



Financial Statements  
June 30, 2019 and 2018

**Clayton Health Systems, Inc. d/b/a  
Union County General Hospital  
A Component Unit of Union County,  
New Mexico**

Official Roster.....	1
Independent Auditor’s Report .....	2
Management's Discussion and Analysis .....	5
Financial Statements	
Statements of Net Position .....	11
Statements of Revenues, Expenses, and Changes in Net Position.....	13
Statements of Cash Flows .....	14
Notes to Financial Statements .....	16
Schedules of Revenues, Expenses and Changes in Net Position – Budget and Actual.....	31
New Mexico State Auditor’s Supplementary Information	
Schedule of Pledged Collateral - June 30, 2019 .....	33
Schedule of Individual Deposit and Investment Accounts - June 30, 2019 .....	34
Schedule of Indigent Care Cost and Funding Report - June 30, 2019, 2018 and 2017.....	35
Schedule of Calculations of Cost of Providing Indigent Care - June 30, 2019, 2018 and 2017 .....	36
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> .....	37
Summary of Audit Results.....	39
Schedule of Findings and Responses.....	40
Summary of Prior Audit Findings .....	46
Exit Conference .....	47

**Board of Directors**

Judith Cooper, President  
Robert Williams, Secretary  
Craig Reeves, Treasurer  
Paul Briesch, Member

**Principal Employees**

Tammie Stump, Chief Executive Officer  
Melissa Prante, Chief Financial Officer



## Independent Auditor's Report

Board of Directors and Brian S. Colón, State Auditor  
Clayton Health Systems, Inc., d/b/a/ Union County General Hospital  
Clayton, New Mexico

### Report on Financial Statements

We have audited the accompanying statement of net position of Clayton Health Systems, Inc., d/b/a Union County General Hospital (Hospital), a component unit of Union County, New Mexico, as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and the schedule of revenues, expenses and changes in net position – budget and actual (budgetary comparison schedule), which collectively comprise the Hospital's basic financial statements.

### 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 Hospital'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.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clayton Health Systems, Inc., d/b/a Union County General Hospital as of June 30, 2019, and the changes in financial position and cash flows and the budgetary comparison schedule for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Restatement of Prior Year Financial Statements**

The basic financial statements of Clayton Health Systems, Inc., d/b/a Union County General Hospital as of and for the year ended June 30, 2018, were audited by other auditors, whose report dated October 15, 2018, expressed an unmodified opinion on those statements. As discussed in Note 10 to the financial statements, classification errors resulting in misstatements of amounts previously reported as of June 30, 2018, were discovered during the current year. Accordingly, the 2018 financial statements have been restated to correct the errors. The other auditors reported on the 2018 financial statements before the restatement.

As a part our audit of the 2019 financial statements, we also audited the adjustments described in Note 10, that were made to restate the 2018 financial statements for the correction of the classification errors. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review or apply any procedures to the 2018 financial statements of the Hospital other than with respect to these adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2018 financial statements as a whole.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements and the budgetary comparison schedule that collectively comprise the Hospital's basic 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 (supplementary information), are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary 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 a report dated November 1, 2019 on our consideration of Clayton Health Systems, Inc., d/b/a Union County General Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely 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 effectiveness of the Hospital's 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.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, professional style.

Oklahoma City, Oklahoma  
November 1, 2019

This discussion and analysis of the financial performance of Clayton Health Systems, Inc. d/b/a Union County General Hospital (Hospital) provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2019, 2018 and 2017. The intent of this discussion and analysis is to provide further information on the Hospital's performance as a whole; readers should also review the basic financial statements and notes to the financial statements to enhance their understanding of the Hospital's financial status.

### **Financial Highlights – Financial Statements**

- The Hospital's net position increased by \$824,376 or 11% in 2019 and decreased by \$2,035,330 or 22% in 2018.
- The Hospital reported an operating loss in 2019 of \$755,339 and an operating loss in 2018 of \$3,437,970. Operating loss in 2019 decreased by \$2,682,631 or 78% over the loss reported in 2018. Operating loss reported in 2018 increased by \$3,000,343 or 686% over the loss reported in 2017.
- Net nonoperating revenues increased by \$2,075 or 1% in 2019 compared to 2018. Net nonoperating revenues decreased by \$213,743 or 13% in 2018 compared to 2017.

### **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 financial statements and related notes provide information about the activities of the Hospital including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

### **The Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position**

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement 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 restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position – the difference between assets and liabilities – as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

### **The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

### **Overview of the Financial Statements**

The statement of net position at June 30, 2019 indicated total assets of \$13,862,000, total liabilities of \$5,814,843 and net position of \$8,047,157. Total current assets were \$3,545,570 and total current liabilities were \$2,474,955 for a current ratio of 1.4. The statement of net position at June 30, 2018 had total assets of \$14,942,865, current assets of \$4,513,473, liabilities of \$7,720,084 and current liabilities of \$3,887,670 for a current ratio of 1.2 in 2018.

The statements of revenues, expenses, and changes in net position for the year ended June 30, 2019 indicated total operating revenues of \$10,179,867 and operating expenses of \$10,935,206, operating loss of \$755,339, net nonoperating revenues of \$1,404,715, and capital contributions of \$175,000. The net position increased by \$824,376 during the year ended June 30, 2019 compared to a decrease of \$2,035,330 during the year ended June 30, 2018.

As reported in the statements of cash flows, cash and cash equivalents decreased by \$2,476,358 from \$3,432,181 at June 30, 2018 to \$955,828 at June 30, 2019.

Please review the notes to the financial statements included in the report.

### **The Hospital's Net Position**

The Hospital's net position is the difference between its assets and liabilities reported on the combined balance sheet. The Hospital's net position increased by \$824,376 or 11% in 2019 and decreased by \$2,035,330 or 25% in 2018.



**Table 1: Assets, Liabilities, and Net Position**

	2019	2018	2017
<b>Assets</b>		(Restated)	
Current assets	\$ 3,545,570	\$ 4,513,473	\$ 5,102,988
Capital assets, net	9,735,465	9,650,121	10,132,594
Other assets	580,965	779,271	1,146,742
<b>Total assets</b>	<u>\$ 13,862,000</u>	<u>\$ 14,942,865</u>	<u>\$ 16,382,324</u>
<b>Liabilities</b>			
Current liabilities	\$ 2,474,955	\$ 3,887,670	\$ 2,621,133
Long-term debt	3,339,888	3,832,414	4,503,080
<b>Total liabilities</b>	<u>5,814,843</u>	<u>7,720,084</u>	<u>7,124,213</u>
<b>Net Position</b>			
Net investment in capital assets	5,717,906	5,151,549	4,956,865
Temporarily restricted	804,008	50,000	50,000
Unrestricted	1,525,243	2,021,232	4,251,246
<b>Total net position</b>	<u>8,047,157</u>	<u>7,222,781</u>	<u>9,258,111</u>
<b>Total liabilities and net position</b>	<u>\$ 13,862,000</u>	<u>\$ 14,942,865</u>	<u>\$ 16,382,324</u>

A significant component of the change in the Hospital's assets is the decrease in cash due to large Safety Net Care Pool (SNCP) repayment which was recognized as a reduction in revenue at June 30, 2018 but paid during the year ended June 30, 2019. Accounts Payable increased due to the decreased cash position caused by the repayments to SNCP. Accrued liabilities also decreased due to the accrual of the SNCP repayment in 2018.

