STATE OF NEW MEXICO
UNION COUNTY

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2018

FIERRO & FIERRO, P.A.
Certified Public Accountants • 527 Brown Road • Las Cruces, NM 88005 • (575) 525-0313 • FAX (575) 525-9708

STATE OF NEW MEXICO
UNION COUNTY
TABLE OF CONTENTS
JUNE 30, 2018

STATE OF NEW MEXICO
UNION COUNTY
TABLE OF CONTENTS
JUNE 30, 2018

PAGE

STATE OF NEW MEXICO
UNION COUNTY
TABLE OF CONTENTS
JUNE 30, 2018

PAGE

OTHER SCHEDULES REQUIRED BY SECTION 2.2.2 NMAC

ADDITIONAL INDEPENDENT AUDITORS' REPORTS

STATE OF NEW MEXICO
UNION COUNTY
OFFICIAL ROSTER
JUNE 30, 2018

Elected Officials

Justin Bennett	Commission Chairman
Walter C. Hall	Commission Member
W. Carr Vincent	Commission Member
Frankie Aragon	Assessor
Mary Lou Harkins	Clerk
James Lobb	Sheriff
Brandy Thompson	Treasurer
Leslie Taylor	Probate Judge

Administrative Staff

Angie Gonzales	County Manager

FIERRO & FIERRO, P.A. CERTIFIED PUBLIC ACCOUNTANTS

Ed Fierro, CPA • Rose Fierro, CPA

527 Brown Road • Las Cruces, NM 88005
Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.com

Independent Auditors' Report

Wayne Johnson, State Auditor
and
Board of County Commissioners
Union County
Clayton, New Mexico

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the budgetary comparisons for the general fund and major special revenue funds of Union County, New Mexico (County), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the County's nonmajor governmental funds presented as supplementary information, as defined by the Governmental Accounting Standards Board, in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2018, 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 the financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Union County General Hospital, a component unit of the County, which represent 56.00 percent, 52.98 percent, and 59.41 percent, respectively, of the assets, net position, and revenues of the County and Union County General Hospital. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Union County General Hospital, is based solely on the report of the other auditors. 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 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 qualified and unmodified audit opinions.

Basis for Qualified Opinion on Governmental Activities

The County's capital assets subsidiary records contains land, buildings, and equipment of $3,290,280 utilized at Union County General Hospital. The County considers those capital assets purchased with County funds to be property of the County. The hospital has also recorded the assets in their accounting records thereby duplicating the capital assets. We were unable to determine the exact amount of duplication and as a result, we are unable to determine the effect on the statements of net position or activities.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the *Basis for Qualified Opinion on Governmental Activities* paragraph, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the discretely presented component unit of Union County, New Mexico as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, each major fund, and the aggregate remaining fund information of Union County, New Mexico as of June 30, 2018, and the respective changes in financial position thereof, and the respective budgetary comparisons for the general fund and the major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each nonmajor governmental fund as of June 30, 2018, and the respective changes in financial position thereof for all the nonmajor governmental funds for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require the schedule of the County's proportionate share of the net pension and other post-employment benefit liabilities and the schedule of the County's contributions on pages seventy-three through seventy-nine be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 and other auditors 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 inquires, 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 financial statements that collectively comprise the County's basic financial statements. The other schedules required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were 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 the auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the other schedules required by 2.2.2 NMAC are 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 November 19, 2018 on our consideration of the County'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 County's internal control over financial reporting and compliance.

Fierro & Fierro, P.A.

Fierro & Fierro, P.A.
Las Cruces, New Mexico

November 19, 2018

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATE OF NEW MEXICO
UNION COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2018

	Primary Government	
	Governmental Activities	Component Unit
Assets		
Cash	$ 4,765,748	$ 2,531,117
Receivables, net	556,544	1,613,683
Inventories	-	179,415
Prepaid expenses	51,996	43,409
Restricted cash	18,600	901,064
Restricted investments	67,073	-
Other assets	-	24,056
Capital assets:		
Land and construction in progress	245,945	92,752
Other capital assets, net of depreciation	6,032,974	9,557,369
Total capital assets	6,278,919	9,650,121
Total assets	11,738,880	14,942,865
Deferred Outflows of Resources		
Pension related	438,932	-
OPEB related	31,343	-
Total deferred outflows of resources	470,275	-
Total assets and deferred outflows of resources	$ 12,209,155	$ 14,942,865
Liabilities		
Accounts payable	$ 130,962	1,941,357
Accrued salaries	44,393	367,837
Accrued interest payable	3,101	-
Estimated third party payor settlements	-	912,318
Long-term liabilities:		
Due within one year	175,812	666,158
Due in more than one year	594,136	3,832,414
Net pension liability	2,522,049	-
Net OPEB liability	1,647,716	-
Total liabilities	5,118,169	7,720,084
Deferred Inflows of Resources		
Pension related	305,192	-
OPEB related	375,017	-
Net Position		
Net investment in capital assets	5,570,555	5,151,549
Restricted for:		
Debt service	85,673	-
State mandated per statutes	1,188,792	-
Temporary - hospital	-	50,000
Unrestricted (deficit)	(434,243)	2,021,232
Total net position	6,410,777	7,222,781
Total liabilities, deferred inflows of resources, and net position	$ 12,209,155	$ 14,942,865

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Primary Government: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Component Unit
Primary Government:						
Governmental activities:						
General government	$ 1,225,159	$ 62,921	$ 634,438	$ 27,305	$ (500,495)	
Public safety	1,565,904	159,359	763,639	-	(642,906)	
Public works	1,703,401	44,643	478,239	-	(1,180,519)	
Health and welfare	1,813,252	147	37,200	-	(1,775,905)	
Interest on long-term debt	22,089	-	-	-	(22,089)	
Total primary government	$ 6,329,805	$ 267,070	$ 1,913,516	$ 27,305	(4,121,914)	
Component Unit:						
Business-type activities:						
Health and welfare	$ 11,494,886	$ 7,683,250	$ 775,806	$ -		$ (3,035,830)
General revenues:						
Gross receipts taxes					1,050,616	275,500
Property taxes, levied for general purposes					1,592,596	-
Property taxes, levied for hospital operations					755,971	725,000
Public service taxes					760,571	-
Interest income					65,473	-
Donations					22,750	-
Insurance recoveries					6,907	-
Special item - (Loss) on disposal of assets					(76,331)	-
Total general revenues and special items					4,178,553	1,000,500
Changes in net position					56,639	(2,035,330)
Net position, beginning of year					8,621,897	9,258,111
Restatement					(2,267,759)	-
Net position, beginning of year, restated					6,354,138	9,258,111
Net position, end of year					$ 6,410,777	$ 7,222,781

The accompanying notes are an integral part of these financial statements.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF NEW MEXICO
UNION COUNTY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Road Fund	Hospital Mill Levy Fund	Indigent Hospital Fund	Grenville Fire Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash	$ 1,422,090	$ 296,994	$ 329,928	$ 586,223	$ 76,594	$ 2,053,919	$ 4,765,748
Receivables, net	96,516	121,642	42,509	52,385	-	243,492	556,544
Prepaid expenses	20,302	5,667	4,410	-	4,173	17,444	51,996
Restricted:							
Cash	-	17,869	-	-	-	731	18,600
Investments	-	67,073	-	-	-	-	67,073
Total assets	$ 1,538,908	$ 509,245	$ 376,847	$ 638,608	$ 80,767	$ 2,315,586	$ 5,459,961
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES							
Liabilities:							
Accounts payable	$ 8,542	$ 34,549	$ -	$ 15	$ 43,685	$ 44,171	$ 130,962
Accrued salaries	26,360	14,688	-	403	-	2,942	44,393
Total liabilities	34,902	49,237	-	418	43,685	47,113	175,355
Deferred Inflows of Resources:							
Unearned revenues	62,969	-	31,429	-	-	1,803	96,201
Fund Balances:							
Nonspendable	20,302	5,667	4,410	-	4,173	17,444	51,996
Restricted for:							
Debt service	-	84,942	-	-	-	731	85,673
State mandated per statutes	-	-	-	292,265	32,909	863,618	1,188,792
Committed for:							
One twelfth budget reserve	517,856	119,978	-	-	-	-	637,834
Subsequent years' expenditures	541,422	-	65,061	345,925	-	290,646	1,243,054
Assigned	-	249,421	275,947	-	-	1,094,231	1,619,599
Unassigned	361,457	-	-	-	-	-	361,457
Total fund balances	1,441,037	460,008	345,418	638,190	37,082	2,266,670	5,188,405
Total liabilities, deferred inflows of resources and fund balances	$ 1,538,908	$ 509,245	$ 376,847	$ 638,608	$ 80,767	$ 2,315,586	$ 5,459,961

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances governmental funds (page seven)	$	5,188,405
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		6,278,919
Recognition of property tax revenue is reflected on full accrual basis within the statement of net assets. Govermental funds recognize property tax on the modified accrual basis.		96,201
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(4,939,713)
Accrued interest payable on long-term debt as of year-end is reflected as such within the statement of net assets. Governmental funds recognize the interest as it becomes due.		(3,101)
Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources related to pension of $470,275 is equal to 2017 employer contributions related to pensions.		470,275
Deferred inflows of resources related to pensions.		(305,192)
Deferred inflows of resources related to OPEB		(375,017)
Net position of governmental activities (page five)	$	6,410,777

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Road Fund	Hospital Mill Levy Fund	Indigent Hospital Fund	Glenville Fire Fund	Other Governmental Funds	Total Governmental Funds
Revenues:							
Gross receipts taxes	$ -	$ -	$ -	$ 280,207	$ -	$ 770,409	$ 1,050,616
Property taxes	1,538,095	-	749,302	-	-	40,045	2,327,442
Public service taxes	118,983	594,214	47,374	-	-	-	760,571
Intergovernmental:							
Federal	170,864	3,669	-	-	-	52,594	227,127
State	478,574	486,038	-	-	70,919	655,969	1,691,500
Local	6,233	-	-	-	-	33,694	39,927
Charges for services	52,427	33,143	-	-	-	162,691	248,261
Licenses and permits	826	-	-	-	-	-	826
Interest	31,877	2,848	3,831	5,234	1,131	20,552	65,473
Miscellaneous	19,657	-	-	-	250	10,000	29,907
Total revenues	2,417,536	1,119,912	800,507	285,441	72,300	1,745,954	6,441,650
Expenditures:							
Current:							
General government	1,186,205	-	-	-	-	51,013	1,237,218
Public safety	562,920	-	-	-	20,259	568,967	1,152,146
Public works	149,251	1,345,556	-	-	-	-	1,494,807
Health and welfare	-	-	866,933	232,188	-	551,511	1,650,632
Capital outlay	8,640	-	-	-	126,807	319,505	454,952
Debt service:							
Principal	-	74,973	-	-	-	65,426	140,399
Interest and other charges	-	5,562	-	-	-	17,192	22,754
Total expenditures	1,907,016	1,426,091	866,933	232,188	147,066	1,573,614	6,152,908
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	510,520	(306,179)	(66,426)	53,253	(74,766)	172,340	288,742
Other Financing Sources (Uses):							
Transfers in	-	400,000	-	-	-	35,000	435,000
Transfers (out)	(423,000)	-	-	-	-	(12,000)	(435,000)
Total other financing sources (uses)	(423,000)	400,000	-	-	-	23,000	-
Special Item:							
Proceeds from disposal of assets	-	-	-	-	-	22,557	22,557
Net change in fund balances	87,520	93,821	(66,426)	53,253	(74,766)	217,897	311,299
Fund balances, beginning of year	1,353,517	366,187	411,844	584,937	111,848	2,048,773	4,877,106
Fund balances, end of year	$ 1,441,037	$ 460,008	$ 345,418	$ 638,190	$ 37,082	$ 2,266,670	$ 5,188,405

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances total governmental funds (page nine)		$ 311,299
Governmental funds report capital outlay as expenditures in the amount of $454,952; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense, in the amount of $798,072. The net adjustment is $341,820.		(343,120)
Within the statement of activities, the basis of capital assets disposed of are netted with the gross proceeds to produce a gain or loss. The disposal of capital assets does not use current financial resources and, therefore, are not reported as expenditures in the governmental funds.		(98,888)
Some of the County's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as deferred revenue in the funds. At June 30, 2017, deferred property taxes amounted to $75,076. The deferred property taxes for the current fiscal year amounted to $96,201; therefore the net adjustment is $21,125.		21,125
Accrued interest expense not due within thirty days after year-end is not considered in the current period and is not reported in the governmental funds. The decrease of the accrued interest liability from the previous year decreases the interest expense within the statement of activities.		665
Compensated absences are recorded within the government-wide financial statements and not included within the governmental funds as the liability does not consume current resources. The increase of compensated absences liability from the previous year increases the expenses within the statement of activities.		(4,847)
The repayment of principal of long-term consumes the current financial resources of the governmental funds; however, it is not recorded as an expense within the statement of activities.		140,399
Governmental funds report pension contributions as expenditures; however, in the statement of activities, the cost of pension benefits earned net of employees' contribution is reported as pension expense:		
Pension contributions	$268,707	
Cost of benefits earned net of employee contributions (pension expense)	(204,539)	64,168
Governmental funds report post-employment benefits (OPEB) contributions as expenditures. However, in the statement of activities, the cost of other post-employment benefits earned net of employees' contributions is reported as other post-empolyment benefits (OPED) expense:		
Other Post-Emoployment Benefits (OPEB) contributions	$31,362	
Cost of benefits earned net of employee contributions (other post-employment benefits expense)	(65,524)	(34,162)
Net change in governmental activities net position - government-wide financial statements (page six)		$ 56,639

