,060	7,341	-	-	10,401
Buildings & Improvements	3,119,154	377,308	-	-	3,496,462
Buildings & Improvements RHC	-	30,155	-	-	30,155
E H R Equipment	335,741	(54,003)	-	-	281,738
Total accumulated depreciation	<u>3,891,612</u>	<u>711,646</u>	<u>-</u>	<u>-</u>	<u>4,603,258</u>
Total capital assets being depreciated, net	<u>9,216,618</u>	<u>(183,606)</u>	<u>-</u>	<u>1,001,380</u>	<u>10,034,392</u>

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

Total capital assets, net \$ 9,589,611 542,984 - - 10,132,595

NOTE 7. DEBT BORROWINGS

As of June 30, 2018, and 2017 the Hospital had debt borrowings as follows:

	2018	2017
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	\$ 1,687,557	1,914,557
Note payable to NMFA; payable in monthly installments of \$11,149 including interest of 2.47%, matures May 2026, collateralized by Hospital revenues and County tax revenues,	953,718	1,063,233
Note payable to NMFA; payable in semi - annual installments with varied amount including interest of 1.16%, matures May 2020, collateralized by Hospital revenues and County tax revenues	234,989	350,656
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	1,442,839	1,547,005
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	143,342	207,373
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	<u>36,127</u>	<u>92,906</u>
	4,498,572	5,175,730
Less current maturities	<u>(666,158)</u>	<u>(672,650)</u>
Total	<u>\$ 3,832,414</u>	<u>4,503,080</u>

Future principal maturities for debt borrowings for the next succeeding five years are: \$666,158 in 2019; \$631,774 in 2020, \$459,097 in 2021, \$472,353 in 2022, \$492,774 in 2023 and \$1,776,416 thereafter.

New Mexico Finance Authority. The County has entered into loan agreements with the New Mexico Finance Authority (NMFA). The loans, funded from previously issued NMFA Public Project Revolving Fund Revenue Bonds, were entered into by the County on behalf of the Corporation in order to finance the costs of improvements to the Union County General Hospital.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7. DEBT BORROWINGS (CONTINUED)

The loans are secured by the net pledged revenues of the Corporation and the County's tax revenues. Concurrent with these loan agreements, 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 agreements 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 4.

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, 2018, and 2017, borrowings on this line of credit were \$ 0 and interest on the line of credit borrowings were charged at the bank lending rate of 3.5% and 3.4% respectively. The line has been extended to March 2019. Any borrowings on the line of credit are collateralized by a Hospital's certificate of deposit.

The following summarizes debt borrowing activity for 2018:

	Balance 2017	Additions	Reductions	Balance 2018
NMFA				
	\$ 1,914,557	-	227,000	1,687,557
	1,063,233	-	109,515	953,718
	350,656	-	115,667	234,989
	1,547,005	-	104,166	1,442,839
Capital leases				
	300,279	-	120,810	179,469
Total	<u>\$ 5,175,730</u>	<u>-</u>	<u>677,158</u>	<u>4,498,572</u>

The following summarizes debt borrowing activity for 2017:

	Balance 2016	Additions	Reductions	Balance 2017
NMFA				
	\$ 2,140,023	-	225,466	1,914,557
	1,153,700	-	90,467	1,063,233
	1,016,697	-	1,016,697	-
		459,962	109,306	350,656
	1,648,280	-	101,275	1,547,005
Capital leases				
	446,168	-	145,889	300,279
Total	<u>\$ 6,404,868</u>	<u>459,962</u>	<u>1,689,100</u>	<u>5,175,730</u>

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 8. ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30:

	2018	2017
Accrued compensated absences	\$ 157,965	136,181
Accrued wages and payroll taxes	<u>209,872</u>	<u>132,789</u>
Total accrued liabilities	<u>\$ 367,837</u>	<u>268,970</u>