**Table 2: Operating Results and Changes in Net Position**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues		(Restated)	
Net patient service revenue	\$ 8,252,332	\$ 7,683,250	\$ 10,392,550
SNCP funds	1,539,309	(156,123)	759,841
Other operating revenue	388,226	261,874	194,272
Total operating revenues	<u>10,179,867</u>	<u>7,789,001</u>	<u>11,346,663</u>
Operating Expenses			
Salaries, wages and benefits	6,176,041	5,723,019	4,601,719
Contract labor and professional fees	569,189	1,089,583	2,360,135
Supplies	804,324	803,467	903,412
Purchased services	949,877	1,078,686	1,004,044
Depreciation and amortization	685,299	639,183	711,646
Other operating expenses	1,750,476	1,893,033	2,203,334
Total operating expenses	<u>10,935,206</u>	<u>11,226,971</u>	<u>11,784,290</u>
Operating loss	<u>(755,339)</u>	<u>(3,437,970)</u>	<u>(437,627)</u>
Nonoperating Revenues (Expenses)			
Tax revenues	1,078,951	1,123,011	1,223,663
Interest expense	(133,260)	(176,750)	(198,451)
Other non operating revenues, net	459,024	456,379	591,171
Net nonoperating revenues	<u>1,404,715</u>	<u>1,402,640</u>	<u>1,616,383</u>
Revenues in Excess of (Less Than) Expenses Before Capital Contributions	649,376	(2,035,330)	1,178,756
Capital Contributions	<u>175,000</u>	<u>-</u>	<u>-</u>
Change in Net Position	824,376	(2,035,330)	1,178,756
Net Position, Beginning of year	<u>7,222,781</u>	<u>9,258,111</u>	<u>8,079,355</u>
Net Position, End of year	<u>\$ 8,047,157</u>	<u>\$ 7,222,781</u>	<u>\$ 9,258,111</u>

### **Operating Loss**

The first component of the overall change in the Hospital's net position is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The operating loss for 2019 decreased by \$2,682,631 or 78% as compared to 2018 and the operating loss increased in 2018 by \$3,000,343 or 686% compared to 2017. The primary component of the decreased operating loss was the increase in SNCP funds of \$1,695,432 or 1086% in 2019 as compared to an decrease of \$915,964 or 121% during 2018. This was the result of the repayment to the SNCP program. Other operating revenues increased \$126,352 or 48% in 2019 compared to an increase of \$67,602 or 35% in 2018. The increase in 2019 was due to revenue provided by the Hospital's participation in the 340b program.

### **Nonoperating Revenues and Expenses**

Net nonoperating revenues consist primarily of sales tax proceeds, interest expense, investment earnings, and contributions. The net nonoperating revenues decreased in 2019 by \$2,075 or 1% and decreased by \$213,743 or 13% in 2018.

### **Capital Contributions**

Capital contributions consist of contributions received for the purpose of purchasing capital assets or direct contributions of capital assets. The Hospital received capital contributions of \$175,000 in 2019. There were no capital contributions in 2018 or 2017.

### **The Hospital's Cash Flows**

The Hospital's overall liquidity decreased during the year with a net decrease to cash and cash equivalents, of \$2,476,358 in 2019. Cash flows used for operating activities increased by \$1,518,162 during 2019. This was due to the decrease in receipts from and on behalf of patients and the decrease in payments to suppliers and contractors. Cash from noncapital financing activities increased by \$420,151 when compared with 2018. Cash used for capital and capital related financing activities increased by \$176,788 when compared with 2018. Cash used for investing activities increased \$906,279 when compared with 2018.

### **Capital Assets**

The Hospital had capital assets, net of accumulated depreciation, of \$9,735,465 and \$9,650,121 at June 30, 2019 and 2018 as detailed in Note 4 to the financial statements. The Hospital purchased or received contributions of capital assets totaling \$770,643 and \$156,710 during the years ended June 30, 2019 and 2018.

**Long-Term Debt**

The Hospital had \$4,138,009 and \$4,498,572 in long-term debt at June 30, 2019 and 2018. The Hospital incurred new debt totaling \$320,450 and \$0 during the years ended June 30, 2019 and 2018 as detailed in Note 6 to the financial statements.

**Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital administration by calling 575-374-7008.

Union County General Hospital  
Statements of Net Position  
June 30, 2019 and 2018

	2019	2018 (Restated)
Assets		
Current Assets		
Cash and cash equivalents	\$ 201,815	\$ 2,531,117
Restricted by trustee for debt service - current	173,043	145,849
Short-term investments	906,279	-
Receivables		
Patient, net of estimated uncollectibles of \$2,092,000 in 2019 and \$4,415,000 in 2018	1,153,358	776,133
Other	800,451	837,550
Supplies	234,874	179,415
Prepaid expenses and other	75,750	43,409
Total current assets	3,545,570	4,513,473
Noncurrent Cash and Cash Equivalents		
Board designated	-	183,482
Restricted by trustee for debt service, net of current portion	580,965	571,733
Total noncurrent cash and cash equivalents	580,965	755,215
Capital Assets		
Capital assets not being depreciated	242,127	104,502
Capital assets being depreciated, net	9,493,338	9,545,619
Total capital assets	9,735,465	9,650,121
Other Assets	-	24,056
Total assets	\$ 13,862,000	\$ 14,942,865

Union County General Hospital  
Statements of Net Position  
June 30, 2019 and 2018

	2019	2018
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Line of credit	\$ 120,450	\$ -
Current maturities of long-term debt	677,671	666,158
Accounts payable		
Cash overdrafts	233,830	-
Trade	382,173	102,252
Estimated third-party payor settlements	480,393	912,318
Accrued expenses		
Salaries and wages	364,213	367,837
Interest	19,678	20,909
Other accrued expenses	196,547	1,818,196
Total current liabilities	2,474,955	3,887,670
Long-Term Debt, Less Current Maturities	3,339,888	3,832,414
Total liabilities	5,814,843	7,720,084
<b>Net Position</b>		
Net investment in capital assets	5,717,906	5,151,549
Restricted, expendable	804,008	50,000
Unrestricted	1,525,243	2,021,232
Total net position	8,047,157	7,222,781
Total liabilities and net position	\$ 13,862,000	\$ 14,942,865

Union County General Hospital  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2019 and 2018

	2019	2018 (Restated)
Operating Revenue		
Net patient service revenue	\$ 8,252,332	\$ 7,683,250
Other operating revenue, gains, and other support		
Safety Net Care Pool (SNCP) funds	1,539,309	(156,123)
Other operating revenues	388,226	261,874
Total operating revenue	10,179,867	7,789,001
Operating Expenses		
Salaries and wages	5,264,641	4,870,958
Employee benefits	911,400	852,061
Contract labor	112,647	392,439
Professional fees	456,542	697,144
Supplies	804,324	803,467
Purchased services	949,877	1,078,686
Repairs and maintenance	361,451	324,651
Rent	395,188	397,372
Utilities and phone	170,438	215,599
Insurance	205,243	295,079
Depreciation and amortization	685,299	639,183
Other operating expenses	618,156	660,332
Total operating expenses	10,935,206	11,226,971
Operating Loss	(755,339)	(3,437,970)
Nonoperating Revenues (Expenses)		
Tax revenues	1,078,951	1,123,011
Interest expense	(133,260)	(176,750)
Other non operating revenues, net	459,024	456,379
Net nonoperating revenues	1,404,715	1,402,640
Revenues in Excess of (Less Than) Expenses Before Capital Contributions	649,376	(2,035,330)
Capital Contributions	175,000	-
Change in Net Position	824,376	(2,035,330)
Net Position, Beginning of Year	7,222,781	9,258,111
Net Position, End of Year	\$ 8,047,157	\$ 7,222,781