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual on	Budget to	Actual on	Budgetary Basis Variance with
	Original Budget	Final Budget	Budgetary Basis	GAAP Differences	GAAP Basis	Final Budget Over (Under)
Revenues:						
Property taxes	$ 1,230,000	$ 1,230,000	$ 1,541,736	$ (3,641)	$ 1,538,095	$ 311,736
Public service taxes	110,500	110,500	114,931	4,052	118,983	4,431
Intergovernmental:						
Federal	135,000	135,000	170,864	-	170,864	35,864
State	320,000	320,000	478,574	-	478,574	158,574
Local	-	-	-	6,233	6,233	-
Charges for services	30,000	30,000	51,591	836	52,427	21,591
Licenses and permits	500	500	826	-	826	326
Interest	23,500	23,500	31,877	-	31,877	8,377
Miscellaneous	30,000	30,000	19,657	-	19,657	(10,343)
Total revenues	1,879,500	1,879,500	2,410,056	7,480	2,417,536	530,556
Expenditures:						
Current:						
General government	1,251,930	1,264,895	1,187,433	(1,228)	1,186,205	77,462
Public safety	655,705	655,705	564,106	(1,186)	562,920	91,599
Public works	148,760	148,760	145,997	3,254	149,251	2,763
Capital outlay	-	-	8,640	-	8,640	(8,640)
Total expenditures	2,056,395	2,069,360	1,906,176	840	1,907,016	163,184
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	(176,895)	(189,860)	503,880	6,640	510,520	693,740
Other Financing Sources (Uses):						
Transfers in	75,000	75,000	-	-	-	(75,000)
Transfers (out)	(498,000)	(498,000)	(423,000)	-	(423,000)	75,000
Total other financing sources and (uses)	(423,000)	(423,000)	(423,000)	-	(423,000)	-
Net change	(599,895)	(612,860)	80,880	$ 6,640	$ 87,520	693,740
Cash balance, beginning of year	1,341,210	1,341,210	1,341,210			-
Cash balance, end of year	$ 741,315	$ 728,350	$ 1,422,090			$ 693,740
Explanation of Differences:						
Change in receivables				$ 21,384		
Change in prepaid expenses				(4,188)		
Change in accounts payable				2,124		
Change in accrued salaries				1,224		
Change in unearned revenues				(13,904)		
				$ 6,640		

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
ROAD FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original Budget	Final Budget				
Revenues:						
Public service taxes	$ 590,000	$ 590,000	$ 573,031	$ 21,183	$ 594,214	$ (16,969)
Intergovernmental:						
Federal	2,500	2,500	3,669	-	3,669	1,169
State	382,000	382,000	486,038	-	486,038	104,038
Charges for services	-	-	1,773	31,370	33,143	1,773
Interest	1,000	1,000	1,355	1,493	2,848	355
Miscellaneous	3,000	3,000	-	-	-	(3,000)
Total revenues	978,500	978,500	1,065,866	54,046	1,119,912	87,366
Expenditures:						
Current:						
Public works	1,319,951	1,319,951	1,340,267	5,289	1,345,556	(20,316)
Capital outlay	25,000	25,000	-	-	-	25,000
Debt service:						
Principal	75,000	75,000	75,193	(220)	74,973	(193)
Interest and other charges	5,579	5,579	5,339	223	5,562	240
Total expenditures	1,425,530	1,425,530	1,420,799	5,292	1,426,091	4,731
(Deficiency) of revenues over expenditures before other financing sources (uses)	(447,030)	(447,030)	(354,933)	48,754	(306,179)	92,097
Other Financing Sources (Uses):						
Transfers in	400,000	400,000	400,000	-	400,000	-
Special Item:						
Proceeds from sale of capital assets	1,500	1,500	-	-	-	(1,500)
Net change	(45,530)	(45,530)	45,067	$ 48,754	$ 93,821	90,597
Cash balance, beginning of year	251,927	251,927	251,927			-
Cash balance, end of year	$ 206,397	$ 206,397	$ 296,994			$ 90,597
Explanation of Differences:						
Change in receivables				$ 52,553		
Change in prepaid expenses				5,005		
Change in accounts payable				(9,547)		
Change in accrued salaries				(747)		
Collection of debt service held by third party				1,490		
				$ 48,754		

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
HOSPITAL MILL LEVY FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts					Budgetary Basis
	Original Budget	Final Budget	Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Variance With Final Budget Over (Under)
Revenues:						
Property taxes	$ 622,500	$ 622,500	$ 751,200	$ (1,898)	$ 749,302	$ 128,700
Public service taxes	32,500	32,500	46,166	1,208	47,374	13,666
Interest	750	750	3,831	-	3,831	3,081
Total revenues	655,750	655,750	801,197	(690)	800,507	145,447
Expenditures:						
Current:						
Health and welfare	425,000	425,000	808,022	58,911	866,933	(383,022)
Capital outlay	625,000	625,000	59,000	(59,000)	-	566,000
Total expenses	1,050,000	1,050,000	867,022	(89)	866,933	182,978
Net change	(394,250)	(394,250)	(65,825)	$ (601)	$ (66,426)	328,425
Cash balance, beginning of year	395,753	395,753	395,753			-
Cash balance, end of year	$ 1,503	$ 1,503	$ 329,928			$ 328,425

Explanation of Differences:

Change in receivables	$ 5,979
Change in prepaid expenses	89
Change in unearned revenues	(6,669)
	$ (601)

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
INDIGENT HOSPITAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Gross receipts taxes	$ 270,000	$ 270,000	$ 273,293	$ 6,914	$ 280,207	$ 3,293
Interest	1,000	1,000	5,234	-	5,234	4,234
Total revenues	271,000	271,000	278,527	6,914	285,441	7,527
Expenditures:						
Current:						
Health and welfare	576,180	580,540	233,719	(1,531)	232,188	346,821
Net change	(305,180)	(309,540)	44,808	$ 5,383	$ 53,253	354,348
Cash balance, beginning of year	541,415	541,415	541,415			-
Cash balance, end of year	$ 236,235	$ 231,875	$ 586,223			$ 354,348
Explanation of Differences:						
Change in receivables				$ 6,914		
Change in accounts payable				(1,574)		
Change in accrued salaries				43		
				$ 5,383		

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
GRENVILLE FIRE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN CASH BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL ON BUDGETARY BASIS
WITH RECONCILIATION TO GAAP
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual on Budgetary Basis	Budget to GAAP Differences	Actual on GAAP Basis	Budgetary Basis Variance With Final Budget Over (Under)
	Original	Final				
Revenues:						
Intergovernmental:						
State	$ 70,000	$ 70,000	$ 70,919	$ -	$ 70,919	$ 919
Interest	200	200	1,131	-	1,131	931
Miscellaneous	-	-	250	-	250	250
Total revenues	70,200	70,200	72,300	-	72,300	2,100
Expenditures:						
Current:						
Public safety	60,000	60,000	19,568	691	20,259	40,432
Capital outlay	118,000	118,000	83,965	42,842	126,807	34,035
Total expenditures	178,000	178,000	103,533	43,533	147,066	74,467
Net change	(107,800)	(107,800)	(31,233)	$ (43,533)	$ (74,766)	76,567
Cash balance, beginning of year	107,827	107,827	107,827			-
Cash balance, end of year	$ 27	$ 27	$ 76,594			$ 76,567
Explanation of Differences:						
Change in prepaid expenses				$ (130)		
Change in accounts payable				43,663		
				$ 43,533		

The accompanying notes are an integral part of these financial statements.

COMPONENT UNIT FINANCIAL STATEMENT

STATE OF NEW MEXICO
UNION COUNTY
COMPONENT UNIT - UNION COUNTY GENERAL HOSPITAL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

Cash Flows From Operating Activities:		
Cash received from customers and third-party payors	$	6,667,807
Cash payments to suppliers		(1,783,184)
Cash paid for payroll, payroll taxes, and benefits		(6,016,591)
Net cash (used) by operating activities		(1,131,968)
Cash Flows From Investing Activities:		
Purchases of property and equipment, net of disposals		(156,709)
Decrease in assets limited as to use		221,621
Cash received from ad valorem taxes and other		1,670,555
Net cash provided by investing activities		1,735,467
Cash Flows From Financing Activities:		
Repayments of debt borrowings		(677,158)
Net (decrease) in cash and cash equivalents		(73,659)
Cash and cash equivalents, beginning of year		2,604,776
Cash and cash equivalents, end of year	$	2,531,117
Reconciliation of Operating (Loss) to Net Cash Used by Operating Activities:		
Operating (loss)	$	(3,705,885)
Adjustments to reconcile the change in net position to net cash provided by operating activities:		
Depreciation and amortization		639,183
Provision for uncollectible accounts		1,489,674
Changes in operating assets and liabilities:		
Patient accounts receivable		(1,403,026)
Other receivables		297,339
Inventories		28,336
Prepaid expenses and other current assets		39,142
Accounts payable and accrued expenses		261,844
Accrued payroll and related liabilities		98,867
Estimated third party payor settlements		1,122,557
Net cash (used) for operating activities	$	(1,131,969)

FIDUCIARY FINANCIAL STATEMENT

STATE OF NEW MEXICO
UNION COUNTY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
JUNE 30, 2018

	Agency Funds
Assets:	
Cash	$ 108,526
Receivables:	
Property taxes	107,977
Interest	1
Total receivables	107,978
Total assets	$ 216,504
Liabilities:	
Deposits held for others	$ 61,766
Due to other taxing units	150,086
Taxes paid under protest	4,652
Total liabilities	$ 216,504

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Union County, New Mexico (County) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The County was established by the laws of the Territory of New Mexico of 1876, under the provisions of the act now referred to as Sections 4-9-1 and 4-9-2 of the New Mexico Statutes Annotated, 1978 Compilation. The County operates under the commission-manager form of government and provides the following services as authorized in the grant of powers: public safety (sheriff, fire, emergency medical, etc.), public works (highways and streets), sanitation, health and welfare services, public improvements, and general administration services. The County's basic financial statements include all activities and accounts of the County's *financial reporting entity*.

The financial reporting entity consists of the primary government, and any another organization for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body, and either it is able to impose its will on that organization, or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens, on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

Based on the application of these criteria, Union County General Hospital is considered a component unit of Union County. The financial statements of Union County General Hospital have been included in the County's financial statements as a *discretely presented* component unit. The Hospital is reported as a proprietary fund type. The County is not considered a component unit of another governmental agency during the fiscal year ended June 30, 2017. Complete financial statements for the hospital can be obtained from the hospital's administrative office. Please address those requests to the Chief Executive Officer, Union County General Hospital, 301 Harding, Clayton, New Mexico 88415.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the County as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been eliminated from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for services for support. The Statement of Net Position and the Statement of Activities were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange-like transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions.* The County has no business-type activities.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a function category (general government, public safety, etc.) or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity; (2) grants and contributions that are restricted to meeting the operational requirements of a particular function or activity; and (3) grants and contributions that are restricted to meeting the capital requirements of a particular function or activity. Taxes and other items not properly included among program revenues are reported as general revenues.

The net cost (by function of governmental activity) is normally covered by general revenues (taxes, intergovernmental revenues, interest income, etc.). The County does not allocate indirect costs. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Separate financial statements are provided for the governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the statements.

The County's fiduciary funds (which have been refined and narrowed in scope) are presented in the fund financial statements by type. Since, by definition, these assets are being held of the benefit of a third party (other state and local governments and individuals) and cannot be used to address activities or obligations of the government, these funds are not incorporated into government-wide statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-Wide and Fund Financial Statements (continued)

The government-wide focus is more on the sustainability of the County, as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental activities as well as the fiduciary funds (by category). Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Non-exchange transactions, in which the County gives (or receives) value without directly receiving (or giving) equal value in exchange, includes property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balance of financial resources) rather than upon net income. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period. For this purpose, the County considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Generally, intergovernmental revenues and grants are recognized when all eligibility requirements are met and the revenues are available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

In addition to assets, the statement of financial position will, at times, report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future reporting period(s); therefore, is not recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of financial position will, at times, report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future reporting period(s); therefore, will not be recognized as an inflow of resources (revenue) until that time.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Property, franchise, sales and public service tax revenues associated with the current fiscal period are recognized under the susceptible to accrual concept.

Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash, as the resulting receivable is immaterial. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance.

There are, however, essentially two types of these revenues. In one, monies must be expended for the specific purpose or project before any amounts will be paid to the County; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The County reports the following major governmental funds:

The *general fund* is the County's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *road fund* accounts for the operation and maintenance of the County roads. Financing is primarily from state shared revenues from motor vehicle taxes. The authority for this fund is given by Sections 7-1-6.9 and 7-1-6.26 NMSA 1978.

The *hospital mill levy fund* accounts for the four and one quarter mill levy tax revenues, which are used for the maintenance and purchase of capital equipment for the County's hospital. The authority for this fund is given by County Resolution 93-2.

The *indigent hospital fund* accounts for the revenues received from state gross receipts taxes for hospital service for indigent citizens of the County. The authority for the fund is given by Section 7-20E-9, NMSA 1978.

The *Grenville fire fund* accounts for state fire protection revenues that are to be expended only for the maintenance of its fire department. The authority for the fund is given by Sections 59A-53-5 and 59A-53-8, NMSA 1978.

The County maintains twenty-two other individual governmental funds that are considered nonmajor funds; twenty-one are classified as special revenue funds, and one is classified as capital projects fund. A description of each nonmajor governmental fund is as follows:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Special Revenue Funds

The *farm and range fund* accounts for the maintenance, improvements and animal control of federal land under Section 10 of the Taylor Grazing Act of 6-28-34. The Taylor Grazing Co-Op Agreement provides funds that are to be used strictly for the maintenance, improvements, and animal control of this federal land. The authority for the fund is given by Section 6-11-6 NMSA 1978.

The *recreation fund* accounts for the operations and maintenance of county owned recreation facilities. Financing is provided by the County's share of cigarette tax. State law requires the use of these cigarette taxes be used for recreation purposes. The authority for the fund is given by Section 7-12-15 NMSA 1978.

The *county clerk's fee fund* accounts for the charges for services collected to be used for purchase of special equipment associated with the County Clerk's office. The authority for the fund is given by Section 14-8-12.2A, NMSA 1978.

The *Capulin fire fund* accounts for state fire protection revenues that are to be expended only for the maintenance of its fire department. The authority for the fund is given by Sections 59A-53-5 and 59A-53-8, NMSA 1978.

The *Sedan fire fund* accounts for state fire protection revenues that are to be expended only for the maintenance of its fire department. The authority for the fund is given by Sections 59A-53-5 and 59A-53-8, NMSA 1978.

The *Amistad/Hayden fire fund* accounts for state fire protection revenues that are to be expended only for the maintenance of its fire department. The authority for the fund is given by Sections 59A-53-5 and 59A--53-8, NMSA 1978.

The *Rabbit Ear fire fund* accounts for state fire protection revenues that are to be expended only for the maintenance of its fire department. The authority for the fund is given by Sections 59A-53-5 and 59A-53-8, NMSA 1978.