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

2018				
Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>\$ 136,181</u>	<u>313,918</u>	<u>(292,134)</u>	<u>157,965</u>	<u>157,965</u>
2017				
Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<u>\$ 120,064</u>	<u>290,986</u>	<u>(274,869)</u>	<u>136,181</u>	<u>136,181</u>

NOTE 9. COMMITMENTS AND CONTINGENCIES

Construction-in-Progress. As of June 30, 2018 and 2017, the Hospital has \$92,752 and \$86,453, 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, 2018 and 2017, 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.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 9. 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, 2018 and 2017, 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, 2018 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 10. 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, 2018 and 2017, the Hospital's expense to fund their share of the plan was \$54,347 and \$38,849.

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.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 11. 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 expenses for the years ended June 30, 2018 and 2017 (included in deductions from revenue), in terms of services to the poor and benefits to the broader community:

	2018	2017
Benefits for the poor:		
Traditional charity care	\$ 40,298	94,763
Unpaid Medicaid program charges	<u>1,345,764</u>	<u>1,348,444</u>
Total quantifiable benefits for the poor	<u>1,386,062</u>	<u>1,443,207</u>
Benefits for the broader community:		
Unpaid Medicare program charges	<u>1,379,791</u>	<u>2,140,213</u>
Total quantifiable benefits for the broader community	<u>1,379,791</u>	<u>2,140,213</u>
Total quantifiable community benefits	<u>\$ 2,765,853</u>	<u>3,583,420</u>

NOTE 12. SUBSEQUENT EVENTS

Management evaluated the effect of subsequent events on the financial statements through October 15, 2018, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

SUPPLEMENTARY INFORMATION

**ENC[VQP'HEALTH SYSTEMS, INC.
 DBA UNION COUNTY GENERAL HOSPITAL"
 SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN'NET
 POSITION - BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
Operating Revenue	\$ 11,213,554	11,213,554	7,789,001	(3,424,553)
Operating Expenses				
Salaries and wages	4,775,402	4,775,402	4,870,958	(95,556)
Fringe benefits	567,528	567,528	852,061	(284,533)
Contract labor	442,050	442,050	392,439	49,611
Physicians Fees	694,650	694,650	583,879	110,771
Purchased services	1,087,888	1,087,888	1,078,686	9,202
Legal and other professional fees	126,300	126,300	113,276	13,024
Supply expense	876,185	876,185	803,467	72,718
Utilities	229,752	229,752	215,599	14,153
Repairs and maintenance	294,822	294,822	324,651	(29,829)
Insurance expense	206,824	206,824	295,079	(88,255)
All other operating expenses	598,578	598,578	660,321	(61,743)
Leases and rentals	583,488	583,488	488,537	94,951
Depreciation	771,420	771,420	639,183	132,237
Interest expense	180,756	180,756	176,750	4,006
Total operating expenses	11,435,643	11,435,643	11,494,886	(59,243)
Operating income (loss)	(222,089)	(222,089)	(3,705,885)	(3,483,796)
Nonoperating Revenue				
Income derived from taxes	1,032,000	1,032,000	1,123,011	91,011
Other non-operating income (loss)	779,808	779,808	547,544	(232,264)
Total nonoperating income (loss)	1,811,808	1,811,808	1,670,555	(141,253)
Change in net position	\$ 1,589,719	1,589,719	(2,035,330)	(3,625,049)
Net position, beginning of year			9,258,111	
Net position, end of year			\$ 7,222,781	

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.