Union County General Hospital  
Statements of Cash Flows  
Years Ended June 30, 2019 and 2018

	2019	2018 (Restated)
Operating Activities		
Receipts from and on behalf of patients	\$ 7,441,911	\$ 9,336,196
Payments to suppliers and contractors	(3,443,736)	(4,682,835)
Payments to and on behalf of employees	(6,179,665)	(5,624,151)
Other receipts and disbursements, net	250,068	557,530
Net Cash used for Operating Activities	(1,931,422)	(413,260)
Noncapital Related Financing Activities		
Net proceeds from draws on line of credit	120,450	-
Tax revenue	1,333,960	1,060,961
Other noncapital grants and contributions	118,080	91,378
Net Cash from Noncapital Related Financing Activities	1,572,490	1,152,339
Capital and Capital Related Financing Activities		
Purchase of capital assets	(395,643)	(156,709)
Principal payments on debt	(681,013)	(677,158)
Interest paid on debt	(134,491)	(200,492)
Net Cash used for Capital and Capital Related Financing Activities	(1,211,147)	(1,034,359)
Investing Activities		
Purchase of short-term investments	(906,279)	-
Net Change in Cash and Cash Equivalents	(2,476,358)	(295,280)
Cash and Cash Equivalents, Beginning of Year	3,432,181	3,727,461
Cash and Cash Equivalents, End of Year	\$ 955,823	\$ 3,432,181
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 201,815	\$ 2,531,117
Restricted by trustee for debt service - current	173,043	145,849
Noncurrent board designated	-	183,482
Restricted by trustee for debt service - noncurrent	580,965	571,733
Total cash and cash equivalents	\$ 955,823	\$ 3,432,181



Union County General Hospital  
Statements of Cash Flows  
Years Ended June 30, 2019 and 2018

	2019	2018 (Restated)
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	\$ (755,339)	\$ (3,437,970)
Adjustments to reconcile operating loss to net cash used for operating activities		
Provision for bad debts	(789,158)	1,585,888
Depreciation and amortization	685,299	639,183
Contribution of rental expense	365,000	365,000
Changes in assets and liabilities		
Patient receivables	411,933	(1,499,239)
Estimated third-party payor settlements	(431,925)	1,122,557
Other receivables	(217,910)	359,390
Supplies	(55,459)	28,336
Prepaid expenses and other	(32,341)	39,142
Accounts payable	513,751	(290,643)
Accrued payroll	(3,624)	98,867
Other accrued expenses	(1,621,649)	576,229
Net Cash used for Operating Activities	\$ (1,931,422)	\$ (413,260)
Supplemental Disclosure of Noncash Financing Activities		
Contributed rent expense	\$ 365,000	\$ 365,000
Supplemental Disclosure of Noncash Capital and Capital Related Financing and Investing Activities		
Equipment financed through capital lease arrangement	\$ 200,000	\$ -
Disposal of other asset	\$ 24,056	\$ -
Contribution of capital assets	\$ 175,000	\$ -

**Note 1 - Reporting Entity and Summary of Significant Accounting Policies**

The financial statements of Clayton Health Systems, Inc. (Corporation), d/b/a Union County General Hospital, a component unit of Union County, New Mexico (Hospital), have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

**Reporting Entity**

The Hospital is a 25-bed acute care hospital located in Clayton, New Mexico. The Hospital is a component unit of the County and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care to the residents of Clayton, Union County and the surrounding area.

The Corporation operates the hospital through an operating agreement with Union County, New Mexico (County). The agreement was first entered into by the Corporation and the County on June 28, 1996 and has been amended several times. The most recent amended agreement was set to expire in August of 2019 and automatically renew for additional 1 year terms unless terminated by either party. The County owns the real property and certain personal property used in the operations of the hospital. The Corporation owns the working capital arising out of the operations of the hospital.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital does not have a component unit which meets the GASB criteria.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

### **Basis of Presentation**

The statement of net position displays the Hospital's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those.

Restricted net position:

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation, reduced by liabilities related to those assets. The Hospital's restricted net position at June 30, 2019 and 2018, is restricted under a loan agreement and other expendable provisions.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

### **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, as well as disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated and externally restricted cash equivalents. For purposes of the statement of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

### **Short-term investments**

Short-term investments include certificates of deposits with an original maturity of three to twelve months which includes certain certificates of deposit held as collateral on the Hospital's line of credit (Note 6).

**Patient Receivables**

Patient receivables are uncollateralized patient and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Hospital's collections procedures. The Hospital does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

**Noncapital Appropriations Receivable and Revenue**

The County provides the Hospital with working capital in the form of the gross receipts tax (GRT) program. During the years ended June 30, 2019 and 2018, the County provided approximately \$304,000 and \$277,000 to the Hospital under this program. Other transactions of the GRT program allow 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, 2019 and 2018 were approximately \$656,000 and \$725,000. This reimbursement program will continue as funds are available. In 2007, the County and the Hospital entered into a memorandum of understanding in which the County agreed to provide a subsidy to the Hospital in the amount of the principal and interest payments on the NMFA 2017 loan agreement (Note 6). The Hospital received approximately \$118,000 and \$121,000 during the years ended June 30, 2019 and 2018 from the County under this agreement. Total funding from the County was approximately 9% and 12% of the Hospital's revenue for the years ended June 30, 2019 and 2018.

**Supplies**

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

**Noncurrent Cash Equivalents**

Noncurrent cash equivalents can include donor restricted funds, amounts set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and amounts held by bond trustees under indenture agreements. Assets that are available for obligations classified as current liabilities are reported in current assets.

**Capital Assets**

Property and equipment acquisitions are recorded at cost when the useful life exceeds one year and \$5,000 in accordance with Section 12-6-10 of the New Mexico Statutes Annotated 1978 (NMSA). Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method.

Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Buildings and improvements	5 - 40 years
Fixed equipment	5 - 20 years
Major movable equipment	3 - 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position and are excluded from revenues in excess of (less than) expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

**Compensated Absences**

The Hospital's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. Compensated absences liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensated-related payments, such as social security and Medicare taxes computed using rates in effect at that date. The liability for compensated absences is reported within accrued expenses in the accompanying financial statements.

**Operating Revenues and Expenses**

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services - the Hospital's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

**Net Patient Service Revenue**

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 reimbursed costs, prospectively determined rates, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue for the year ended June 30, 2019 increased approximately \$340,000 due to final third-party payor settlements which were less than estimated amounts.