The *Capulin ems fund* accounts for the operations and maintenance of medical service equipment within the EMS district. The authority for the fund is given by Section 24-10A-1, NMSA 1978.

The *Amistad/Hayden ems fund* accounts for the operations and maintenance of medical service equipment within the EMS district. The authority for the fund is given by Section 24-10A-1, NMSA 1978.

The *Folsom ems fund* accounts for the operations and maintenance of medical service equipment within the EMS district. The authority for the fund is given by Section 24-10A-1, NMSA 1978.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Special Revenue Funds (continued)

The *fire marshal fund* accounts for the revenues received and the expenditures thereof from the governmental service agreement with NM Energy, Natural Minerals Research Department to coordinate wild land fire management activities in the County. The authority for the fund is given by County Resolution 98-19.

The *correctional gross receipts fund* accounts for gross receipts taxes received and reserved for the expenditures to the Town of Clayton for the housing of County inmates. The authority for the fund is given by County Gross Receipts Tax Ordinance number 28.

The *corrections fees fund* accounts for revenues and expenditures for the operation and maintenance of the County's corrections facilities. The authority for the fund is given by Section 35-3-25, NMSA 1978.

The *DWI grant fund* accounts for the revenues and expenditures for the intervention, prevention, education, and support of the local DWI program. The authority for the fund is given by Section 11-6A-3, NMSA 1978.

The *reappraisal fund* is for recipients of revenue produced through ad valorem levies required to pay counties an administrative charge to offset collection costs. Expenditures are made pursuant to a property valuation program approved by the County commissioners. The authority for the fund is given by Section 7-38-38.1, NMSA 1978.

The *emergency services general GRT fund* accounts for gross receipts taxes received and reserved for expenditures for emergency communications center and emergency medical services. The authority for the fund is given by Section 7-20E-22, NMSA 1978 and Ordinance number 27.

The *county hospital GGRT fund* accounts for the one-quarter of one percent gross receipts taxes received and reserved for the acquisition or construction of land or buildings and for operations and maintenance of the County hospital. The authority for the fund is given by County Resolution 98-19.

The *general gross receipts tax special fund* accounts for the excise tax equal to one-eighth of one percent (.125%) of the gross receipts reported and the expenditures of said taxes as deemed necessary by the County. The authority for the fund is given by the County Gross Receipts Tax Ordinance number 24.

The *gross receipts tax reserve fund* accounts for the excise tax equal to one-sixteenth of one percent (.0625%) of the gross receipts reported and the expenditures of said taxes as deemed necessary by the County. The authority for the fund is given by the County Gross Receipts Tax Ordinance number 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Special Revenue Funds (continued)

The *law enforcement fund* accounts for the County's state distribution of law enforcement protection funds to be used for the repair and /or replacement of law enforcement equipment. The authority for the fund is given by Section 29-13-1, NMSA 1978.

The *legislative appropriations fund* accounts for the revenues and expenditures from special appropriations received from the New Mexico Legislature. The authority for the fund is given by County resolution.

Capital Projects Fund

The *capital improvements/emergency fund* accounts for funds from federal, state and local sources for capital projects throughout the County. The authority for this fund is given by County resolution.

D. Budgets

Budgets for all funds are prepared by management and approved by the local commission and the New Mexico Department of Finance and Administration. The County Manager is responsible for preparing the budget from requests submitted by elected officials and department heads. The appropriated budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting. The comprehensive budget package is brought before the County Commissioners for approval by resolution. The proposed budget is then submitted by June 1st to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval. DFA certifies a pending budget by July 1st with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

These budgets are prepared on the non-GAAP cash basis, excluding encumbrances, and secure appropriation of funds for only one year. Carryover funds are reappropriated in the budget of the subsequent fiscal year. The budget process in the state of New Mexico requires that the beginning cash balance be utilized to fund deficit budgets appropriated in the budget of the subsequent fiscal year. Such appropriated balance is legally restricted and is, therefore presented as a reserved portion of fund balance.

Actual expenditures may not exceed the budget on a fund basis. Budgets may be amended in two ways. If a budget transfer is necessary within a fund, this may be accomplished with only local commission approval. If a transfer between "funds" or a budget increase is required, approval must be obtained from the Department of Finance and Administration.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Budgets (continued)

The budgetary information presented in these financial statements has been amended in accordance with the above procedures.

E. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA's. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

F. Post-employment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the New Mexico Retiree Health Care Authority (NMRHCA) and additions to and deductions from NMRHCA's fiduciary net position have been determined on the same basis as they are reported by NMRHCA. For this purpose, NMRHCA recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value.

G. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

Investments in the County's cash and certificates of deposit are stated at cost, which approximates fair value. State statutes authorize the County to invest in certificates of deposit, obligations of the state and the U.S. government, and the New Mexico State Treasurer's investment pool. Cash and certificates of deposit are reported at book value. All other investments are carried at fair market value using quoted market prices. Interest income, realized gains and losses on investment transactions, and amortization of premiums/discounts on investment purchases are included for financial statement purposes as investment income and are allocated to participating funds based on the specific identification of the source of funds for a given investment.

2. Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as interfund balance. Long-term advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Assets, Liabilities, and Net Assets or Equity (continued)

3. Inventories

Inventories are recorded using first-in, first-out cost method. The costs of inventories in governmental fund types are recorded as expenditures when purchased, therefore, the inventory amount is not available for appropriation.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

5. Restricted Assets

Certain long-term assets are classified as restricted assets on the balance sheet because their use is limited to payments for debt service or other purposes such as *deposits held in trust for others*.

6. Interfund Activity

Interfund activity is reported as loans, services provided, reimbursements or transfers. Loans are reported as interfund balance as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

7. Capital Assets

Property, plant, and equipment purchased or acquired is carried at historical cost or estimated cost. Contributed capital assets are recorded at estimated fair market value at the time received. Purchased computer software is recorded at historical cost. The County defines capital assets as assets with an initial, individual cost or donated value of more than $5,000 and an estimated useful life in excess of one year.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Infrastructure	10-80
Buildings and other improvements	15-40
Machinery and equipment (including computer software)	5-10
Hospital equipment	5-10

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Assets, Liabilities, and Net Assets or Equity (continued)

8. Compensated Absences

County employees may accumulate limited amounts of vacation pay which are payable to the employee upon termination or retirement. For governmental funds, expenditures are recognized during the period in which vacation costs become payable from available, expendable resources.

A liability for amounts earned, but not payable from available expendable resources, is reported in the government-wide financial statements.

County employee may accumulate limited amounts of sick leave; however, such accumulation is not paid upon termination. Therefore, the accumulated sick leave liability is not recorded.

9. Deferred Inflows of Resources - Unearned Revenues

Deferred outflows of resources represent consumption of resources of net assets that is applicable to future reporting periods that are reported in a separate section after assets in the statement of financial position.

Deferred inflows of resources represent acquisition of net assets by the County that is applicable to a future reporting period. The deferred inflows are reported in the separate section after liabilities in the statement of financial position.

10. Short-Term Obligations

No short-term debt occurred during the current fiscal year.

11. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities within the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Assets, Liabilities, and Net Assets or Equity (continued)

12. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as follows:

Net investment in capital assets – This category reflects the portion of net position that are associated with capital assets less outstanding capital asset related debt.

Restricted net position – This category reflects the portion of net position that have third party limitations on their use.

Unrestricted net position – This category reflects net position of the County, not restricted for any project or other purpose.

13. Fund Equity Reservation and Designations

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – prepaid items, inventories or long-term interfund advances/loans; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance – This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the board of commissioners – the government's highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the board of commissioners removes the specified use by taking the same type of action imposing the commitment. This classification also includes contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned fund balance – This classification reflects the amounts constrained by the County's "intent" to be used for specific purposes, but are neither restricted nor committed. The board of commissioners, and County manager, has the authority to assign amounts to be used for specific purposes. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Assets, Liabilities, and Net Assets or Equity (continued)

13. Fund Equity Reservation and Designations (continued)

Unassigned fund balance – The fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the County's policy to first use externally restricted resources, then unrestricted resources-committed, assigned, and unassigned-in order, as needed.

H. Other Matters

1. Presentation

Certain reclassifications of prior year information have been made to conform to the current year presentation.

2. Cash Flows

For the purpose of the statement of cash flows, the County considers all highly liquid investments, including restricted cash with maturity of three months or less when purchased, to be cash equivalents.

3. Use of Estimates

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

2. CASH DEPOSITS WITH FINANCIAL INSTITUTIONS

Cash

New Mexico state statutes provide authoritative guidance regarding the deposit of cash and idle cash. Deposits of funds may be made in interest or non-interest bearing checking accounts in one or more bank or savings and loan associations within the geographical boundaries of the County. Deposits may be made to the extent that they are insured by an agency of the United States of America or by collateral deposited as security or by bond given by the financial institution. The rate of interest in non-demand interest-bearing accounts shall be set by the state Board of Finance, but in no case shall the rate of interest be less than one hundred percent of the asked price on United States treasury bills of the same maturity on the day of deposit.

2. CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

Cash (continued)

Idle cash may be invested in a wide variety of instruments, including money market accounts, certificates of deposit, the New Mexico State Treasurer's investment pool, or in securities which are issued by the state or by the United States government, or by their departments or agencies, and that are either direct obligations of the state or the United States, or are backed by the full faith and credit of those governments.

Cash Deposited with Financial Institutions

The County maintains cash in two financial institutions within Union County, New Mexico. The County's deposits are carried at cost.

As of June 30, 2018, the amount of cash reported on the financial statements differs from the amount on deposit with the various institutions because of transactions in transit and outstanding checks. The locations and amounts deposited are as follows:

	Per Institution	Reconciling Items	Per Financial Statements
Cash on hand	$ -	$ 370	$ 370
First National Bank of New Mexico	2,459,299	(121,137)	2,338,162
Farmer's & Stockmen's Bank	2,535,742	-	2,535,742
	$ 4,995,041	$ (120,767)	$ 4,874,274

The amounts reported as cash for the primary government within the financial statement is displayed as:

Statement of Net Position:	
Cash	$ 4,765,748
Statement of fiduciary assets and liabilities - agency funds	108,526
Total cash reported on financial statements	$ 4,874,274

Except for items in transit, the carrying value of deposits by the respective depositories equated to the carrying value by the County. All deposits are collateralized with eligible securities, as described by New Mexico State Statute, in amounts equal to at least 50% of the County carrying value of the deposits (demand and certificates of deposit).

Such collateral, as permitted by the state statutes is held in each respective depository bank's collateral pool at a Federal Reserve Bank, or member bank other than the depository bank, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds with the exception of deposit insurance provided by the Federal Deposit Insurance Corporation.

2. CASH DEPOSITS WITH FINANCIAL INSTITUTIONS (continued)

Cash Deposited with Financial Institutions (continued)

	FNB New Mexico	Farmer's & Stockmen's Bank
Total deposit in bank	$ 2,454,647	$ 2,535,742
Certificates of deposit	4,652	-
Total deposits	2,459,299	2,535,742
FDIC coverage	(250,000)	(250,000)
Uninsured public funds	2,209,299	2,285,742
Pledged securities	1,305,029	1,550,000
Uninsured and uncollateralized public funds	904,270	735,742
Collateral requirements (50% of uninsured public funds)	1,104,650	1,142,871
Over (under) collateralization	$ 200,380	$ 407,129

A detailed listing of the pledged collateral is contained in the supplemental financial information section of this report. According to the Federal Deposit Insurance Corporation, public unit deposits, time deposit, savings deposits and interest bearing money market accounts at a public unit in an institution in the same state will be insured up to $250,000.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of June 30, 2018, $4,495,041 of the County's bank balances of $4,995,041 was exposed to custodial credit risk as follows:

	FNB New Mexico	Farmer's & Stockmen's Bank	Total
Uninsured and collateral held by pledging bank's trust department or an agent not in the County's name	$ 2,209,299	$ 2,285,742	$ 4,495,041

3. RESTRICTED ASSETS

The County has restricted cash and investments for particular purposes. A description of the assets restricted, and the purpose of the restriction is described as:

3. RESTRICTED ASSETS (continued)

Investments Held by Fiscal Agent

As required by note agreements with the New Mexico Finance Authority (NMFA), the County has cash held and invested with the NMFA. For the fiscal year ended June 30, 2018, the NMFA has invested the funds held in the debt service and debt reserve pools.

NMFA – Debt Service Pool

The County has $18,600 invested with the NMFA debt service pool. At June 30, 2018, the pool was composed of short-term, high-credit-quality money market instruments.

NMFA – Debt Reserve Pool

The County has $67,073 invested with the NMFA debt reserve pool. At June 30, 2018, the pool was composed of 15.77% short-term high quality money market instruments and 84.33% fixed income US government securities.

Interest Rate Risk

Interest rate risk is the risk that interest rate variations may adversely affect an investment's fair value. The prices of securities fluctuate with market interest rates and the securities held in a portfolio will decline if market interest rates rise. The portfolio's weighted average maturity (WAM) is a key determinant of the tolerance of a fund's investments to rising interest rates. In general, the longer the WAM, the more susceptible the fund is to rising interest rates. The NMFA debt reserve pool fund weighted average maturity is 1.513 years or 552 days. The NMFA program fund weighted average maturity is .644 years or 235 days.

The County does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates.

4. RECEIVABLES, NET

Receivables, net of allowance for doubtful accounts, at June 30, 2018, consisted of the following:

	Governmental Activities
Accounts receivable:	
Charges for services	$ 149
Allowance for doubtful accounts	-
Total	149

4. RECEIVABLES, NET (continued)

	Governmental Activities
Taxes receivable:	
Gross receipts taxes	$ 242,326
Property taxes	105,462
Public service taxes	72,550
Allowance for doubtful accounts	-
Total	420,338
Intergovernmental receivables:	
Fire reimbursements	90,696
Homeland security grant	23,681
Emergency manager fees	13,569
Correction fees	7,111
Baliff fees	1,000
Total	136,057
Receivables, net	$ 556,544

The County's policy is to provide for uncollectible accounts based upon expected defaults.

5. PROPERTY TAX

A tax is imposed upon all property located within Union County subject to valuation for property taxation purposes under Article 36, Chapter 7 NMSA 1978. By April 1st of each year, the County Assessor mails a notice to each property owner informing him of the net value of his property that has been valued for property evaluation purposes by the assessor.