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
Operating Revenue	\$ 12,425,924	12,425,924	11,346,663	(1,079,261)
Operating Expenses				
Salaries and wages	4,997,405	4,997,405	4,002,512	994,893
Fringe benefits	631,707	631,707	599,207	32,500
Contract labor	421,783	421,783	1,245,972	(824,189)
Physicians Fees	1,344,000	1,344,000	1,114,163	229,837
Purchased services	1,105,309	1,105,309	1,004,044	101,265
Legal fees	146,908	146,908		146,908
Supply expense	1,138,065	1,138,065	903,412	234,653
Utilities	194,100	194,100	204,646	(10,546)
Repairs and maintenance	258,731	258,731	421,657	(162,926)
Insurance expense	348,900	348,900	360,684	(11,784)
All other operating expenses	973,469	973,469	683,304	290,165
Leases and rentals	619,932	619,932	532,733	87,199
Depreciation	708,000	708,000	711,956	(3,956)
Interest expense	259,992	259,992	198,451	61,541
Total operating expenses	13,148,301	13,148,301	11,982,741	1,165,560
Operating income (loss)	(722,377)	(722,377)	(636,078)	86,299
Nonoperating Revenue				
Income derived from taxes	420,000	420,000	1,223,663	803,663
Other non-operating income (loss)	648,000	648,000	591,171	(56,829)
Total nonoperating income (loss)	1,068,000	1,068,000	1,814,834	746,834
Change in net position	\$ 345,623	345,623	1,178,756	833,133
Net position, beginning of year			8,079,355	
Net position, end of year			\$ 9,258,111	

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.

**NM STATE AUDITOR'S
SUPPLEMENTARY INFORMATION**

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
SCHEDULE OF PLEDGED COLLATERAL
FOR THE YEAR ENDED JUNE 30, 2018**

FNB NM	Account Name	Bank Balance 6/30/2018	Description	Amount over FDIC Ins \$250K
OP	Operating Account	\$ 1,256,130.67	Operating Account	\$ 1,006,130.67
DA	MMDA	\$ 157.00	Reserve for NMFA Loan Payments	\$ -
DA	MMDA	\$ 61,260.00	Cash Reserve-CMS, HVAC	\$ -
CD	10002108411	\$ 507,947.69	CD	\$ 257,947.69
FNB NM Total		<u>\$ 1,825,495.36</u>		

Total \$ Amount uninsured public funds **\$ 1,264,078.36**

Collateral required at 50% **\$ 632,039.18**

Pledged Collateral

Code	Total Par	CUSIP	Description	Collateral Value
FHLB	\$ 525,000.00	011464KG8	Alamogordo NM MUNI SCH DIST #1	\$ 469,686.00
FHLB	\$ 106,039.66	3137B2CH1	FHR 4203 DG	\$ 103,204.38
FHLB	\$ 244,916.54	83165AWR1	SBA Pool #522256	\$ 277,870.06
				<u>\$ 850,760.44</u>

F&S Bank	Account Name	Bank Balance Balance 6/30/2018	Description	Over/(Under) Collateralized
				<u>\$ 218,721.26</u>

PR	Payroll Account	\$ 169,903.41	Payroll Account	\$ -
CD	8521053	\$ 552,755.86	CD - Cash Reserve matures 5/3/18	\$ 302,755.86
CD	8521058	\$ 504,261.43	CD - Cash Reserve matures 5/3/18	\$ 254,261.43
CD	8521564	\$ 126,404.11	CD - Cash Reserve matures 7/5/18	
CD	14653	\$ 183,325.00	GARNTE YELLOWS	\$ -

F&S Bank Total **\$ 1,536,649.81**

Total \$ Amount uninsured public funds **\$ 557,017.29**

Collateral required at 50% **\$ 278,508.65**

Pledged Collateral

Pledge-TX#	Total Par	Maturity	CUSIP	Description	Collateral Value
3615000068	\$500,000.00	11/29/2018	N/A	FHLB Letter of Credit	\$ 500,000.00
				subtotal	\$ 500,000.00
				Over/(Under) Collateralized	<u>\$ 221,491.36</u>