**Charity Care**

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The Hospital adopted a new charity care policy in 2019. The revised policy provided charity care discounts for services previously reported within net patient service revenue. The impact of these changes was to reduce the allowance and provision for bad debts by approximately \$1,628,000 for the year ended June 30, 2019. The provision for bad debts as of June 30, 2019 and 2018 totaled \$(789,158) and \$1,585,888.

Charges for charity care provided during June 30, 2019 and 2018 totaled \$1,843,600 and \$54,935 and the estimated cost of providing these services was \$1,286,832 and \$35,496, calculated by multiplying the ratio of costs to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care.

**Grants and Contributions**

From time to time, the Hospital receives contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose is reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues.

**New Accounting Pronouncements**

The Hospital adopted the provisions of GASB Statement 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, which improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The adoption of GASB No. 88 changed the Hospital's disclosure requirements as seen in Note 6 but did not impact amounts recorded by the Hospital.

**Reclassifications**

Reclassifications have been made to the June 30, 2019 financial information to make it conform to the current year presentation. Except as noted in Note 10, the reclassifications had no effect on previously reported operating results or changes in net position.

**Note 2 - Net Patient Service Revenue**

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: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost reimbursement method with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended June 30, 2017. Clinical services are paid on a cost basis or fixed fee schedule.

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.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital's patient service revenues for the years ended June 30, 2019 and 2018:

	2019	2018
Medicare	43%	43%
State-sponsored Medicaid program	22%	19%
Commercial insurances	29%	31%
Uninsured	6%	7%
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare, Medicaid, and other 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.

#### **Safety Net Care Pool Program (SNCP)**

Senate Bill 314 amended and repealed various sections of existing statutes 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 SNCP 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. As a result of application reviews, prior overpayments can be recouped. The Hospital was notified during 2018 that approximately \$2,100,000 in overpayments would be recouped as a result of the final review of the program year ended December 31, 2016. In addition to payments made by the Hospital, funding of \$974,595 and \$502,446 were allocated to the repayment amount due during the years ended June 30, 2019 and 2018. No additional repayments have been assessed for program years after December 31, 2016. Based on information known at the date of the report, management was not able to determine a reasonable estimate of potential repayment, if any, for subsequent years. Regulations used to determine overpayments are subject to interpretation and have been successfully challenged in other states. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

### Note 3 - Deposits

The carrying amounts of deposits as of June 30, 2019 and 2018 were \$1,862,102 and \$3,432,181.

Deposits are reported in the following statement of net position captions:

	2019	2018 (Restated)
Cash and cash equivalents	\$ 201,815	\$ 2,531,117
Short-term investments	906,279	-
Restricted by trustee for debt service (current)	173,043	145,849
Board designated	-	183,482
Restricted by trustee for debt service (noncurrent)	580,965	571,733
	<u>\$ 1,862,102</u>	<u>\$ 3,432,181</u>

### Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state laws. In accordance with Section 6-10-7 NMSA 1978, deposits of public monies 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. The Hospital's deposits in banks at June 30, 2019 and 2018 were entirely covered by federal depository insurance or by collateral held by the Hospital's custodial bank in the Hospital's name.



**Note 4 - Capital Assets**

Capital assets additions, retirements or transfers, and balances for the year ended June 30, 2019 are as follows:

	Balance June 30, 2018	Additions	Transfers and Retirements	Balance June 30, 2019
Capital assets not being depreciated				
Construction in progress	\$ 92,752	\$ 484,718	\$ (356,813)	\$ 220,657
Land	11,750	9,720	-	21,470
<b>Total nondepreciable capital assets</b>	<b>\$ 104,502</b>	<b>\$ 494,438</b>	<b>\$ (356,813)</b>	<b>\$ 242,127</b>
Capital assets being depreciated				
Buildings & Improvements	\$ 11,630,958	-	\$ 273,244	\$ 11,904,202
Buildings & Improvements - RHC	1,001,380	-	-	1,001,380
Fixed equipment	826,565	6,400	55,397	888,362
Major equipment - Hospital	1,313,934	69,805	(60,502)	1,323,237
Major equipment - Clinic	15,224	200,000	-	215,224
<b>Total capital assets being depreciated</b>	<b>14,788,061</b>	<b>\$ 276,205</b>	<b>\$ 268,139</b>	<b>15,332,405</b>
Less accumulated depreciation for				
Buildings & Improvements	3,797,580	\$ 307,874	\$ -	4,105,454
Buildings & Improvements - RHC	59,216	31,099	-	90,315
Fixed equipment	434,192	176,602	-	610,794
Major equipment - Hospital	935,885	159,486	(88,674)	1,006,697
Major equipment - Clinic	15,569	10,238	-	25,807
<b>Total accumulated depreciation</b>	<b>5,242,442</b>	<b>\$ 685,299</b>	<b>\$ (88,674)</b>	<b>5,839,067</b>
<b>Net capital assets being depreciated</b>	<b>\$ 9,545,619</b>			<b>\$ 9,493,338</b>
<b>Capital assets, net</b>	<b>\$ 9,650,121</b>			<b>\$ 9,735,465</b>

During the year ended June 30, 2019, the Hospital was donated a building valued at \$175,000 based on the fair value at the date of donation. Construction in progress at June 30, 2019 represent various remodeling, repair and expansion projects, including the planned remodel of the donated building. The remodel was in the initial planning stages at June 30, 2019, therefore commitments for construction completion were considered minor.

Union County General Hospital

Notes to Financial Statements

June 30, 2019 and 2018

Capital assets additions, retirements or transfers, and balances for the year ended June 30, 2018 are as follows:

	Balance June 30, 2017	Additions	Transfers and Retirements	Balance June 30, 2018
Capital assets not being depreciated				
Construction in progress	\$ 86,453	\$ 27,359	\$ (21,060)	\$ 92,752
Land	11,750	-	-	11,750
	<u>11,750</u>	<u>-</u>	<u>-</u>	<u>11,750</u>
Total capital assets not being depreciated	<u>\$ 98,203</u>	<u>\$ 27,359</u>	<u>\$ (21,060)</u>	<u>\$ 104,502</u>
Capital assets being depreciated				
Buildings & Improvements	\$ 11,627,537	\$ 3,421	\$ -	\$ 11,630,958
Buildings & Improvements - RHC	1,001,380	-	-	1,001,380
Fixed equipment	766,318	39,187	21,060	826,565
Major equipment - Hospital	1,227,191	86,743	-	1,313,934
Major equipment - Clinic	15,224	-	-	15,224
	<u>14,637,650</u>	<u>\$ 129,351</u>	<u>\$ 21,060</u>	<u>14,788,061</u>
Total capital assets being depreciated	<u>14,637,650</u>	<u>\$ 129,351</u>	<u>\$ 21,060</u>	<u>14,788,061</u>
Less accumulated depreciation for				
Buildings & Improvements	3,496,462	\$ 301,118	\$ -	3,797,580
Buildings & Improvements - RHC	30,156	29,060	-	59,216
Fixed equipment	281,738	152,454	-	434,192
Major equipment - Hospital	784,502	151,383	-	935,885
Major equipment - Clinic	10,401	5,168	-	15,569
	<u>4,603,259</u>	<u>\$ 639,183</u>	<u>\$ -</u>	<u>5,242,442</u>
Total accumulated depreciation	<u>4,603,259</u>	<u>\$ 639,183</u>	<u>\$ -</u>	<u>5,242,442</u>
Net capital assets being depreciated	<u>\$ 10,034,391</u>			<u>\$ 9,545,619</u>
Capital assets, net	<u>\$ 10,132,594</u>			<u>\$ 9,650,121</u>