A property owner may protest the value or classification determined for his property for property taxation purposes, the allocation of value of his property to a particular governmental unit, or a denial of a claim for an exemption, or for a limitation on increase in value. No later than September 1st of each year, the secretary of finance and administration shall, by written code, set the property tax rates for the governmental units sharing in the tax in accordance with the property tax code. After receipt of the rate-setting order and the order imposing the tax, but no later than October 1st of each tax year, the County Assessor shall prepare a property tax schedule for all property subject to property taxation in the County. A copy of the property tax schedule prepared by the assessor shall be delivered to the County Treasurer on October 1st of each tax year.

Upon receipt of the property tax schedule, the County Treasurer shall prepare and mail property tax bills. Tax bill shall be mailed no later than November 1st of each tax year.

5. PROPERTY TAX (continued)

Property taxes are payable to the County Treasurer in two equal installments due on November 10th of the year in which the tax bill was prepared and mailed, and on April 10th of the following year. Property taxes that are not paid within thirty days after the date on which they are due are delinquent. Delinquent taxes are subject to penalties and interest. A lien against the real property for taxes is effective from January 1st of the tax year that the taxes are imposed.

The lien runs in favor of the state and secures the payment of taxes on real property and any penalty and interest that may become due. The lien continues until the taxes and any penalty and interest are paid.

The County Treasurer has the responsibility and authority for collection of taxes and any penalties or interest due under the property tax code. The County Treasurer distributes the receipts from collected taxes to each government unit in an amount and in a manner determined in accordance with the law and with the regulation of the Department of Finance and Administration.

Per NMSA 7-37-7-(B)(1), the County is permitted to levy taxes for general operating purposes up to $11.85 per $1,000 of taxable value for both residential and non-residential property, taxable value being defined as one third of the fully assessed value. In addition, the County is allowed to levy taxes for payments of bond principal and interest in amounts approved by County voters.

The County's operating tax rate to finance general government services for 2017 was $9.150 per $1,000 for non-residential property and $6.582 per $1,000 for residential property.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2018, is as follows:

	Balance 06/30/17	Increases	Decreases	Balance 06/30/18
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 19,685	$ -	$ -	$ 19,685
Construction in progress	27,043	199,217	-	226,260
Total other capital assets, not being depreciated	46,728	199,217	-	245,945
Other capital assets, being depreciated:				
Buildings	5,637,128	169,546	-	5,806,674
Improvements	1,124,926	-	-	1,124,926
Infrastructure	11,153,235	-	-	11,153,235
Equipment	9,017,295	86,189	(213,085)	8,890,399
Total other capital assets, being depreciated	26,932,584	255,735	(213,085)	26,975,234
Less accumulated depreciation for:				
Buildings	(2,224,374)	(120,646)	-	(2,345,020)
Improvements	(400,677)	(75,228)	-	(475,905)
Infrastructure	(11,153,235)	-	-	(11,153,235)
Equipment	(6,480,099)	(602,198)	114,197	(6,968,100)
Total accumulated depreciation	(20,258,385)	(798,072)	114,197	(20,942,260)
Other capital assets, net	6,674,199	(542,337)	(98,888)	6,032,974
Total capital assets, net	$ 6,720,927	$ (343,120)	$ (98,888)	$ 6,278,919

6. CAPITAL ASSETS (continued)

Depreciation expense was charged to functions (programs) as follows:

General government	$ 63,842
Public safety	367,520
Public works	204,090
Health and welfare	162,620
	$ 798,072

7. LONG-TERM OBLIGATIONS

Changes in governmental activities obligations during the year ended June 30, 2018, were as follows:

	Balance 06/30/17	Additions	Deletions	Balance 06/30/18	Amounts Due Within One Year
Governmental Activities:					
Notes payable	$ 850,063	$ -	$ (140,399)	$ 709,664	$ 144,634
Compensated absences	55,437	62,956	(58,109)	60,284	31,178
	$ 905,500	$ 62,956	$ (198,508)	$ 769,948	$ 175,812

Note Payable – New Mexico Finance Authority #2

On August 14, 2009, the County borrowed $666,975 from the New Mexico Finance Authority for the purchase of a three motor graders for the road department. The loan is to be repaid from the motor vehicle tax revenues received from the state of New Mexico. The note matures May 1, 2019. The annual payment is approximately $80,535 with accrued interest at rates of 3.092% and a .250% annual administrative charge.

The following is a schedule of the annual payments required for the note:

Due in Fiscal Year Ending June 30:	Principal	Interest	Total
2018	$ 77,648	$ 2,888	$ 80,536

7. LONG-TERM OBLIGATIONS (continued)

Note Payable – New Mexico Finance Authority #5

On August 19, 2011, the County borrowed $464,870 from the New Mexico Finance Authority for the construction of the new main station for the Rabbit Ear Fire District. The loan is to be repaid from the annual distribution of fire protection funds received from the state of New Mexico. The note matures May 1, 2032. The annual payment is approximately $31,890 with accrued interest rates at 3.027% per annum, and a .25% annual administrative charge.

The following is a schedule of the annual payments required for the note:

Due in Fiscal Year Ending June 30:	Principal	Interest	Total
2019	$ 19,287	$ 11,297	$ 30,584
2020	19,950	10,794	30,744
2021	20,687	10,221	30,908
2022	21,504	9,580	31,084
2023	22,390	8,875	31,265
2024-2028	128,064	31,736	159,800
2029-2032	127,144	9,774	136,918
	$ 359,026	$ 92,277	$ 451,303

Note Payable – New Mexico Finance Authority #6

On June 1, 2012, the County borrowed $253,750 from the New Mexico Finance Authority for the construction of an addition to the fire station for the Sedan Fire District. The loan is to be repaid from the annual distribution of fire protection funds received from the state of New Mexico. The note matures May 1, 2023. The annual payment is approximately $34,200, with accrued interest rates at 1.940% per annum, and a .25% annual administrative charge.

The following is a schedule of the annual payments required for the note:

Due in Fiscal Year Ending June 30:	Principal	Interest	Total
2019	$ 30,767	$ 3,425	$ 34,192
2020	31,268	2,923	34,191
2021	31,850	2,342	34,192
2022	32,512	1,679	34,191
2023	33,292	899	34,191
	$ 159,689	$ 11,268	$ 170,957

7. LONG-TERM OBLIGATIONS (continued)

Note Payable – New Mexico Finance Authority #7

On July 22, 2011, the County borrowed $121,800 from the New Mexico Finance Authority for the purchase of an initial attack fire truck for the Capulin Fire District. The loan is to be repaid from the annual distribution of fire protection funds received from the state of New Mexico. The note matures May 1, 2020. The annual payment is approximately $17,315 with accrued interest rates at 2.626% per annum and a .25% administrative charge.

The following is a schedule of the annual payments required for the note:

Due in Fiscal Year Ending June 30:	Principal	Interest	Total
2019	$ 16,332	$ 999	$ 17,331
2020	16,964	509	17,473
	$ 33,296	$ 1,508	$ 34,804

Note Payable – New Mexico Finance Authority #8

On May 20, 2016, the County borrowed $80,605 from the New Mexico Finance Authority for the purchase of a 2,000 gallon wildland tanker truck for the Sedan Fire District. The loan is to be repaid from the annual distribution of fire protection funds received from the state of New Mexico. The note matures May 1, 2027. The first payment is due May 1, 2018. The annual payment for the first six years is approximately $680. The annual payment for the last four years is approximately $19,299. The note accrues interest at .100%.

The following is a schedule of the annual payments required for the note:

Due in Fiscal Year Ending June 30:	Principal	Interest	Total
2019	$ 600	$ 80	$ 680
2020	600	80	680
2021	600	79	679
2022	600	78	678
2023	600	78	678
2024-2027	77,005	192	77,197
	$ 80,005	$ 587	$ 80,592

7. LONG-TERM OBLIGATIONS (continued)

Compensated Absences

A liability for unused vacation and sick time for all full-time employees is calculated and reported in the government-wide statements. For financial reporting, the following criteria must be met to be considered as compensated absences:

- leave or compensation is attributable to services already rendered.
- leave or compensation is not contingent on a specific event (such as illness).

Per GASB Interpretation No. 6, liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e., are due for payment). Compensated absences are accrued in the government-wide statements. The compensated absences liability attributable to the governmental activities will be liquidated primarily by the general fund.

In the past, approximately forty-five percent has been paid by the General Fund and fifty-five percent by the Road Fund.

8. UNAVAILABLE PROPERTY TAXES

The County has recorded unavailable property taxes, as deferred inflows of resources, of $62,969, $31,429 and $1,803 within the governmental general, hospital mill levy and re-appraisal funds, respectively. These amounts represent non-current property taxes recorded as receivables.

9. OPERATING LEASES

The County has entered into a lease agreement to lease a computer system. The agreement includes the use of the computer software and support. The agreement is renewable annually. The County expects that in the normal course of business, the computer agreement will continue to be required. For the fiscal year ended June 30, 2018, the County expended $47,828 for the computer agreement.

The County leases four motor graders and a Caterpillar loader from a third party under a governmental operating lease agreement. The lease term is for eighty-four months ending October 2023. In the event no funds or insufficient are appropriated and budgeted, or otherwise not available in any fiscal year for rental payments; upon notification to the Lessor, the operating lease agreement will terminate on the last day of the fiscal year, for which appropriations were received without penalty or expense to the County. Future minimum operating lease commitments are as follows:

Year Ending June 30,	Governmental Activities
2019	$ 131,369
2020	107,778
2021	56,124
2022	56,124
2023	28,062
	$ 379,457

10. TRANSFERS

Transfers

	Transfers In		
	Road Fund	Other Governmental Funds	Totals
Transfers (out):			
General Fund	$ 400,000	$ 23,000	$ 423,000
Other Governmental Funds	-	12,000	12,000
	$ 400,000	$ 35,000	$ 435,000

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend. Transfers are used to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

11. CONDUIT DEBT OBLIGATIONS AND HOSPITAL OPERATIONS

Pursuant to Section 4-48B-1 NMSA 1978, the County and Clayton Health Systems, Inc., a New Mexico Nonprofit Corporation, (CHS) entered into an agreement for operations of the County hospital. The terms of the agreement requires CHS to operate the hospital to provide health care services to County residents. The County provides the health care facility and certain equipment for the use of CHS in providing the health care services and has set aside the proceeds of the mill levy collected, pursuant to the Hospital Funding Act, for use the CHS for hospital maintenance and hospital equipment. The term of the agreement extends through November 1, 2029. CHS is a separate legal entity; however, it is considered a component unit of the County.

The County has entered into a series of four special limited obligation loan agreements with the New Mexico Finance Authority to provide financial assurance to CHS for the remodeling and construction of the County hospital. As of June 30, 2018, the four loans outstanding balances are as follows:

Year of Agreement	Amount
2005	$ 1,687,557
2009	1,442,839
2015	953,718
2017	234,989
	$ 4,319,103

Simultaneously, with the execution of the loan agreements, the operating agreements with CHS were amended to require payment of the loan obligations by CHS from hospital revenues.

11. CONDUIT DEBT OBLIGATIONS AND HOSPITAL OPERATIONS (continued)

The loans are special limited obligations of the County, payable solely from revenues of the hospital and do not constitute indebtedness to the County within the meaning of any State constitutional provision or statutory debt limitation.

Nor, do the obligations constitute a charge against the County's general credit or taxing power and, accordingly, therefore, have not been reported in the accompanying financial statements, pursuant to GASB Codification Section C65.

However, the County remains contingently liable in the event of default to the extent of its third one-eighth of one percent County Gross Receipts Tax, which is also pledged to secure the loan. This tax is presently committed to the Hospital Indigent Fund, combined with other gross receipts taxes. The amount of the third one-eighth County Gross Receipts Tax is not obligated, so long as the loan is not in default as to any monthly loan payment or the rate covenant as set forth in the loan agreement, the Gross Receipts Tax revenues will not be used for the purpose of the loan payments.

The operating agreement between the County and CHS also requires CHS to pledge its revenues and to directly pay the principal and interest payments required under the loan agreement. In addition, the operating agreement imposes certain other obligations on CHS to include a rate covenant, which requires that rates be established by CHS to produce gross revenues sufficient to pay the annual operation and maintenance expenses and one hundred thirty percent of the aggregate annual debt service requirements payable during the current fiscal year.

In 2007, the County and CHS entered into a memorandum of understanding in which the County agreed to provide a subsidy to CHS in the amount of the principal and interest payments on the 2007 loan agreement. For the current fiscal year, the County budgeted a payment of $119,675 through its Governmental General Gross Receipts Tax Fund for this subsidy.

12. RESTATEMENT OF NET POSITION

The County discovered an error in the beginning of year deferred outflows of resources and pension liability balances. The County implemented GABS 75 during the fiscal year. As a result, the following restatements have been made to the beginning net position:

	Government-Wide Governmental Activities
Government-Wide Financial Statements:	
Deferred outflows of resources were overstated	$ 40,531
Net pension liability was overstated	270,000
GASB 75 implementation	1,957,228
	$ 2,267,759

13. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

General Information About the Pension Plan

Plan description - The Public Employees Retirement Fund is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Audit Correction Officers, Municipal General, Municipal Police/Detention Officers, Municipal Fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), each employee and elected official of every affiliated public employer is required to be a member in the PERA Fund, unless specifically excluded.

Benefits provided – Benefits are generally available at age 65 with five or benefits are generally available at age 65 with five or more years of service or after 25 years of service regardless of age for TIER I members. Provisions also exist for retirement between ages 60 and 65, with varying amounts of service required. Certain police and fire members may retire at any age with 20 or more years of service for Tier I members. Generally, the amount of retirement pension is based on final average salary, which is defined under Tier I as the average of salary for the 36 consecutive months of credited service producing the larges average; credited service; and the pension factor of the applicable coverage plan. Monthly benefits vary depending upon the plan under which the member qualifies, ranging from 2% to 3.5% of the member's final average salary per year of service. The maximum benefit that can be paid to a retiree may not exceed a range of 60% to 90% of the final average salary, depending on the division. Benefits for duty and non-duty death and disability and for post-retirement survivors' annuities are also available.