Total Bank Balance **\$ 3,362,145.17**

CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2018

FNB NM	Account Name/Type	Bank Balance 6/30/2018	Deposits in Transit	Outstanding Checks	Book Balance 6/30/2018
FNB NM	Operating Account	\$ 1,256,130.67	\$ 2,322.19	\$ (637,020.70)	\$ 621,432.16
FNB NM	MMDA	\$ 157.24	\$ -	\$ -	\$ 157.24
FNB NM	MMDA	\$ 61,260.00	\$ -	\$ -	\$ 61,260.00
FNB NM	CD	\$ 507,947.69	\$ -	\$ -	\$ 507,947.69
FNB NM Total		\$ 1,825,495.60	\$ 2,322.19	\$ (637,020.70)	\$ 1,190,797.09

F&S Bank	Account Name	Bank Balance 6/30/2018	Deposits in Transit	Outstanding Checks	Book Balance 6/30/2018
F&S Bank	Payroll Account	\$ 169,903.26	\$ -	\$ -	\$ 169,903.26
F&S Bank	CD	\$ 1,183,421.31	\$ -	\$ -	\$ 1,183,421.31
F&S Bank	CD	\$ 183,325.00	\$ -	\$ -	\$ 183,325.00
F&S Bank Total		\$ 1,536,649.57	\$ -	\$ -	\$ 1,536,649.57

Cash Total by Bank **\$ 3,362,145.17** **\$ 2,322.19** **\$ (637,020.70)** **\$ 2,727,446.66**

NMFA Prepaid Bond Reserve **\$ 717,582.22** **\$ -** **\$ -** **\$ 717,582.22**

SUMMARY

Operating/payroll	\$ 1,426,033.93	\$ 2,322.19	\$ (637,020.70)	\$ 791,335.42
MMDA Cash Reserve	\$ 61,417.24	\$ -	\$ -	\$ 61,417.24
CD's Cash Reserve	\$ 1,874,694.00	\$ -	\$ -	\$ 1,874,694.00
Total Cash	\$ 3,362,145.17	\$ 2,322.19	\$ (637,020.70)	\$ 2,727,446.66

Reconciliation to financial statement:

Total Cash \$ 2,727,446.66

Other items

1st National Bank - ERA \$ (13,581.42)
Plus Petty Cash \$ 734.00
NMFA Prepaid Bond Reserve \$ 717,582.22
\$ 3,432,181.46

Assets limited to use \$ (901,064.46)

Cash and Cash Equivalents \$ 2,531,117.00

**CLAYTON HEALTH SYSTEMS, INC.
 DBA UNION COUNTY GENERAL HOSPITAL
 SCHEDULE OF PLEDGED COLLATERAL
 FOR THE YEAR ENDED JUNE 30, 2017**

FNB NM	Account Name	Balance 6/30/2017	Description	Amount over FDIC Ins \$250K
OP	Operating Account	\$ 860,741.81	Operating Account	\$ 610,741.81
DA	MMDA	\$ 157.24	Reserve for NMFA Loan Payments	\$ -
CD	18411	\$ 503,500.00	CD - Cash Reserve matures 8/1/17	\$ 503,500.00
DA	MMDA	\$ 560,758.20	Cash Reserve-CMS, HVAC HVAC \$700,000.00 CMS \$1,157,090.92	\$ 310,758.20
FNB NM Total		<u><u>\$ 1,925,157.25</u></u>		

Total \$ Amount uninsured public funds \$ 1,425,000.01

Collateral required at 50% \$ 712,500.01

Pledged Collateral

Code	Total Par	Maturity	CUSIP	Description	Collateral Value
FHLB	\$ 335,988.82	11/1/2031	31418AAJ7	FNMA Pool #MA0908	\$ 358,369.04
FHLB	\$ 950,959.98	8/25/2022	3136A77J5	FNA 2012-M12 1A	\$ 973,061.15
FNB Collateral					<u><u>\$ 1,331,430.19</u></u>