**Note 5 - Leases**

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for the years ended June 30, 2019 and 2018 for all operating leases was \$447,236 and \$536,832. As described in Note 1, under the operating agreement, the County provides the Corporation with the right to use the building and equipment owned by the County as consideration for operating the Hospital. The Hospital has recognized the fair value of the right to use of the County's assets as rental expense and other nonoperating revenue. For the years ended June 30, 2019 and 2018, \$365,000 was included in operating lease expense on the accompanying financial statements. There are no significant commitments associated with operating leases. The capitalized lease assets consist of:

	<u>2019</u>	<u>2018</u>
Major movable equipment	\$ 565,952	\$ 1,329,158
Less accumulated amortization	<u>(323,825)</u>	<u>(1,247,404)</u>
	<u>\$ 242,127</u>	<u>\$ 81,754</u>

Minimum future lease payments for capital leases are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2020	\$ 120,535
2021	52,560
2022	52,560
2023	<u>49,180</u>
Total minimum lease payments	274,835
Less interest imputed at rates from 2.69% to 4.28%	<u>(12,215)</u>
Present value of minimum lease payments - Note 6	<u>\$ 262,620</u>

**Note 6 - Debt**

A schedule of the Hospital's debt for 2019 and 2018 is as follows:

	Balance June 30, 2018	Additions	Payments	Balance June 30, 2019	Due Within One Year
<b>Loans Payable to NMFA</b>					
2005 Loan agreement (a)	\$ 1,687,557	\$ -	\$ (229,133)	\$ 1,458,424	\$ 231,998
2009 Loan agreement (b)	1,442,839	-	(107,348)	1,335,491	110,891
2015 Loan agreement (c)	953,718	-	(110,841)	842,877	102,216
2017 Loan agreement (d)	234,989	-	(116,842)	118,147	118,147
Total loans payable	<u>4,319,103</u>	<u>-</u>	<u>(564,164)</u>	<u>3,754,939</u>	<u>563,252</u>
<b>Notes from Direct Borrowings</b>					
Line of credit payable	-	120,450	-	120,450	120,450
Capital leases (Note 5)	179,469	200,000	(116,849)	262,620	114,419
Total notes from direct borrowings	<u>179,469</u>	<u>320,450</u>	<u>(116,849)</u>	<u>383,070</u>	<u>234,869</u>
Total debt	<u>\$ 4,498,572</u>	<u>\$ 320,450</u>	<u>\$ (681,013)</u>	<u>\$ 4,138,009</u>	<u>\$ 798,121</u>
	Balance June 30, 2017	Additions	Payments	Balance June 30, 2018	Due Within One Year
<b>Loans Payable to NMFA</b>					
2005 Loan agreement (a)	\$ 1,914,557	\$ -	\$ (227,000)	\$ 1,687,557	\$ 229,610
2009 Loan agreement (b)	1,547,005	-	(104,166)	1,442,839	107,939
2015 Loan agreement (c)	1,063,233	-	(109,515)	953,718	98,849
2017 Loan agreement (d)	350,656	-	(115,667)	234,989	116,842
Total loans payable	<u>4,875,451</u>	<u>-</u>	<u>(556,348)</u>	<u>4,319,103</u>	<u>553,240</u>
<b>Notes from Direct Borrowings</b>					
Capital leases (Note 5)	300,279	-	(120,810)	179,469	112,918
Total debt	<u>\$ 5,175,730</u>	<u>\$ -</u>	<u>\$ (677,158)</u>	<u>\$ 4,498,572</u>	<u>\$ 666,158</u>

The terms of the loans payable are as follows, (a) 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; (b) 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; (c) 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; and (d) note payable to NMFA; payable in semi-annual installments with varied amount including interest of 1.16%, matures May 2029, collateralized by Hospital revenues and County Tax revenues.

## Union County General Hospital

Notes to Financial Statements

June 30, 2019 and 2018

The County has entered into loan agreements with the New Mexico Finance Authority (NMFA) on behalf of the Hospital in order to finance the costs of improvements to the Hospital. The original loans were funded from previously issued NMFA Public Project Revolving Fund Revenue Bonds. The loans are secured by the net pledged revenues of the Hospital and the County's tax revenues. Concurrent with these loan agreements, the Hospital 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 expiration of the operating agreement, or upon earlier termination, the Hospital is required to surrender all improvements to the County. Under the operating agreement with the County, the Hospital is required to comply with certain restrictive financial and other covenants. This agreement requires certain trust funds to be established with a trustee. Accordingly, these funds are included in amounts restricted by trustee for debt service.

The Hospital has a revolving line of credit with a local bank with a limit of \$695,000 and includes interest at 3.75%. The outstanding principal of \$120,450 along with accrued interest is due at maturity. The line of credit originally matured on July 1, 2019 and was extended by both parties on that date to November 15, 2019. The advances during the year ended June 30, 2019 were used to support operations. The line of credit is secured by the Hospital's certificate of deposit.

Scheduled debt service requirements for the Hospital's long-term debt are as follows:

Years Ending June 30,	Notes Payable		Notes from Direct Borrowings	
	Principal	Interest	Principal	Interest
2020	\$ 563,252	\$ 122,522	\$ 234,869	\$ 10,517
2021	456,926	109,475	49,173	3,387
2022	469,953	96,725	50,514	2,046
2023	484,255	82,712	48,514	667
2024	499,719	67,548	-	-
2025 - 2029	1,280,834	106,769	-	-
Total	\$ 3,754,939	\$ 585,751	\$ 383,070	\$ 16,617

### Note 7 - Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2019 and 2018 were as follows:

	2019	2018
Medicare	18%	10%
Medicaid	15%	7%
Commercial insurances	24%	19%
Self-pay	43%	64%
	100%	100%

**Note 8 - 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%. For the years ended June 30, 2019, 2018 and 2017, the Hospital's expense to fund its share of the plan was \$40,857, \$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 to participate in the plan make contributions through a reduction in salary and can 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 its liabilities to the participants are excluded from the Hospital's financial statements.

**Note 9 - Contingencies****Risk Management**

The Hospital is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Malpractice Insurance**

The Hospital has insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an aggregate limit of \$3,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

**Litigation, Claims and Disputes**

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of task under its various programs. In the opinion of management, the ultimate settlement of litigation, claims and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations, specifically those relating to Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity with respect to investigations and allegations concerning possible violations by health care providers of regulations could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

**Note 10 - Restatement**

During 2019, the Hospital discovered errors in previously reported balances. These errors related primarily to the classification of certain assets, operating and nonoperating income and expenses and classifications in the statement of cash flows. The classification errors in the 2018 financial statements had no impact on net position or the total change in net position.

Reclassifications which were considered material in the statement of net position and the statement of revenues, expenses and changes in net position included the presentation of restricted cash and cash equivalents available to fund current liabilities as noncurrent and the inclusion of interest expense in operating, rather than nonoperating expenses.