TIER II

The retirement age and service credit requirements for normal retirement for PERA state and municipal general members hired increased effective July 1, 2013 with the passage of Senate Bill 27 in the 2013 Legislative Session. Under the new requirements (Tier II), general members are eligible to retire at any age if the member has at least eight years of service credit and the sum of the member's age and service credit equals at least 85 or at age 67 with 8 or more years of service credit. General members hired on or before June 30, 2013 (Tier I) remain eligible to retire at any age with 25 or more years of service credit. Under Tier II, police and firefighters in Plans 3, 4, and 5 are eligible to retire at any age with 25 or more years of service credit. State police and adult correctional officers, peace officers, and municipal juvenile detention officers will remain in 25-year retirement plans, however, service credit will no longer be enhanced by 20%. All public safety members in Tier II may retire at age 60 with 6 or more years of service credit.

13. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

General Information About the Pension Plan (continued)

TIER II (continued)

Generally, under Tier II pension factors were reduced by .5%, employee contribution increased 1.5 percent and effective July 1, 2014, employer contributions were raised by .05 percent. The computation of final average salary increased as the average of salary for 60 consecutive months.

Contributions - See PERA's compressive annual financial report for contribution provided description.

PERA Contribtuion Rates and Pension Factors as of July 1, 2017						
	Employee Contribution Percentage			Pension Factor per Year of Service		
Coverage Plan	Annual Salary less than $20,000	Annual Salary greater than $20,000	Employer Contribution Percentage	TIER I	TIER II	Pension Maxiumum as a Percentage of the Final Average Salary
STATE PLAN						
State Plan 3	7.42%	8.92%	16.99%	3.00%	2.50%	90%
MUNICIPAL PLANS 1 -4						
Municipal Plan 1 (plan open to new employers)	7.00%	8.50%	7.40%	2.00%	2.00%	90.00%
Municipal Plan 2 (plan open to new employers)	9.15%	10.65%	9.55%	2.50%	2.00%	90.00%
Municipal Plan 3 (plan closed to new employers on 6/95)	13.15%	14.65%	9.55%	3.00%	2.50%	90.00%
Municipal Plan 4 (plan closed to new employers on 6/00)	15.65%	17.15%	12.05%	3.00%	2.50%	90.00%
MUNICIPAL POLICE PLANS 1 -5						
Municipal Police Plan 1	7.00%	8.50%	10.40%	2.00%	2.00%	90.00%
Municipal Police Plan 2	7.00%	8.50%	15.40%	2.50%	2.00%	90.00%
Municipal Police Plan 3	7.00%	8.50%	18.90%	2.50%	2.00%	90.00%
Municipal Police Plan 4	12.35%	13.85%	18.90%	3.00%	2.50%	90.00%
Municipal Police Plan 5	16.30%	17.80%	18.90%	3.50%	3.00%	90.00%
MUNICIPAL FIRE PLANS 1 -5						
Municipal Fire Plan 1	8.00%	9.50%	11.40%	2.00%	2.00%	90.00%
Municipal Fire Plan 2	8.00%	9.50%	17.90%	2.50%	2.00%	90.00%
Municipal Fire Plan 3	8.00%	9.50%	21.65%	2.50%	2.00%	90.00%
Municipal Fire Plan 4	12.80%	14.30%	21.65%	3.00%	2.50%	90.00%
Municipal Fire Plan 5	16.20%	17.70%	21.65%	3.50%	3.00%	90.00%
MUNICIPAL DETENTION OFFICER PLAN 1						
Municipal Detention Officer Plan 1	16.65%	18.15%	17.05%	3.00%	3.00%	90.00%
STATE POLICE AND ADULT CORRECTIONAL OFFICER PLANS, ETC.						
State Police and Adult Correctional Officer Plan 1	7.60%	9.10%	25.50%	3.00%	3.00%	90.00%
State Plan 3 - Peace Officer	7.42%	8.92%	16.99%	3.00%	3.00%	90.00%
Juvenile Correctional Officer Plan 2	4.78%	6.28%	26.12%	3.00%	3.00%	90.00%

13. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

General Information About the Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2018, the County reported a liability of $2,522,049 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2017 using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2017. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2017.

The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

PERA Fund Municipal General Division

At June 30, 2017, the County's proportion was 0.1326%, which was a decrease of 0.0017%, from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the County recognized pension expense of $114,389. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 71,594	$ 93,320
Changes of assumptions	84,023	18,828
Net difference between projected and actual earnings on pension plan investments	149,487	-
Changes in proportion and differences between contributions and proportionate share of contributions	28,152	14,449
Employer contributions subsequent to the measurement date	(36,376)	-
	$ 296,880	$ 126,597

$296,880 reported as deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

13. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

General Information About the Pension Plan (continued)

Year Ending		
2019	$	61,660
2020		167,573
2021		21,113
2022		(43,687)
2023		-
Thereafter		-

PERA Fund Municipal Police Division

At June 30, 2017, the County's proportion was 0.1260%, which was a decrease of 0.0080%, from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the County recognized pension expense of $50,221. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Difference between expected and actual experience	$	42,516	$	130,790
Changes of assumptions		41,648		16,278
Net difference between projected and actual earnings on pension plan investments		56,376		-
Changes in proportion and differences between contributions and proportionate share of contributions		16,543		31,527
Employer contributions subsequent to the measurement date		(15,031)		-
	$	142,052	$	178,595

$142,052 reported as deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending		
2019	$	(4,471)
2020		29,338
2021		(29,894)
2022		(16,485)
2023		-
Thereafter		-

13. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

General Information About the Pension Plan (continued)

Actuarial assumptions – The total pension liability in the June 30, 2017 actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

PERA Fund	
Actuarial valuation date	June 30, 2016
Actuarial cost method	Entry age normal
Amortization method	Level percentage of pay
Amortization period	Solved for based on statutory rates
Asset valuation method	4 Year smoothed Market Value
Actuarial Assumptions:	
• Investment rate of return	7.51% annual rate, net of investment expense
• Projected benefit payment	100 years
• Payroll growth	2.75% for first 9 years, then 3.25% annual rate
• Projected salary increases	2.75% to 14.00% annual rate
• Includes inflation at	2.25% annual rate, first 9 years 2.75% all other years
• Mortality Assumption	RP-2000 Mortality Tables (combined table for healthy post-retirements, Employee Table for active members, and Disabled table for disabled retirees before retirement age) with
• Experience Study Dates	July 1, 2008 to June 30, 2013 (demographic) and July 1, 2010 through June 30, 2016 (economic)

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017. These assumptions were adopted by the Board use in the June 30, 2016 actuarial valuation.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

13. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (continued)

General Information About the Pension Plan (continued)

Actuarial assumptions (continued) –

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43.50%	7.39%
Risk Reduction & Mitigation	21.50%	1.79%
Credit Oriented Fixed Income	15.00%	5.77%
Real Assets to Include Real Estate Equity	20.00%	7.35%
Total	100.00%	

Discount rate – A single discount rate of 7.51% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on a long-term expected rate of return on pension plan investments of 7.51%, compounded annually, net of expense. Based on the stated assumptions and the projection of cash flows, the plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels.

Sensitivity of the County's proportionate share of the net pension liability to changes in the discount rate - The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.51 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.51 percent) or 1-percentage-point higher (8.51 percent) than the current rate:

	1% Decrease 6.51%	Current Discount Rate 7.51%	1% Increase 8.51%
PERA Fund Municipal General Division			
Union County's proportionate share of the net pension liability	$ 2,855,732	$ 1,822,036	$ 962,374
PERA Fund Municipal Police Division			
Union County's proportionate share of the net pension liability	$ 1,116,326	$ 700,013	$ 358,366

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued PERA's financial reports.

14. OPEB

General Information about the OPEB

Plan description - Employees of the County are provided with OPEB through the Retiree Health Care Fund (the Fund) – a cost-sharing multiple-employer defined OPEB plan administered by the New Mexico Retiree Health Care Authority (NMRHCA). NMRHCA was formed on February 13, 1990, under the new Mexico Retiree Health Care Act (the Act) of New Mexico Statutes Annotated, as amended (NMSA 1978), to administer the Fund under Section 10-7C-1-19 NMSA 1978. The Fund was created to provide comprehensive group health insurance coverage for individuals (and their spouses, dependents and surviving spouses) who have retired or will retire from public service in New Mexico.

NMRHCA is an independent agency of the state of New Mexico. The funds administered by NMRHCA are considered part of the state of New Mexico financial reporting entity and are OPEB trust funds of the state of New Mexico. NMRHCA's financial information is included with the financial presentation of the state of New Mexico.

***Benefits* provided** - The Fund is a multiple employer cost sharing defined benefit healthcare plan that provides eligible retirees (including terminated employees who have accumulated benefits but are not yet receiving them), their spouses, dependents and surviving spouses and dependents with health insurance and prescription drug benefits consisting of a plan, or optional plans of benefits, that can contributions to the Fund and by co-payments or out-of-pocket payments of eligible retirees.

Employees covered by benefit terms – At June 30, 2017, the Fund's measurement date, the following employees were covered by the benefit terms:

Plan membership	
Current reitrees and surviving spouses	51,208
Inactive and eligible for deferred benefit	11,478
Current active members	97,349
	160,035
Active membership	
State general	19,593
State police and corrections	1,886
Municipal general	21,004
Municpal police	3,820
Municipal FTRE	2,290
Educational Retirement Board	48,756
	97,349

14. OPEB (continued)

General Information about the OPEB (continued)

Contributions – Employer and employee contributions to the Fund total 3% for non-enhanced retirement plans and 3.75% of enhanced retirement plans of each participating employee's salary as required by Section 10-7C-15 NMSA 1978. The contributions are established by statute and are not based on the actuarial calculation. All employer and employee contributions are non-refundable under any circumstance, including termination of the employer's participation in the Fund. Contributions to the Fund from the County were $31,343 for the year ended June 30, 2018.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2018, the County reported a liability of $1,647,716 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation of that date. The County's proportion of the net OPEB liability was based on actual contributions provided to the Fund for the year ended June 30, 2017. At June 30, 2017, the County's proportion was 0.03636 percent.

For the year ended June 30, 2018, the County recognized OPEB expense of $65,524. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 63,231
Change of assumptions	-	288,082
Net difference between projected and actual earnings on OPEB plan investments	-	23,704
Employer contributions subsequent to the measurement date	31,343	-
Total	$ 31,343	$ 375,017

Deferred outflows of resources totaling $31,343 represent the County's contributions to the Fund made subsequent to the measurement date and will be recognized as a reduction of net OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense as follows:

14. OPEB (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued):

Year ended June 30:	
2019	$ (79,731)
2020	(79,731)
2021	(79,731)
2022	(79,731)
2023	(56,093)
Total	$ (375,017)

Actuarial assumptions - The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions:

Valuation Date	June 30, 2017
Actuarial cost method	Entry age, normal, level percent of pay, calculated on individual employee basis.
Asset valulation method	Market value of assets
Actuarial assumptions:	
Inflation	2.50 for ERB; 2.25% for PERA
Projected payroll increases	3.50%
Investment rate of return	7.25%, net of OPEB plan investment expense and margin for adverse deviation including inflation.
Health care cost trend rate	8% graded down to 4.5% over 14 years for non-Medicare medical plan costs and 7.5% graded down to 4.5% over 12 years for Medicare medical plan costs

Rate of return - The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which the expected future real rates of return (net of investment fees and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumptions.

The best estimated for the long-term expected rate of return is summarized as follows:

14. OPEB (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued):

Asset Class	Long-Term Rate of Return
U.S. Core Fixed Income	4.10%
U.S. Equity - Large Cap	9.10%
Non U.S. - Emerging Markets	12.20%
Non U.S. - Development Equities	9.80%
Private Equity	13.80%
Credit and Structured Finance	7.30%
Real Estate	6.90%
Absolute Return	6.10%
U.S. Equity - Small/Mid Cap	9.10%

Discount rate - The discount rate used to measure the Fund's total OPEB liability is 3.81% as of June 30, 2017. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made at rates proportional to the actuary determined contribution rates. For this purpose, employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries are not included. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members through the fiscal year ended June 30, 2028. Thus, the 7.25% discount rate was used to calculate the net OPEB liability through 2029. Beyond 2029, the index rate for a 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher. Thus, 3.81% is the blended discount rate.

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. The following presents the net OPEB liability of the County, as well as the what the County's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.81 percent) or 1-percentage-point higher (4.81 percent) than the current discount rate:

1% Decrease 2.81%	Current Discount Rate 3.81%	1% Increase 4.81%
$ 1,998,654	$ 1,647,716	$ 1,372,374

The following present the net OPEB liability of the County, as well as what the County's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare costs trend rates:

14. OPEB (continued)

Sensitivity of the net OPEB liability to changes in the discount rate and healthcare cost trend rates. (continued):

1% Decrease	Current Discount Rate	1% Increase
$ 1,401,496	$ 1,647,716	$ 1,839,707

OPEB plan fiduciary net position - Detailed information about the OPEB plan's fiduciary net position is available in the NMRHCA's audited financial statements for the year ended June 30, 2017.

Payable changes in the net OPEB liability - At June 30, 2018, the County reported a payable of $1,437 for outstanding contributions due to NMRCHA for the year ended June 30, 2018.

15. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The County has joined together with other local governments in the state and obtained insurance through the New Mexico Self-Insured fund, a public entity risk pool currently operating as a common risk management and insurance program for local governments. The County pays an annual premium to New Mexico Self-Insured fund for its general insurance coverage and all risk of loss is transferred.

16. CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the County's legal counsel that resolution of these matters will not have a material, adverse effect on the financial condition of the County.

17. SUBSEQUENT EVENTS

In October 2018, the Board of Education of the Clayton Municipal School District No. 1 (Donor) and the Board of County Commissioners of Union County (Donee) entered into a donation agreement for property consisting of approximately 4.13 acres of land and all improvements, including the school building located at 16 South Second Avenue in Clayton, New Mexico.

17. SUBSEQUENT EVENTS (continued)

It is the intent of the agreement that the Donor shall donate the property to the Donee “as is”, and without representations or warranties of any kind, including warranties of title or condition of the property. This is a donation of property; the only consideration is the closing costs of which the Donee will pay all closing costs. The closing date will be thirty (30) days following approval of the agreement by the New Mexico Board of Finance providing all conditions precedent have been satisfied. As of November 19, 2018, there has been no determination of the fair market value of the donated property.

Management evaluated the effect of subsequent events on the financial statements through November 19, 2018, the date the financial statements are issued, and determined that there are no material subsequent events that have not been disclosed.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS

A. Organization

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 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.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies

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 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 healthcare 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.