Over/(Under) Collateralized \$ 618,930.19

F&S Bank	Account Name	Balance 6/30/2016	Description	
PR	Payroll Account	\$ 26,879.00	Payroll Account	\$ -
CD	8521053	\$ 550,825.45	CD - Cash Reserve matures 8/3/17	\$ 300,825.45
CD	8521058	\$ 502,001.99	CD - Cash Reserve matures 11/3/17	\$ 502,001.99
CD	8521564	\$ 125,804.36	CD - Cash Reserve matures 2/3/17	\$ 125,804.36
CD	14653	\$ 182,211.33	GARANTE YELLOWS	\$ -
F&S Bank Total		<u><u>\$ 1,387,722.13</u></u>		

Total \$ Amount uninsured public funds \$ 928,631.80

Collateral required at 50% \$ 464,315.90

Pledged Collateral

Pledge-TX#	Total Par	Maturity	CUSIP	Description	Collateral Value
3615000044	\$500,000.00	11/30/2017	N/A	FHLB Letter of Credit	\$ 500,000.00
subtotal					\$ 500,000.00
Over/(Under) Collateralized					<u><u>\$ 35,684.10</u></u>

Total Bank Balance \$ 3,312,879.38

**CLAYTON HEALTH SYSTEMS, INC.
 DBA UNION COUNTY GENERAL HOSPITAL
 SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS
 FOR THE YEAR ENDED JUNE 30, 2017**

FNB NM	Account Name/Type	Bank Balance 6/30/2017	Deposits in Transit	Outstanding Checks	Book Balance 6/30/2017
FNB NM	Operating Account	\$ 860,741.81	\$ 303.59	\$ (525,922.06)	\$ 335,123.34
FNB NM	MMDA	\$ 157.24	\$ -	\$ -	\$ 157.24
FNB NM	MMDA	\$ 560,758.20	\$ -	\$ -	\$ 560,758.20
FNB NM Total		\$ 1,421,657.25	\$ 303.59	\$ (525,922.06)	\$ 896,038.78

F&S Bank	Account Name	Bank Balance 6/30/2017	Deposits in Transit	Outstanding Checks	Book Balance 6/30/2017
F&S Bank	Payroll Account	\$ 26,879.70	\$ -	\$ (1,575.54)	\$ 25,304.16
F&S Bank	CD	\$ 1,682,131.36	\$ -	\$ -	\$ 1,682,131.36
F&S Bank	CD	\$ 182,211.33	\$ -	\$ -	\$ 182,211.33
F&S Bank Total		\$ 1,891,222.39	\$ -	\$ (1,575.54)	\$ 1,889,646.85

Cash Total by Bank **\$ 3,312,879.64** **\$ 303.59** **\$ (527,497.60)** **\$ 2,785,685.63**

NMFA Prepaid Bond Reserve **\$ 1,906,175.35** **\$ -** **\$ -** **\$ 1,906,175.35**

SUMMARY

Operating/payroll	\$ 887,621.51	\$ 303.59	\$ (527,497.60)	\$ 360,427.50
MMDA Cash Reserve	\$ 560,915.44	\$ -	\$ -	\$ 560,915.44
CD's Cash Reserve	\$ 1,864,342.69	\$ -	\$ -	\$ 1,864,342.69
Total Cash	\$ 3,312,879.64	\$ 303.59	\$ (527,497.60)	\$ 2,785,685.63

Reconciliation to financial statement:

Total Cash \$ 2,785,685.63

Other items

1st National Bank - ERA \$ 725.07
 Plus Petty Cash \$ 734.03
 NMFA Prepaid Bond Reserve \$ 940,316.33
\$ 3,727,461.06

Assets limited to use \$ (1,122,684.90)

Cash and Cash Equivalents \$ 2,604,776.16

**CLAYTON HEALTH SYSTEMS INC.
 DBA UNION COUNTY GENERAL HOSPITAL
 SCHEDULE OF INDIGENT CARE COST AND FUNDING REPORT
 YEARS ENDED JUNE 30, 2018, 2017 AND 2016**