The total impact to the June 30, 2018 statements of net position and revenues, expenses and changes in net position are as follows:

	<u>As Previously Reported</u>	<u>Change</u>	<u>As Restated</u>
<b>Statement of Net Position</b>			
Restricted by trustee for debt service - current	\$ -	\$ 145,849	\$ 145,849
Total current assets	4,367,624	145,849	4,513,473
Restricted by trustee for debt service, net of current portion	717,582	(145,849)	571,733
Total noncurrent cash and cash equivalents	901,064	(145,849)	755,215
<b>Statement of Revenues, Expenses and Changes in Net Position</b>			
<b>Operating Expenses</b>			
Rent	\$ 488,537	\$ (91,165)	\$ 397,372
Interest expense	176,750	(176,750)	-
Total operating expenses	11,494,886	(267,915)	11,226,971
Operating loss	(3,705,885)	267,915	(3,437,970)
<b>Nonoperating Revenues (Expenses)</b>			
Interest expense	-	(176,750)	(176,750)
Other non operating revenues, net	547,544	(91,165)	456,379
Net nonoperating revenues	1,670,555	(267,915)	1,402,640

Union County General Hospital

Notes to Financial Statements

June 30, 2019 and 2018

Material and other significant reclassifications to the June 30, 2018 statement of cash flows are as follows:

	As Previously Reported	Change	As Restated
Receipts from and on behalf of patients	\$ 6,667,807	\$ 2,668,389	\$ 9,336,196
Payments to suppliers and contractors	(1,783,184)	(2,899,651)	(4,682,835)
Payments to and on behalf of employees	(6,016,591)	392,440	(5,624,151)
Other receipts and disbursements, net	-	557,530	557,530
Net cash used for operating activities	(1,131,968)	718,708	(413,260)
Tax revenue	-	1,060,961	1,060,961
Other noncapital grants and contributions	-	91,378	91,378
Net cash from noncapital financing activities	-	1,152,339	1,152,339
Purchase of capital assets	-	(156,709)	(156,709)
Interest paid on debt	-	(200,492)	(200,492)
Net cash used for capital and capital related financing activities	(677,158)	(357,201)	(1,034,359)
Purchase of capital assets	(156,709)	156,709	-
Decrease in assets limited as to use	221,621	(221,621)	-
Tax revenue and other	1,670,555	(1,670,555)	-
Net cash from investing activities	1,735,467	(1,735,467)	-
Net change in cash and cash equivalents	(73,659)	(221,621)	(295,280)
Cash and cash equivalents, beginning of year	2,604,776	1,122,685	3,727,461
Cash and cash equivalents, end of year	2,531,117	901,064	3,432,181
Reconciliation of operating loss to net cash used for operating activities			
Operating loss	(3,705,885)	267,915	(3,437,970)
Adjustments to reconcile operating loss to net cash			
Contribution of rental expense	-	365,000	365,000
Changes in assets and liabilities			
Other receivables	297,339	62,051	359,390
Accounts payable	261,844	(552,487)	(290,643)
Accrued payroll and related liabilities	98,867	(98,867)	-



Union County General Hospital  
Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual  
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance with Final Budget - Favorable (Unfavorable)
	Original	Final	Actual	
Operating Revenue	\$ 9,873,104	\$ 9,873,104	\$ 10,179,867	\$ 306,763
Operating Expenses				
Salaries and wages	5,854,524	5,854,524	5,264,641	589,883
Fringe benefits	801,060	801,060	911,400	(110,340)
Contract labor	110,652	110,652	112,647	(1,995)
Physicians fees	172,392	172,392	397,956	(225,564)
Purchased services	939,687	939,687	949,877	(10,190)
Legal and professional	55,281	55,281	58,586	(3,305)
Supplies expense	780,648	780,648	804,324	(23,676)
Utilities	210,444	210,444	170,438	40,006
Repairs and maintenance	443,750	443,750	361,451	82,299
Insurance expense	230,616	230,616	205,243	25,373
All other operating expenses	543,262	543,262	618,156	(74,894)
Leases and rentals	600,144	600,144	395,188	204,956
Depreciation	644,448	644,448	685,299	(40,851)
Total operating expenses	11,386,908	11,386,908	10,935,206	451,702
Operating loss	(1,513,804)	(1,513,804)	(755,339)	758,465
Nonoperating Revenue (Expense)				
Income derived from taxes	1,171,668	1,171,668	1,078,951	(92,717)
Interest expense	(162,000)	(162,000)	(133,260)	28,740
Other nonoperating income	616,092	616,092	459,024	(157,068)
Net nonoperating revenue	1,625,760	1,625,760	1,404,715	(221,045)
Capital Contributions	-	-	175,000	175,000
Change in Net Position	\$ 111,956	\$ 111,956	824,376	\$ 712,420
Net Position, Beginning of Year			7,222,781	
Net Position, End of Year			\$ 8,047,157	

**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 information purposes only, as the Hospital is a proprietary entity and does not receive legislative appropriations; therefore, the budget is not binding.

Union County General Hospital  
Schedule of Revenue, 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	<u>\$ 11,213,554</u>	<u>\$ 11,213,554</u>	<u>\$ 7,789,001</u>	<u>\$ (3,424,553)</u>
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 professional	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
Repair 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	<u>771,420</u>	<u>771,420</u>	<u>639,183</u>	<u>132,237</u>
Total operating expenses	<u>11,254,887</u>	<u>11,254,887</u>	<u>11,318,136</u>	<u>(63,249)</u>
Operating loss	<u>(41,333)</u>	<u>(41,333)</u>	<u>(3,529,135)</u>	<u>(3,487,802)</u>
Nonoperating Revenue (Expense)				
Income derived from taxes	1,032,000	1,032,000	1,123,011	91,011
Interest expense	(180,756)	(180,756)	(176,750)	4,006
Other non-operating income	<u>779,808</u>	<u>779,808</u>	<u>547,544</u>	<u>(232,264)</u>
Net nonoperating income	<u>1,631,052</u>	<u>1,631,052</u>	<u>1,493,805</u>	<u>(137,247)</u>
Change in Net Position	<u>\$ 1,589,719</u>	<u>\$ 1,589,719</u>	<u>(2,035,330)</u>	<u>\$ (3,625,049)</u>
Net Position, Beginning of Year			<u>9,258,111</u>	
Net Position, End of Year			<u>\$ 7,222,781</u>	

**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 information purposes only, as the Hospital is a proprietary entity and does not receive legislative appropriations; therefore, the budget is not binding.