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 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.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies (continued)

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 payer and by using historical experience applied to the aging. Individual accounts receivable are written off when deemed uncollectible. Recoveries of patient accounts receivable previously written off are recorded when received. Delinquent status is based on how recently payments have been received. The Hospital does not accrue interest on past-due accounts. Management believes that the allowances for doubtful accounts and contractual allowances are adequate. Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is a possibility that recorded estimates of the allowance for doubtful accounts and contractual allowances many change in the near term.

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

Assets Limited 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.

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.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies (continued)

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 that 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 asset's 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 payers 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 payers 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 year ended June 30, 2018, the County provided $275,500 to the Hospital under this program.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies (continued)

County Revenues and Reimbursements (continued) – 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 year ended June 30, 2018 was $725,000. This reimbursement program will continue as funds are available. The Hospital also received $120,561 in 2018 from the County to pay NMFA loan #7.

Donor - Restricted Assets - Unconditional promises to give cash and other assets to the Hospital are reported at fair market 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 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 year ended June 30, 2018 was $142,799.

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

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

Concentrations of Credit and Market Risk - Financial instruments that potentially expose the Hospital to concentrations of credit and market risk, consist primarily of cash and cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution. The Hospital has not experienced any losses on its cash equivalents.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

B. Summary of Significant Accounting Policies (continued)

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 post-employment benefits (pensions and other post-employment 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.

C. Net Patient Service Revenues

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers 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 are a final settlement. Management believes that the estimated settlement liability of $912,318 is adequate to settle open cost reports and provide an allowance for other related matters.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

C. Net Patient Service Revenues (continued)

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 that 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 year ended June 30, 2018, summarized by service area, are as follows:

Inpatient acute care	$ 3,393,181
Outpatient acute care	10,920,481
Home health services	206,606
Total acute and clinic services	14,520,268
Less deductions from revenue (including supplementals)	(6,837,018)
Net patient service revenues	$ 7,683,250

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 expenditure 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.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

C. Net Patient Service Revenues (continued)

Safety Net Care Pool Program (SNCP) (continued): All SNCP hospitals are to complete an application to the State by December 31st 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, established for $1,460,826 at June 30, 2018.

D. Concentrations of Credit Risk

The Hospital grants credit without collateral to its patients and third-party payers. Patient accounts receivable from government agencies represent only the 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 payers, 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 is as follows:

Medicare	$ 777,371
Medicaid	420,494
Other third-party payers	1,159,185
Self pay, collections, DME and other	4,598,261
Gross patient accounts receivable	6,955,311
Less allowances for contractual adjustments and uncollectible accounts	(6,179,178)
Net patient accounts receivable	$ 776,133

E. 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. 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, the Hospital was in compliance with the state regulations.

Assets limited as to use are stated at fair market value (which approximates cost) and are comprised of the following at June 30, 2018:

Certificates of deposit	$ 183,325
Deposits with NM Finance Authority	717,739
Assets limited as to use	$ 901,064

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

E. Assets Limited As To Use (continued)

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

		Maturities in Years	
	Fair Value	Less Than 1	1-5
Certificates of Deposit	$ 183,325	$ 183,325	$ -
Deposits	717,739	717,739	-
Total	$ 901,064	$ 901,064	$ -

Assets limited as to use as of June 30, 2018 was comprised of the following:

	2018
Designated by the Board	$ 183,482
Held in trust for debt service with NM Finance Authority	717,582
Total assets limited as to use	$ 901,064

Interest Rate Risk - As a means of limiting its exposure to fair market losses arising from rising interest rates, the Hospital's practice is to invest in certificates of deposit 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.

F. Other Receivables

Other receivables as of June 30, 2018 are comprised of the following:

Taxes receivable	$ 178,715
Grants and other receivables	461,436
Safety net care pool program	197,399
Total other receivables	$ 837,550

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.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

F. Other Receivables (continued)

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, the Hospital has only minor agreements with physicians.

G. Property and Equipment

	Balance 06/30/17	Additions	Disposals and Retirements	Transfers	Balance 06/30/18
Capital assets, not being depreciated:					
Construction in progress	$ 86,453	$ 27,359	$ -	$ (21,060)	$ 92,752
Land improvement	11,750	-	-	-	11,750
Total capital assets, not being depreciated	98,203	27,359	-	(21,060)	104,502
Capital assets, being depreciated:					
Major equipment - hospital	1,227,191	86,743	-	-	1,313,934
Major equipment - clinic	15,224	-	-	-	15,224
Buildings and improvements	11,627,537	3,421	-	-	11,630,958
Buildings and 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	14,637,650	129,351	-	21,060	14,788,061
Less accumulated depreciation for:					
Major equipment - hospital	(784,502)	(151,383)	-	-	(935,885)
Major equipment - clinic	(10,401)	(301,118)	-	-	(311,519)
Buildings and improvements	(3,496,462)	(29,061)	-	-	(3,525,523)
Buildings and improvements RHC	(30,155)	(5,168)	-	-	(35,323)
E H R equipment	(281,738)	(152,454)	-	-	(434,192)
Total accumulated depreciation	(4,603,258)	(639,184)	-	-	(5,242,442)
Total capital assets being depreciated, net	10,034,392	(509,833)	-	21,060	9,545,619
Total capital assets, net	$ 10,132,595	$ (482,474)	$ -	$ -	$ 9,650,121

H. Accrued Liabilities

Accrued liabilities as of June 30, 2018 are comprised of the following:

Accrued compensated absences	$ 157,965
Accrued wages and payroll taxes	209,872
	$ 367,837

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

H. Accrued Liabilities (continued)

Changes in compensated absences during the year ended June 30, 2018 are as follows:

	Balance 06/30/17	Additions	Deletions	Balance 06/30/18	Amounts Due Within One Year
Compensated absences	$ 136,181	$ 313,918	$ (292,134)	$ 157,965	$ 157,965

I. Long-Term Liabilities

Changes in business-type activities obligations during the year ended June 30, 2018 are as follows:

	Balance 06/30/17	Additions	Deletions	Balance 06/30/18	Amounts Due Within One Year
Business-Type Activities:					
Notes payble	$ 4,875,451	$ -	$ (556,348)	$ 4,319,103	$ 539,588
Capital lease	300,279	-	(120,810)	179,469	126,570
	$ 5,175,730	$ -	$ (677,158)	$ 4,498,572	$ 666,158

As of June 30, 2018, the Hospital had different forms of debt borrowings as follows:

Note payable to NMFA, payable in monthly installments of $23,402, including interest of 1.9%, matures May 2025, collateralized by Hospial revenues and County tax revenues.	$ 1,687,557
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
Note payable to NMFA, payable in semi-annual installments with varied amount, including interst of 1.16%, matures May 2020, collateralized by Hospital revenues and County tax revenues.	234,989
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
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
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.	36,127
	4,498,572
Less current maturities	(666,158)
Total	$ 3,832,414

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

I. Long-Term Liabilities (continued)

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. 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 agreement with NMFA. Upon the expiration of the operating agreement, or upon earlier termination, the Corporation is required to surrender all improvements to the County. This agreement requires certain trust funds to be established with a trustee. Accordingly, these funds are included as assets limited as to use, referred to in Note 18E.

Line of Credit - The Hospital has a line of credit with a local back that has agreed to provide a revolving commitment of up to $125,000. As of June 30, 2018, borrowings on this line of credit were $0. Interest on the line of credit borrowings is charged at the bank lending rate of 3.5%. The line has been extended to March 2019. Any borrowings on the line of credit are collateralized by a Hospital's certificate of deposit.

J. Commitments and Contingencies

Construction-in-Progress - As of June 30, 2018, the Hospital has $92,752 recorded as 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 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 healthcare 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.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

J. Commitments and Contingencies (continued)

Healthcare Reform - The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statues and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the 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.

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, 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 that 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.

18. DISCLOSURES RELATED TO COMPONENT UNIT FINANCIAL STATEMENTS (continued)

K. 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 year ended June 30, 2018, the Hospital's expense to fund their share of the plan was $54,347.

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 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.

L. Charity Care and Community Benefit Expense

The Hospital maintains records to identify and monitor the level of charity care and community service it provides. These records include: the amount of charges foregone, (based on established rates), for services and supplies furnished under its charity care and community service policies, the estimated cost of those services and supplies, and statistics quantifying the level of charity care as a percentage of expenses of the Hospital as a whole. The following is a summary of the Hospital's charity care and community benefit expense for the year ended June 30, 2018, (included in deductions from revenue), in terms of services to the poor and benefits to the broader community:

Benefits for the poor:	
Traditional charity care	$ 40,298
Unpaid Medicaid program charges	1,345,764
Total quantifiable benefits for the poor	1,386,062
Benefits for the broader community:	
Unpaid Medicaid program charges	1,379,791
Total quantifiable benefits for the poor	$ 2,765,853

M. 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

COMBINING AND INDIVIDUAL OTHER GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

STATE OF NEW MEXICO
UNION COUNTY
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue Funds								
	Farm and Range Fund	Recreation Fund	Clerk's Fees Fund	Capulin Fire Fund	Sedan Fire Fund	Amistad/Hayden Fire Fund	Rabbit Ear Fire Fund	Capulin EMS Fund	Amistad/Hayden EMS Fund
ASSETS									
Cash and cash equivalents	$ 371	$ 91	$ 22,563	$ 47,373	$ 54,909	$ 121,523	$ 134,934	$ 1,785	$ 172
Receivables, net	-	-	7	3,102	-	-	44,547	-	-
Prepaid expenses	-	-	-	4,196	4,430	4,209	4,609	-	-
Restricted:									
Cash	-	-	-	195	293	-	243	-	-
Total assets	$ 371	$ 91	$ 22,570	$ 54,866	$ 59,632	$ 125,732	$ 184,333	$ 1,785	$ 172
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES									
Liabilities:									
Accounts payable	$ -	$ -	$ -	$ 208	$ 4,786	$ 118	$ 9,743	$ 384	$ -
Accrued salaries	-	-	-	-	-	-	-	-	-
Total liabilities	-	-	-	208	4,786	118	9,743	384	-
Deferred Inflows of Resources:									
Unearned revenues	-	-	-	-	-	-	-	-	-
Fund Balances:									
Nonspendable	-	-	-	4,196	4,430	4,209	4,609	-	-
Restrticted for:									
Debt service	-	-	-	195	293	-	243	-	-
State mandated per statutes	-	-	695	50,267	50,123	121,405	169,738	1,401	172
Committed for:									
Subsequent years' expenditures	349	-	21,875	-	-	-	-	-	-
Assigned	22	91	-	-	-	-	-	-	-
Total fund balances	371	91	22,570	54,658	54,846	125,614	174,590	1,401	172
Total liabilities, deferred inflows of resources and fund balances	$ 371	$ 91	$ 22,570	$ 54,866	$ 59,632	$ 125,732	$ 184,333	$ 1,785	$ 172

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue Funds								
	Folsom EMS Fund	Fire Marshal Fund	Corrections Gross Receipts Fund	Corrections Fees Fund	DWI Grant Fund	Reappraisal Fund	Emergency Services GGRT Fund	County Hospital GGRT Fund	General Gross Receipts Tax Fund
ASSETS									
Cash and cash equivalents	$ 81,987	$ 164,513	$ 105,947	$ 13,029	$ 3,397	$ 72,051	$ 63,071	$ 174,678	$ 317,448
Receivables, net	11,530	-	26,189	7,111	-	1,978	57,353	52,387	26,192
Prepaid expenses	-	-	-	-	-	-	-	-	-
Restricted assets:									
Cash	-	-	-	-	-	-	-	-	-
Total assets	$ 93,517	$ 164,513	$ 132,136	$ 20,140	$ 3,397	$ 74,029	$ 120,424	$ 227,065	$ 343,640
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES									
Liabilities:									
Accounts payable	$ 1,091	$ 301	$ 20,690	$ -	$ 57	$ 17	$ 6,776	$ -	$ -
Accrued salaries	-	533	-	-	948	264	1,197	-	-
Total liabilities	1,091	834	20,690	-	1,005	281	7,973	-	-
Deferred Inflows of Resources:									
Unearned revenues	-	-	-	-	-	1,803	-	-	-
Fund Balances:									
Nonspendable	-	-	-	-	-	-	-	-	-
Restricted for:									
Debt service	-	-	-	-	-	-	-	-	-
State mandated per statutes	92,426	-	-	-	-	60,443	89,883	227,065	-
Committed for:	-								
Subsequent years' expenditures	-	-	27,500	11,950	2,392	11,502	22,568	-	114,675
Assigned	-	163,679	83,946	8,190	-	-	-	-	228,965
Total fund balances	92,426	163,679	111,446	20,140	2,392	71,945	112,451	227,065	343,640
Total liabilities, deferred inflows of resources and fund balances	$ 93,517	$ 164,513	$ 132,136	$ 20,140	$ 3,397	$ 74,029	$ 120,424	$ 227,065	$ 343,640

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
JUNE 30, 2018

	Special Revenue Funds				Capital Projects Fund	
	GRT Reserve Fund	Law Enforcement Fund	Legislative Appropriations Fund	Total Special Revenue Funds	Capital Improvements/ Emergency Fund	Total Other Government Funds
ASSETS						
Cash and cash equivalents	$ 550,535	$ 18,835	$ 40,832	$ 1,990,044	$ 63,875	$ 2,053,919
Receivables, net	13,096	-	-	243,492	-	243,492
Prepaid expenses	-	-	-	17,444	-	17,444
Restricted assets:						
Cash	-	-	-	731	-	731
Total assets	$ 563,631	$ 18,835	$ 40,832	$ 2,251,711	$ 63,875	$ 2,315,586
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ -	$ -	$ -	$ 44,171	$ -	$ 44,171
Accrued salaries	-	-	-	2,942	-	2,942
Total liabilities	-	-	-	47,113	-	47,113
Deferred Inflows of Resources:						
Unearned revenues	-	-	-	1,803	-	1,803
Fund Balances:						
Nonspendable	-	-	-	17,444	-	17,444
Restricted for:						
Debt service	-	-	-	731	-	731
State mandated per statutes	-	-	-	863,618	-	863,618
Committed for:						
Subsequent years' expenditures	-	18,835	-	231,646	59,000	290,646
Assigned	563,631	-	40,832	1,089,356	4,875	1,094,231
Total fund balances	563,631	18,835	40,832	2,202,795	63,875	2,266,670
Total liabilities, deferred inflows of resources and fund balances	$ 563,631	$ 18,835	$ 40,832	$ 2,251,711	$ 63,875	$ 2,315,586