	For the year ended June 30,		
	2018	2017	2016
A Funding for Indigent Care			
A1 State appropriations specified for indigent care	\$ -	\$ -	\$ -
A2 County indigent funds received	6,863	19,346	54,728
A3 Out of county indigent funds received	-	-	-
A4 Payments and copayments received from uninsured patients qualifying for indigent care	-	6,064	17,097
A5 Reimbursement received for services provided to patients qualifying for coverage under EMSA	-	-	-
A6 Charitable contributions received from donors that are designated for funding indigent care	-	-	-
Other sources			
A7 Other source 1 (if applicable)	-	-	-
Total Funding for Indigent Care	<u>6,863</u>	<u>25,410</u>	<u>71,825</u>
B Cost of Providing Indigent Care			
Total cost of care for providing services to:			
B1 Uninsured patients qualifying for indigent care	35,496	115,283	194,536
B2 Patients qualifying for coverage under EMSA	-	-	-
B3 Cost of care related to patient portion of bill for insured patients qualifying for indigent care	-	-	17,097
B4 Direct costs paid to other providers on behalf of patients qualifying for indigent care	-	-	-
B5 Other costs of providing Indigent Care (please specify)	-	-	-
Total Cost of Providing Indigent Care	<u>35,496</u>	<u>115,283</u>	<u>211,633</u>
Excess (Shortfall) of Funding for Charity Care to Cost of Providing Indigent Care	<u>\$ (28,633)</u>	<u>\$ (89,873)</u>	<u>\$ (139,808)</u>
C Patients Receiving Indigent Care Services			
C1 Total number of patients receiving indigent care	21	25	41
C2 Total number of patient encounters receiving indigent care	30	63	112

**CLAYTON HEALTH SYSTEMS, INC.
 DBA UNION COUNTY GENERAL HOSPITAL
 SCHEDULE OF CALCULATIONS OF COST OF PROVIDING INDIGENT CARE
 YEARS ENDED JUNE 30, 2018, 2017 AND 2016**

	For the year ended June 30,		
	2018	2017	2016
Uninsured patients qualifying for indigent care			
Charges for these patients	54,935	177,358	314,251
Ratio of cost to charges	64.6%	65.0%	53.8%
 Cost for uninsured patients qualifying for indigent care	 35,496	 115,283	 169,067
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)			
Charges for these patients	-	-	-
Ratio of cost to charges	0.0%	0.0%	0.0%
 Cost for Patients qualifying for coverage under Emergency Medical Services for Aliens (EMS)	 -	 -	 -
Cost of care related to patient portion of bill for insured patients qualifying for indigent care			
Indigent care adjustments for these patients	-	-	-
Ratio of cost to charges	0.0%	0.0%	0.0%
 Cost of care related to patient portion of bill for insured patients qualifying for indigent care	 -	 -	 -
Direct costs paid to other providers on behalf of patients qualifying for indigent care			
Payments to other providers for care of these patients	-	-	-
	-	-	-



Service plus value, it all adds up.

6200 Uptown Blvd., NE, Suite 400
Albuquerque, NM 87110
505 338 0800 office www.riccicpa.com

**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
Clayton Health Systems, Inc.
DBA Union County General Hospital.
Clayton, New Mexico
and
Wayne Johnson, 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”), and the budget comparison schedules, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Hospital’s basic financial statements, and have issued our report thereon dated October 15, 2018.

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 a deficiency in internal control that we consider to be material weaknesses, which is identified as Finding 2018-001.

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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2018-002.

The Hospital's Responses to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's responses were not subjected to auditing procedures applied in the audit of the 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 15, 2018

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018**

Finding 2018-001 Debt Accounting – Material Weakness

CONDITION

The Hospital has four New Mexico Finance Authority bonds on its books. For this current audit, the correct accounting for all of the bond activity has not been performed properly during the year. This results in inaccurate internal monthly financial statements during the year. For 2018, material audit adjustments were required to properly state debt and related accounts.