New Mexico State Auditor's Supplementary Information  
June 30, 2019 and 2018

**Clayton Health Systems, Inc. d/b/a  
Union County General Hospital**

Union County General Hospital  
Schedule of Pledged Collateral  
June 30, 2019

FNB NM	Account Name	Maturity	Bank Balance 6/30/2019	Description	Amounts over FDIC Ins \$250K
OP	Operating Account	n/a	\$ 473,307	Operating Account	\$ 223,307
CD	10002108411	7/1/2019	<u>704,589</u>	CD	<u>454,589</u>
FNB NM Total			<u>\$ 1,177,896</u>		

Total amount uninsured public funds \$ 677,896

Collateral required at 50% \$ 338,948

Pledged Collateral

Code	Total Par	CUSIP	Description	Collateral Value
FHLB	\$ 585,000	31418BRH1	FNMA Pool #MA2287	\$ 357,040
FHLB	525,000	011464KG8	Alamogordo NM Muni Dist #1	<u>517,865</u>
				<u>\$ 874,905</u>
Over/(Under) Collateralized				<u>\$ 535,957</u>

F&S Bank	Account Name	Maturity	Bank Balance 6/30/2019	Description	Amounts over FDIC Ins \$250K
PR	Payroll Account	n/a	\$ 50,736	Payroll Account	\$ -
CD	8521222	11/7/2019	<u>201,690</u>	CD - Cash Reserve	<u>-</u>
F&S Bank Total			<u>\$ 252,426</u>		

Total amount uninsured public funds \$ -

Collateral required at 50% \$ -

Over/(Under) Collateralized \$ -

Total Bank Balance \$ 1,430,322

Union County General Hospital  
Schedule of Individual Deposit and Investment Accounts  
June 30, 2019

FNB NM	Account Name/Type	Bank Balance 6/30/2019	Deposits in Transit	Outstanding Checks	Reclass of Cash Overdrafts	Book Balance 6/30/2019
FNB NM	Operating Account	\$ 473,307	\$ 3,459	\$ (710,596)	\$ 233,830	\$ -
FNB NM	CD	704,589	-	-	-	704,589
	FNB NM Total	<u>\$ 1,177,896</u>	<u>\$ 3,459</u>	<u>\$ (710,596)</u>	<u>\$ 233,830</u>	<u>\$ 704,589</u>
F&S Bank	Account Name/Type	Bank Balance 6/30/2019	Deposits in Transit	Outstanding Checks	Reclass of Cash Overdrafts	Book Balance 6/30/2019
F&S Bank	Payroll Account	\$ 50,736	\$ 150,000	\$ -	\$ -	\$ 200,736
F&S Bank	CD	201,690	-	-	-	201,690
	F&S Bank Total	<u>\$ 252,426</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 402,426</u>
	Cash Total by Bank	<u>\$ 1,430,322</u>	<u>\$ 153,459</u>	<u>\$ (710,596)</u>	<u>\$ -</u>	<u>\$ 1,107,015</u>
	NMFA Bond Reserve	<u>\$ 754,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 754,008</u>
	Summary					
	Operating/Payroll	\$ 524,043	\$ 153,459	\$ (710,596)		\$ 200,736
	CD's Cash Reserve	906,279	-	-		906,279
	Total Cash	<u>\$ 1,430,322</u>	<u>\$ 153,459</u>	<u>\$ (710,596)</u>		<u>\$ 1,107,015</u>
	Reconciliation to Financial Statements:					
	Total cash					\$ 1,107,015
	Other Items:					
	NMFA bond reserve					754,008
	Petty cash					1,079
						<u>1,862,102</u>
				Less Short-Term Investments		<u>(906,279)</u>
				Cash and Cash Equivalents		<u>\$ 955,823</u>

Union County General Hospital  
Schedule of Indigent Care Cost and Funding Report  
For the Years Ended June 30, 2019, 2018 and 2017

	For the year ended June 30,		
	2019	2018	2017
A Funding for Indigent Care			
A1 State appropriations specified for indigent care	\$ -	\$ -	\$ -
A2 County indigent funds received	15,304	6,863	19,346
A3 Out of county indigent funds received	-	-	-
A4 Payments and copayments received from uninsured patients qualifying for indigent care	10,114	-	6,064
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>\$ 25,418</u>	<u>\$ 6,863</u>	<u>\$ 25,410</u>
B Cost of Providing Indigent Care			
Total cost of care for providing services to:			
B1 Uninsured patients qualifying for indigent care	\$ 870,210	\$ 35,496	\$ 115,283
B2 Patients qualifying for coverage under EMSA	-	-	-
B3 Cost of care related to patient portion of bill for insured patients qualifying for indigent care	416,622	-	-
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>\$ 1,286,832</u>	<u>\$ 35,496</u>	<u>\$ 115,283</u>
Excess (Shortfall) of Funding for Charity Care to Cost Providing Indigent Care	<u>\$ (1,261,414)</u>	<u>\$ (28,633)</u>	<u>\$ (89,873)</u>
C Patients Receiving Indigent Care Services			
C1 Total number of patients receiving indigent care	14	21	25
C2 Total number of patient encounters receiving indigent care	731	30	63

Union County General Hospital  
Schedule of Calculations of Cost of Providing Indigent Care  
For the Years Ended June 30, 2019, 2018 and 2017

	For the year ended June 30,		
	2019	2018	2017
Uninsured patients qualifying for indigent care			
Charges for these patients	\$ 1,246,719	\$ 54,935	\$ 177,358
Ratio of cost to charges	69.8%	64.6%	65.0%
Cost for uninsured patients qualifying for indigent care	\$ 870,210	\$ 35,496	\$ 115,283
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 of Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	\$ -	\$ -	\$ -
Cost of care related to patient portion of bill for insured patients qualifying for indigent care			
Indigent care adjustments for these patients	\$ 596,880	\$ -	\$ -
Ratio of cost to charges	69.8%	0.0%	0.0%
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	\$ 416,622	\$ -	\$ -
Direct cost paid to other providers on behalf of patients qualifying for indigent care			
Payments to other providers for care of these patients	\$ -	\$ -	\$ -



**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***

Board of Trustees and Brian S. Colón, State Auditor  
Clayton Health Systems, Inc., d/b/a/ Union County General Hospital  
Clayton, New Mexico

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Clayton Health Systems, Inc. d/b/a Union County General Hospital, (Hospital), a component unit of Union County, New Mexico (County), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and the schedule of revenues, expenses and changes in net position – budget and actual (budgetary comparison schedule), and have issued our report thereon dated November 1, 2019.

**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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified deficiencies in internal control that we consider to be material weaknesses.

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 Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiencies described as items 2019-001 to 2019-003 in the accompanying *Schedule of Findings and Responses* to be material weaknesses.

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.

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**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. We consider the condition described as item 2019-004 in the accompanying *Schedule of Findings and Responses* to be an instance of noncompliance that is required to be reported under *Government Auditing Standards*.

**Hospital's Response 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 the 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 Hospital'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



Oklahoma City, Oklahoma  
November 1, 2019

**Summary of Audit Results**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No
Other instances of noncompliance noted?	Yes

## Material Weaknesses in Internal Controls over Financial Reporting

### 2019-001 Preparation of Financial Statements - Material Weakness

*Criteria:* A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with standards established by the U.S. generally accepted accounting principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

*Condition:* The Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. In addition, material misstatements identified during the audit were required in order to fairly present the financial statements.

*Effect :* The preparation of financial statements as part of the audit engagement may result in financial statements and related information not being available for management purposes as timely as it would be if prepared by Hospital personnel. In addition, the need for adjustments indicates that the Hospital's interim financial information may not be materially correct, which may affect management decisions during the course of the year. Entries identified and provided by management during the audit impacted the total change in net position by approximately \$655,000 for the year ended June 30, 2019. Significant audit areas requiring material adjustments included noncurrent cash, patient accounts receivable and related allowances, revenue and receivables from the SNCP program and County tax amounts, accounts payable and related expenses, and fixed assets. While many of these entries were prepared and provided by management during the audit, the unadjusted year-end amounts presented to those charged with governance was significantly different from the audited and reconciled balances.