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Special Revenue Funds								
	Farm and Range Fund	Recreation Fund	Clerk's Fee Fund	Capulin Fire Fund	Sedan Fire Fund	Amistad/Hayden Fire Fund	Rabbit Ear Fire Fund	Capulin Fire Fund	Amistad/Hayden EMS Fund
Revenues:									
Gross receipts taxes	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Property taxes	-	-	-	-	-	-	-	-	-
Intergovernmental:									
Federal	32	-	-	-	-	-	-	-	-
State	-	-	-	75,091	127,937	52,844	208,484	8,087	-
Local	-	-	-	-	-	-	3,046	-	-
Charges for services	-	-	7,166	3,102	-	-	44,547	-	-
Interest	3	1	222	413	837	1,000	1,225	44	2
Miscellaneous	-	-	-	200	-	-	9,800	-	-
Total revenues	35	1	7,388	78,806	128,774	53,844	267,102	8,131	2
Expenditures:									
Current:									
General government	-	-	9,903	-	-	-	-	-	-
Public safety	-	-	-	22,284	51,491	27,072	127,631	9,372	-
Health and welfare	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	42,410	8,176	-	-	-
Debt service:				-					
Principal	-	-	-	15,768	30,960	-	18,698	-	-
Interest and other charges	-	-	-	1,472	3,989	-	11,731	-	-
Total expenditures	-	-	9,903	39,524	128,850	35,248	158,060	9,372	-
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	35	1	(2,515)	39,282	(76)	18,596	109,042	(1,241)	2
Other Financing Sources (Uses):									
Transfers in	-	-	-	-	-	-	-	3,000	-
Transfers (out)	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-	3,000	-
Special Item:									
Proceeds from disposal of assets	-	-	-	-	1,253	-	-	-	-
Net change in fund balances	35	1	(2,515)	39,282	1,177	18,596	109,042	1,759	2
Fund balances, beginning of year	336	90	25,085	15,376	53,669	107,018	65,548	(358)	170
Fund balances, end of year	$ 371	$ 91	$ 22,570	$ 54,658	$ 54,846	$ 125,614	$ 174,590	$ 1,401	$ 172

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Special Revenue Funds								
	Folsom EMS Fund	Fire Marshal Fund	Corrections Gross Receipts Fund	Corrections Fees Fund	DWI Grant Fund	Reappraisal Fund	Emergency Services GGRT Fund	County Hospital GGRT Fund	General Gross Receipts Tax Fund
Revenues:									
Gross receipts taxes	$ -	$ -	$ 140,041	$ -	$ -	$ -	$ 140,041	$ 280,197	$ 140,056
Property taxes	-	-	-	-	-	40,045	-	-	-
Intergovernmental:									
Federal	-	-	-	-	-	-	37,200	-	-
State	7,362	75,091	-	-	66,130	-	-	-	-
Local	23,312	-	-	-	-	-	7,336	-	-
Charges for services	18,283	200	50,790	30,868	1,190	6,398	147	-	-
Interest	685	1,938	748	77	371	568	630	2,582	2,874
Miscellaneous	-	-	-	-	-	-	-	-	-
Total revenues	49,642	77,229	191,579	30,945	67,691	47,011	185,354	282,779	142,930
Expenditures:									
Current:									
General government	-	-	-	-	-	39,811	-	-	-
Public safety	21,368	77,706	130,382	25,591	67,009	-	-	-	-
Health and welfare	-	-	-	-	-	-	161,613	270,567	119,331
Capital outlay	-	60,928	-	-	-	-	-	-	-
Debt service:									
Principal	-	-	-	-	-	-	-	-	-
Interest and other charges	-	-	-	-	-	-	-	-	-
Total expenditures	21,368	138,634	130,382	25,591	67,009	39,811	161,613	270,567	119,331
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	28,274	(61,405)	61,197	5,354	682	7,200	23,741	12,212	23,599
Other Financing Sources (Uses):									
Transfers in	9,000	23,000	-	-	-	-	-	-	-
Transfers (out)	-	-	-	-	-	-	(12,000)	-	-
Total other financing sources (uses)	9,000	23,000	-	-	-	-	(12,000)	-	-
Special Item:									
Proceeds from disposal of assets	-	-	-	-	202	-	-	-	-
Net change in fund balances	37,274	(38,405)	61,197	5,354	884	7,200	11,741	12,212	23,599
Fund balances, beginning of year	55,152	202,084	50,249	14,786	1,508	64,745	100,710	214,853	320,041
Fund balances, end of year	$ 92,426	$ 163,679	$ 111,446	$ 20,140	$ 2,392	$ 71,945	$ 112,451	$ 227,065	$ 343,640

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Special Revenue Funds				Capital Projects Fund	
	GRT Reserve Fund	Law Enforcement Fund	Legislative Appropriations Fund	Total Special Revenue Funds	Capital Improvements/ Emergency Fund	Total Other Governmental Funds
Revenues:						
Gross receipts taxes	$ 70,074	$ -	$ -	$ 770,409	$ -	$ 770,409
Property taxes	-	-	-	40,045	-	40,045
Intergovernmental:						
Federal	-	-	15,362	52,594	-	52,594
State	-	23,000	11,943	655,969	-	655,969
Local	-	-	-	33,694	-	33,694
Charges for services	-	-	-	162,691	-	162,691
Interest	4,837	188	306	19,551	1,001	20,552
Miscellaneous	-	-	-	10,000	-	10,000
Total revenues	74,911	23,188	27,611	1,744,953	1,001	1,745,954
Expenditures:						
Current:						
General government	-	-	1,299	51,013	-	51,013
Public safety	-	9,061	-	568,967	-	568,967
Heatlh and welfare	-	-	-	551,511	-	551,511
Capital outlay	-	27,801	10,644	149,959	169,546	319,505
Debt service:						
Principal	-	-	-	65,426	-	65,426
Interest and other charges	-	-	-	17,192	-	17,192
Total expenditures	-	36,862	11,943	1,404,068	169,546	1,573,614
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	74,911	(13,674)	15,668	340,885	(168,545)	172,340
Other Financing Sources (Uses):						
Transfers in	-	-	-	35,000	-	35,000
Transfers (out)	-	-	-	(12,000)	-	(12,000)
Total other financing sources (uses)	-	-	-	23,000	-	23,000
Special Item:						
Proceeds from disposal of assets	-	21,102	-	22,557	-	22,557
Net change in fund balances	74,911	7,428	15,668	386,442	(168,545)	217,897
Fund balances, beginning of year	488,720	11,407	25,164	1,816,353	232,420	2,048,773
Fund balances, end of year	$ 563,631	$ 18,835	$ 40,832	$ 2,202,795	$ 63,875	$ 2,266,670

The accompanying notes are an integral part of these financial statements.

OTHER COMPONENT UNIT - UNION COUNTY GENERAL HOSPITAL
BUDGETARY COMPARISON STATEMENT

STATE OF NEW MEXICO
UNION COUNTY
COMPONENT UNIT - UNION COUNTY GENERAL HOSPITAL
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
BUDGET AND ACTUAL ON BUDGETARY (GAAP) BASIS
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts			Variance With Final Budget Favorable
	Original	Final	Actual	(Unfavorable)
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)
Non-Operating 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 non-operating revenue	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.

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF UNION COUNTY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY OF PERA FUND
PUBLIC EMPLOYEES RETIREMENT ASSOCIATON (PERA) PLAN
MUNICIPAL GENERAL DIVISION
LAST TEN FISCAL YEARS *

	June 30,			
Fiscal Year	2018	2017	2016	2015
Measurement Date	2017	2016	2015	2014
County's proportionate of the net pension liability (asset)	0.13260%	0.1343%	0.1298%	0.1285%
County's porportionate share of the net pension liability (asset)	$ 1,822,036	$ 2,145,662	$ 1,323,423	$ 1,002,438
County's covered-employee payroll	$ 1,183,497	$ 1,165,623	$ 1,149,790	$ 1,043,018
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	153.95%	184.08%	115.10%	96.11%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	81.31%	81.29%

**Governmental Accounting Standards Board Statement No. 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the County is not available prior to fiscal year 2015, the year the statement's requirements became effective.

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF UNION COUNTY'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATON (PERA) PLAN
MUNICIPAL GENERAL DIVISION
LAST TEN FISCAL YEARS *

	2018	2017	2016	2015
Statutory required	$ 239,067	$ 235,217	$ 209,417	$ 187,985
Contributions in relation to the statutorily required contributions	239,067	235,217	209,417	187,985
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -

**Governmental Accounting Standards Board Statement No. 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the County is not available prior to fiscal year 2015, the year the statement's requirements became effective.

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF UNION COUNTY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY OF PERA FUND
PUBLIC EMPLOYEES RETIREMENT ASSOCIATON (PERA) PLAN
MUNICIPAL POLICE DIVISION
LAST TEN FISCAL YEARS *

	June 30,			
Fiscal Year	2018	2017	2016	2015
Measurement Date	2017	2016	2015	2014
County's proportionate of the net pension liability (asset)	0.1260%	0.1340%	0.1287%	0.1259%
County's porportionate share of the net pension liability (asset)	$ 700,013	$ 988,691	$ 618,862	$ 410,420
County's covered-employee payroll	$ 209,700	$ 259,723	$ 268,548	$ 242,066
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	333.82%	380.67%	232.18%	169.55%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	69.18%	81.31%	81.29%

**Governmental Accounting Standards Board Statement No. 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the County's is not available prior to fiscal year 2015, the year the statement's requirements became effective.

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF UNION COUNTY'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT ASSOCIATON (PERA) PLAN
MUNICIPAL POLICE DIVISION
LAST TEN FISCAL YEARS *

	2018	2017	2016	2015
Statutory required	$ 68,677	$ 85,059	$ 78,072	$ 73,167
Contributions in relation to the statutorily required contributions	68,677	85,059	78,072	73,167
Annual contribution deficiency (excess)	$ -	$ -	$ -	$ -

**Governmental Accounting Standards Board Statement No. 68* requires ten years of historical information be presented; however, until a full 10-year trend is compiled, the statement only requires presentation of information for those years that information is available. Complete information for the County's is not available prior to fiscal year 2015, the year the statement's requirements became effective.

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF UNION COUNTY'S
PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
RETIREE HEALTH CARE ACT (RHCA) PLAN
LAST TEN FISCAL YEARS *

	2018
County's proportionate of the net OPEB liability	0.03636%
County's porportionate share of the net OPEB liability	$ 1,647,716
County's covered-employee payroll	$ 1,514,629
County's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	108.79%
Plan fiduciary net position as a percentage of the total OPEB liability	11.34%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the County will present information for available years.

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF UNION COUNTY'S CONTRIBUTIONS
RETIREE HEALTH CARE ACT (RHCA) PLAN
LAST TEN FISCAL YEARS *

	2018
Contractually required contribution	$ 115,460
Contributions in relation to the contractually required contribution	57,948
Contribution deficiency (excess)	$ 57,512
Employer's covered-employee payroll	$ 1,514,629
Contributions as a percentage of covered-employee payroll	3.83%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the County will present information for available years.

The accompanying notes are an integral part of these financial statements.

PERA PLAN

Changes of benefit terms - The PERA and COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA's CAFR. That report is available at https://www.saonm.org.

Changes of assumption - The Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation Report as of June 30, 2017, is available at https://www.nmpera.org.

RHCA PLAN

Changes in benefit provisions – There were no modifications to the benefit provisions as this is the first year of adoption of the OPEB accounting standard.

Changes in assumptions and methods – There were no modifications to the assumption and methods as this is the first year of adoption of the OPEB accounting standard.

OTHER SCHEDULES REQUIRED BY SECTION 2.2.2 NMAC

STATE OF NEW MEXICO
UNION COUNTY
COMBINING SCHEDULE OF CHANGES IN ASSETS
AND LIABILITIES FOR THE AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Balance 06/30/17	Increases/ Receipts	Decreases/ Disbursements	Balance 06/30/18
Property Tax Fund				
Assets:				
Cash	$ 2,815,343	$ 1,891,468	$ 4,598,285	$ 108,526
Property taxes receivable	61,366	66,962	34,651	93,677
Public service taxes receivable	3,997	14,300	3,997	14,300
Interest receivable	536	-	535	1
Total assets	$ 2,881,242	$ 1,972,730	$ 4,637,468	$ 216,504
Liabilities:				
Deposits held for others	$ 91,842	$ 1,681,604	$ 1,711,680	$ 61,766
Due to other tax units	65,899	286,474	202,287	150,086
Taxes paid in protest	2,723,501	4,652	2,723,501	4,652
Total liabilities	$ 2,881,242	$ 1,972,730	$ 4,637,468	$ 216,504

The accompanying notes are an integral part of these financial statements.

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2018

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
FNB New Mexico 201 Main Street Clayton, New Mexico 88415				
Union County Treasurer	Checking	$ 2,454,647	$ (121,137)	$ 2,333,510
Union County Treasurer	CD	4,652	-	4,652
Total FNB New Mexico		$ 2,459,299	$ (121,137)	$ 2,338,162
Farmer's & Stockmen's Bank P.O. Box 488 Clayton, New Mexico 88415				
Union County Treasurer	Checking	$ 2,535,742	$ -	$ 2,535,742

STATE OF NEW MEXICO
UNION COUNTY
COMPONENT UNIT - UNION COUNTY GENERAL HOSPITAL
SCHEDULE OF CASH ACCOUNTS
JUNE 30, 2018

Financial Institution/ Account Description	Type of Account	Financial Institution Balance	Reconciling Items	Reconciled Balance
FNB New Mexico 201 Main Street Clayton, New Mexico 88415				
Operating Account	Checking	$ 1,256,131	$ (634,698)	$ 621,433
MMDA Cash Reserve	MMDA	157	-	157
MMDA Cash Reserve	MMDA	61,260	-	61,260
Certificate of Deposit	CD	507,948	-	507,948
Total FNB New Mexico		$ 1,825,496	$ (634,698)	$ 1,190,798
Farmer's & Stockmen's Bank P.O. Box 488 Clayton, New Mexico 88415				
Payroll	Checking	$ 169,903	$ -	$ 169,903
Certificate of Deposit	CD	1,183,421	-	1,183,421
Certificate of Deposit	CD	183,325	-	183,325
Total Farmer's & Stockmen's Bank of NM		$ 1,536,649	$ -	$ 1,536,649
Total cash in bank		$ 3,362,145	$ (634,698)	$ 2,727,447
NMFA Prepaid Bond Reserve		$ 717,582	$ -	$ 717,582
Summary:				
Operating/Payroll		$ 1,426,034	$ (634,698)	$ 791,336
MMDA Cash Reserve		61,417	-	61,417
CDS Cash Reserve		1,874,694	-	1,874,694
Total summary		$ 3,362,145	$ (634,698)	$ 2,727,447
Reconciliation to Financial Statements:				
Total cash				$ 2,727,447
Other Items:				
1st National Bank - ERA				(13,582)
Plus petty cash				734
NMFA prepaid bond reserve				717,582
				3,432,181
		Assets limited to use		(901,064)
		Cash and cash equivalents		$ 2,531,117

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF PLEDGED COLLATERAL
JUNE 30, 2018

First National Bank of New Mexico
201 Main Street
Clayton, New Mexico 88415

Security	CUSIP	Maturity	Market Value
FNMZ Pool #BC0935	3140EVBD8	06/01/46	$ 802,697
SBA Pool #522336	83165AY99	11/25/41	502,332
		Total	$ 1,305,029

The holder of the collateral pledged by FNB New Mexico is the Federal Home Loan Bank of Dallas, 8500 Freeport Parkway South, Suite 100, Irving, Texas.