CRITERIA

Best practices in internal control suggest that significant accounts be reconciled timely in order to reflect accurate interim financial reporting.

EFFECT

The Hospital's internal financial statements during the year are not correct with respect to the bond activity. Hospital staff went the entire year without reconciling the bond activity.

CAUSE

The accounting department does not have an internal process to properly record the monthly bond activity.

RECOMMENDATION

We recommend that the accounting department begin to make the monthly journal entries to properly record bond activity and reconcile the relevant amounts to the New Mexico Finance Authority bond statements which show all activity.

MANAGEMENT RESPONSE

Management concurs with the auditor's recommendation and will make the necessary changes. Monthly NMFA Activity Statements will be received timely from the Union County manager. Monthly bond payments and monthly interest payments will continue to be made with the appropriate monthly accounting for the payments and accruals. Monthly reconciliations will be made to the general ledger accounts representing changes determined in the monthly NMFA Activity Statements.

ESTIMATED TIMELINE TO CORRECT: Will begin immediately.

RESPONSIBLE OFFICIAL: UCGH Chief Financial Officer

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30. 2018**

Finding 2018-002 No Approval Over Annual Inventory – Other Non-Compliance

CONDITION

During our capital asset testwork, we noted that a year-end physical inventory count for all capital assets was not done. Thus there was no capital asset inventory count which was certified as to correctness and signed by the governing authority.

CRITERIA

NMAC 2.2.1.16 states “(A) At the end of the fiscal year, each agency shall conduct a physical inventory of its fixed asset consisting of those with a historical cost of five thousand dollars (5,000) or more, under the control of the governing authority. (D) the inventory process shall produce a list of the property and the date and cost of acquisition. The annual physical inventory check against losses not previously revealed and brings to light errors in records of accountability but more importantly, a systematic physical inventory of fixed assets provides an opportunity for surveying their physical condition, with respect to their need for repairs, maintenance or replacement. (E) The results of the physical inventory shall be recorded in a written inventory report, certified as to correctness and signed by the governing authority of the agency. In the process of conducting their fieldwork, the state auditor or independent public accountant under a contract approved by the state auditor may test the correctness of the inventory by generally accepted audit procedures.”

EFFECT

Union County General Hospital is not in compliance with NMAC 2.20.1.16.

CAUSE

Union County General Hospital was unaware of NMAC 2.20.1.16 (E) which requires the inventory report be certified as to correctness and signed by the governing authority of the agency.

RECOMMENDATION

Management should establish controls and procedures necessary to ensure that a physical inventory of all equipment is performed completely and correctly; including valuation of items, cost of acquisition and signature of review by governing authority. Additionally, we recommend that reconciliation between the physical inventory results and the capital asset inventory listing be performed to identify any necessary adjustments.

MANAGEMENT RESPONSE

Management concurs with the auditor’s recommendation and will make the necessary changes.

ESTIMATED TIMELINE TO CORRECT: Will begin immediately to conduct a physical capital asset inventory meeting all the Criteria of NMAC 2.2.1.16 as noted above.

RESPONSIBLE OFFICIAL: UCGH Chief Financial Officer

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
SUMMARY OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2017**

NO FINDINGS

**CLAYTON HEALTH SYSTEMS, INC.
DBA UNION COUNTY GENERAL HOSPITAL
EXIT CONFERENCE
For the Year Ended June 30, 2018**

Exit Conference and Board of Trustees Presentation

The contents of this report were discussed on October 15, 2018. The following individuals were in attendance.

Union County General Hospital

Judith Cooper	President
Craig Reeves	Member
Tammie Stump	Chief Executive Officer (CEO)
Steve Bishop	Chief Financial Officer (CFO)-Interim

Ricci & Company

Dock Livingston, CPA	Audit Manager
----------------------	---------------

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.