*Cause:* This condition was caused by significant turnover in key financial reporting personnel during the year as well as the lack of timely and accurate reconciliations of significant accounts, as noted in Finding 2019-002.

*Auditor's Recommendation:* While the preparation of financial statements by an outside party is not unusual for an organization of your size, the need for material adjustments should require consideration of the controls and processes over the areas identified. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with a deficiency in preparation of financial statements because of cost or other considerations. Management and the Board should also continue to monitor balances and activity to ensure the financial statements are accurate.

**Findings Related to Financial Statements (Continued)**

*Management Response:* UCGH management concurs with the auditor's recommendation. Due to its small size and financial constraints it is not financially feasible for UCGH to have financial statements prepared by an outside party throughout the fiscal year. UCGH management will continue to monitor the accounts on a monthly basis and prepare monthly financial statements. UCGH management will send prepared monthly financial statements, detailed general ledger accounts and the working trial balance to Community Hospital Corporation (CHC), management company, for review. UCGH Management will also present monthly financial statements to the board after being reviewed in detail by UCGH Management and CHC so that the board can make informed financial decisions for the hospital. In addition, we will have periodic reviews by the outside auditor during the next year to ensure that they do not see any issues with the financial statements and that all issues are being addressed.

*Estimated Timeline to Correct:* Will begin immediately.

*Responsible Official:* Chief Financial Officer

**Findings Related to Financial Statements (Continued)**

**2019-002 Account Balance Reconciliations - Material Weakness**

*Criteria:* A properly designed system of internal control over financial reporting includes controls to ensure the timely and accurate reconciliation of account balances.

*Condition:* The Hospital does not have an internal control system designed to provide for the timely reconciliation of accounts.

*Effect:* During the course of the audit, accounts were identified that did not reconcile to the general ledger which resulted in material journal entries and delayed the completion of the audit. Many of the unreconciled accounts resulted in material journal entries identified by management and as a result of our audit procedures. In addition, some accounts which were reconciled were not properly reviewed either individually or in the context of the financial statements as a whole. This created additional errors through entries posted to incorrect accounts and duplicated entries.

*Cause:* This condition was caused by significant turnover in key financial reporting personnel during the year as well as the lack of a properly designed financial close and reporting process.

*Auditor's Recommendation:* We recommend the Hospital continue to analyze its process over preparation and review of account reconciliations, at the account and financial statement level, and other analyses to ensure completeness and accuracy. Significant account balances should be reconciled to a subledger or other support on a monthly or predefined timeline to identify potential misstatements timely. Each insignificant balance should be periodically reviewed to ensure that they are still appropriately reported. In addition, a process should be established to ensure that all transactions have been captured within the financial reporting process. Finally, a monitoring control, such as reviewing the reconciliation or requesting support for interim financial statement balances, should be established to ensure that these procedures are performed timely.

**Findings Related to Financial Statements (Continued)**

*Management Response:* UCGH management concurs with the auditor's recommendation. UCGH management had numerous turnovers in key financial positions in the past few years creating areas that were not reconciled on a monthly basis. These accounts are now reconciled and will continue to be reconciled on a monthly basis going forward. The allowance account will be evaluated each quarter to ensure the most up to date data is being used in the reconciliation process. It was discovered that moving the fixed assets from a manual process to a computer process has made it more difficult and time consuming to reconcile. This schedule of fixed assets will be reevaluated and moved back to a spreadsheet process that has worked in previous years. UCGH management will use a cost report estimate program to make cost report estimate journal entries on a quarterly basis using current statistics, revenue and expenses. UCGH CEO will require monthly confirmation from the accounting department of any accounts which are not reconciled in any month. This will allow immediate resources to be put into place to get the accounts reconciled as soon as possible. In addition, UCGH management has discussed with auditors to perform agreed upon procedures at an interim date to ensure findings and goals are met.

*Estimated Timeline to Correct:* Will begin immediately.

*Responsible Official:* Chief Financial Officer

**Findings Related to Financial Statements (Continued)**

**2019-003 Tax Revenues and Receivables – Material Weakness**

*Criteria:* A properly designed system of internal control over financial reporting includes controls to ensure the timely and accurate reporting of account balances.

*Condition:* The Hospital does not have an internal control system designed to properly identify and report revenue amounts from tax appropriations.

*Effect:* Material journal entries were required to correct and properly state amounts related to tax revenues and receivables during the year and at year-end.

*Cause:* This condition was caused by an estimate to record annual amounts based on the County budget, which was reported on a different basis of accounting than the Hospital. No conversion was made to appropriately report the amounts by the Hospital as an enterprise fund at year end.

*Auditor's Recommendation:* We recommend the Hospital develop a process to properly record tax amounts throughout the year, including any adjustments to estimates required periodically through the year due to amounts differing from the initial estimated amounts.

*Management Response:* UCGH management concurs with the auditor's recommendation. UCGH management will develop a process to convert the county's reports into an accrual amount that UCGH can record monthly. UCGH management will also make sure to take property tax bad debt into consideration when creating this monthly entry. Lastly, UCGH management will work with the county manager on a semi-annual basis to decipher any necessary adjustments due to amounts differing from the initial estimated amounts.

*Estimated Timeline to Correct:* Will begin immediately.

*Responsible Official:* UCGH Chief Financial Officer

**Deficiency in Internal Control Over Compliance:**

**2019-004 Audit Submitted after the Required State Deadline - Other Non-Compliance**

*Criteria:* NMAC 2.2.2.9 requires hospitals to submit the completed report to the state auditor by October 15.

*Condition:* The audit was not completed and submitted to the state auditor by the required deadline. The required communication to notify the state auditor of the delay was sent in accordance with NMAC Subsection A (5) of Section 2.2.2.9.

*Effect:* The Hospital is not in compliance with the timing requirements of NMAC 2.2.2.9.

*Cause:* This condition was caused by significant turnover in key financial reporting personnel during the year as well as a change in IPA due to required rotation which created a lack of knowledge gained through continuity for both parties.

*Auditor's Recommendation:* We recommend the Hospital establish procedures necessary to ensure that appropriate support is provided so that the audit can be completed by the required deadline.

*Management Response:* Management concurs with the auditor's recommendation. Due to previous turnover, UCGH management had a difficult time retrieving and reconciling all necessary data in order to ensure a complete and thorough audit. Additional time was needed to review previous years' audits and correct prior deficiencies. UCGH management will put procedures in place to ensure that important information is kept in a central location and will ensure auditors receive the necessary support so that all future audits be completed by the required deadline.

*Estimated Timeline to Correct:* Will begin immediately.

*Responsible Official:* Chief Financial Officer



Union County General Hospital  
Summary of Prior Audit Findings  
Year Ended June 30, 2019

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Prior Year Finding	Description	Status
2018-001	Debt Accounting	Resolved
2018-002	No Approval Over Annual Inventory	Resolved

**Exit Conference and Board of Trustees Presentation**

The contents of this report were discussed on October 31, 2019. The following individuals were in attendance.

**Union County General Hospital**

Judith Cooper President

Tammie Stump Chief Executive Officer (CEO)

Melissa Prante Chief Financial Officer (CFO)

**Eide Bailly, LLP**

Rick Alexander, CPA Audit Partner

**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.