Farmer’s & Stockmen’s Bank
P.O. Box 488
Clayton, New Mexico 88415

Security	CUSIP	Maturity	Market Value
FHLB Letter of Credit	3615000064	12/28/18	$ 150,000
FHLB Letter of Credit	3615000069	05/30/19	1,400,000
			$ 1,550,000

The holder of the collateral pledged by Farmer's and Stockmen's Bank is the Federal Home Loan Bank of Dallas, 8500 Freeport Parkway South, Suite 100, Irving, Texas.

STATE OF NEW MEXICO
UNION COUNTY
COMPONENT UNIT - UNION COUNTY GENERAL HOSPITAL
SCHEDULE OF PLEDGED COLLATERAL
FOR THE YEAR ENDED JUNE 30, 2018

	FNB New Mexico	Farmer's & Stockmen's Bank
Total deposit in bank	$ 1,825,495	$ 1,536,650
Less FDIC insurance	(561,417)	(979,633)
Uninsured public funds	1,264,078	557,017
Pledged collateral held by pledging bank's agent, but not in the Hospital's name	850,760	500,000
Uninsured and uncollateralized public funds	$ 413,318	$ 57,017
Total pledged collateral	$ 850,760	$ 500,000
50% pledged collateral requirement per state statute	632,039	278,509
Pledged collateral (under) over the requirement	$ 218,721	$ 221,491

First National Bank of New Mexico
201 Main Street
Clayton, New Mexico 88415

Security	CUSIP	Maturity	Market Value
Alamogordo NM Muni Sch Dist #1	011464KG8		469,686
FHR 4203 DG	3137B2CH1		103,204
SBA Pool #522256	83165AWR1		277,870
		Total	$ 850,760

Farmer’s & Stockmen’s Bank
P.O. Box 488
Clayton, New Mexico 88415

Security	CUSIP	Maturity	Market Value
FHLB Letter of Credit	3615000068	11/29/18	$ 500,000

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF TAX ROLL RECONCILIATION -
CHANGES IN PROPERTY TAXES RECEIVABLES
FOR THE YEAR ENDED JUNE 30, 2018

Property taxes receivable, beginning of year	$	151,318
Changes to Tax Roll:		
Net taxes charged to treasurer for fiscal year		3,831,506
Adjustments:		
Increases in taxes recievable		80,802
Settlement of protested taxes		2,723,501
Charge off of taxes receivable		(2,570,345)
Total receivables prior to collections		4,216,782
Collections for fiscal year ended June 30, 2018		(4,017,643)
Property taxes receivable, end of the year	$	199,139
Property taxes receivable by years:		
2008	$	53
2009		277
2010		346
2011		945
2012		776
2013		1,314
2014		1,501
2015		14,038
2016		46,625
2017		133,264
	$	199,139

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF TAX COLLECTIONS AND DISTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2018

Agency	Property Taxes Levied	Collected in Current Year	Collected To Date	Distributed in Current Year	Distributed To Date	Undistributed at Year End	County Receivable at Year End
Union County:							
General advalorem:							
2008-2016	$ 10,870,178	$ 204,239	$ 10,845,440	$ 204,239	$ 10,845,440	$ -	$ 24,738
2017	1,381,801	1,338,803	1,338,803	1,337,497	1,337,497	1,306	42,998
Total general advalorem	12,251,979	1,543,042	12,184,243	1,541,736	12,182,937	1,306	67,736
Non-Rendition fees:							
2008-2016	2,614	-	1,745	-	1,745	-	869
2017	155	155	155	155	155	-	-
Total non-rendition fees	2,769	155	1,900	155	1,900	-	869
Administrative fees:							
2008-2016	9,760	68	9,523	68	9,523	-	237
2017	937	801	801	801	801	-	136
Total administrative fees	10,697	869	10,324	869	10,324	-	373
Reappraisal Program:							
2008-2016	247,777	4,118	247,129	4,118	247,129	-	648
2017	37,378	36,048	36,048	36,002	36,002	46	1,330
Total reappraisal program	285,155	40,166	283,177	40,120	283,131	46	1,978
Hospital Bond:							
2008-2016	5,289,955	96,834	5,277,440	96,834	5,277,440	-	12,515
2017	676,964	654,973	654,973	654,366	654,366	607	21,991
Total hospital bond	5,966,919	751,807	5,932,413	751,200	5,931,806	607	34,506
Total Union County	18,517,519	2,336,039	18,412,057	2,334,080	18,410,098	1,959	105,462
Municipalities							
Town of Clayton:							
2008-2016	1,196,192	13,683	1,187,554	8,591	1,182,462	5,092	8,638
2017	145,606	130,964	130,964	126,244	126,244	4,720	14,642
Total Town of Clayton	1,341,798	144,647	1,318,518	134,835	1,308,706	9,812	23,280
Village of Des Moines:							
2008-2016	84,059	215	83,443	189	83,417	26	616
2017	10,058	9,595	9,595	9,466	9,466	129	463
Total Village of Des Moines	94,117	9,810	93,038	9,655	92,883	155	1,079
Village of Folsom:							
2008-2016	44,289	201	40,622	201	40,622	-	3,667
2017	4,235	4,095	4,094	3,787	3,786	308	141
Total Village of Folsom	48,524	4,296	44,716	3,988	44,408	308	3,808
Village of Grenville:							
2008-2016	29,536	57	29,510	33	29,487	24	26
2017	4,660	4,602	4,602	4,590	4,589	12	58
Total Village of Grenville	34,196	4,659	34,112	4,623	34,076	36	84
Total municipalities	1,518,635	163,412	1,490,384	153,101	1,480,073	10,311	28,251

STATE OF NEW MEXICO
UNION COUNTY
SCHEDULE OF TAX COLLECTIONS AND DISTRIBUTIONS (CONCLUDED)
FOR THE YEAR ENDED JUNE 30, 2018

Agency	Property Taxes Levied	Collected in Current Year	Collected To Date	Distributed in Current Year	Distributed To Date	Undistributed at Year End	County Receivable at Year End
Schools:							
Clayton Public School:							
2008-2016	2,489,871	56,207	2,484,698	53,344	2,481,835	2,863	5,173
2017	951,993	915,442	915,442	889,460	889,460	25,982	36,551
Total Clayton Public School	3,441,864	971,649	3,400,140	942,804	3,371,295	28,845	41,724
Des Moines School:							
2008-2016	1,382,963	1,246	1,378,616	995	1,378,365	251	4,347
2017	84,583	83,327	83,327	82,000	82,000	1,327	1,256
Total Des Moines School	1,467,546	84,573	1,461,943	82,995	1,460,365	1,578	5,603
Springer Public School:							
2008-2016	89,038	260	89,038	260	89,038	-	-
2017	14,165	13,979	13,979	11,869	11,869	2,110	186
Total Springer Public School	103,203	14,239	103,017	12,129	100,907	2,110	186
Luna Tech:							
2008-2016	24,519	66	24,519	66	24,519	-	-
2017	4,338	4,277	4,277	3,610	3,610	667	61
Total Luna Tech	28,857	4,343	28,796	3,676	28,129	667	61
Total schools	5,041,470	1,074,804	4,993,896	1,041,604	4,960,696	33,200	47,574
State of New Mexico Treasurer:							
State of New Mexico:							
2008-2016	1,694,730	31,252	1,690,582	29,571	1,688,902	1,681	4,148
2017	220,258	212,913	212,913	207,168	207,167	5,745	7,345
Total State of New Mexico	1,914,988	244,165	1,903,495	236,739	1,896,069	7,426	11,493
Cattle Levy:							
2008-2016	1,322,202	3,446	1,321,964	3,302	1,321,820	144	238
2017	199,710	193,655	193,655	183,043	183,043	10,612	6,055
Total cattle levy	1,521,912	197,101	1,515,619	186,345	1,504,863	10,756	6,293
Sheep/Goat Levy:							
2008-2016	154	-	154	-	154	-	-
2017	9	9	9	8	8	1	-
Total sheep/goat levy	163	9	163	8	162	1	-
Equine Levy:							
2008-2016	6,375	28	6,365	28	6,365	-	10
2017	1,076	1,033	1,033	988	988	45	43
Total equine levy	7,451	1,061	7,398	1,016	7,353	45	53
Bison Levy:							
2008-2016	175	-	175	-	175	-	-
2017	19	19	19	19	19	-	-
Total bison levy	194	19	194	19	194	-	-
Total State of New Mexico Treasurer	3,444,708	442,355	3,426,869	424,127	3,408,641	18,228	17,839
Special District:							
Ute Creek Soil & Water:							
2008-2016	5,460	7	5,453	7	5,453	-	7
2017	1,032	1,026	1,026	999	999	27	6
Total Ute Creek soil & water	6,492	1,033	6,479	1,006	6,452	27	13
Grand Total	$ 28,528,824	$ 4,017,643	$ 28,329,685	$ 3,953,918	$ 28,265,960	$ 63,725	$ 199,139

JOINT COMMUNICATIONS

Participants – County of Union, Town of Clayton and Clayton Consolidated School District.

Party responsible for operations – Town of Clayton.

Description – The joint powers agreement was established between the governments for the purpose of establishing, operating, and maintaining a consolidated communications center for the joint use and benefit of the governments.

Beginning dates and ending dates of JPA – The current agreement began on July 1, 2009, and was updated on November 16, 2011. The agreement is perpetual, unless terminated by one of the participants.

Total estimated amount of the project and portion applicable to the county – The total estimated cost of the joint communication operations is $265,000. The County's share of the joint communications expenses is $84,465.

Amount the county contributed during the current fiscal year – $84,464

Audit responsibility – Town of Clayton.

Name of government where revenues and expenditures are reported – Town of Clayton.

EMERGENCY MANAGER POSITION

Participants – County of Union and the Town of Clayton.

Party responsible for operations – County of Union.

Description – The joint powers agreement was established between the governments for the purpose of creating a position of emergency manager, who is to manage the mitigation of, preparedness for, response and recovery from disaster or major emergencies that occur within the County and the Town.

Beginning dates and ending dates of JPA – The current agreement was signed in December 2017. The agreement is good for one year and renewed in one year increments upon written approval of the Union County Board of Commissioner and Town Council.

Amount the county contributed during the current fiscal year – $25,311.

Audit responsibility – County of Union.

Name of government where revenues and expenditures are reported – County of Union.

ADDITIONAL INDEPENDENT AUDITORS' REPORT

FIERRO & FIERRO, P.A. CERTIFIED PUBLIC ACCOUNTANTS

Ed Fierro, CPA • Rose Fierro, CPA

527 Brown Road • Las Cruces, NM 88005
Bus: (575) 525-0313 • Fax: (575) 525-9708
www.fierrocpa.com

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*

Independent Auditors' Report

Wayne Johnson, State Auditor
and
Board of Commissioners
Union County
Clayton, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the discretely presented component unit, each major fund, the aggregate remaining fund information, and the budgetary comparisons of the general fund and major special revenue funds, of Union County (County), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and the combining and individual funds presented as supplementary information, and have issued our report thereon dated November 19, 2018. Our report includes a reference to other auditors who audited the financial statements of Union County General Hospital, as described in our report on the County's financial statements. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting and compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. Our opinion on the governmental activities and the discretely presented component unit was qualified due to the duplication of capital assets owned between the County and the component unit.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2017-001 that we consider to be a material weakness. The other auditors considered the deficiency described in the accompanying schedule of findings and response as item CU 2018-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.* The results of the other auditors tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item CU 2018-002.

The County's Responses to Findings

The County's and the component unit's responses to the findings identified in our and the other auditor's audit are described in the accompanying schedule of findings and responses. The County's and the component unit's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we and the other auditors 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 result of that testing, and not to provide an opinion on the effectiveness of the County'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 County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fierro & Fierro, P.A.

Fierro & Fierro, P.A.
Las Cruces, New Mexico

November 19, 2018

Primary Government

Item 2017-001 – Material Weakness – Duplication Recording and Reporting of Capital Assets

Statement of Condition – In reviewing the capital assets of the County, it was discovered that County has recorded land, buildings and equipment of $3,290,280 for Union County General Hospital (UCGH) operations. This amount includes the costs associated with the renovation of the rural clinic of $1,199,606 that was completed in fiscal year ended June 30, 2017. Union County General Hospital is a component unit of Union County. Upon further review, it was discovered that UCGH has also included the rural clinic in its capital assets for the year ended June 30, 2017. This is a duplication of reporting of capital assets for hospital operations for the renovation of the rural clinic. In September 2018, the County did approve the Sixth Amended Hospital Agreement to address the management of the Rural Clinic; however the capital assets of the rural clinic were not removed from the subsidiary records as presented for audit. Furthermore, the June 30, 2018 capital assets supplement inventory listing was not certified as true and correct.

The County continues to make progress in resolving the finding; however, additional work, such as adjustments in the subsidiary records, needs to be completed in order to fully resolve the issues with County capital assets.

Criteria – New Mexico State Statutes Section 12-6-10 directs the general services department to promulgate regulations to state agencies for the accounting and control of fixed assets owned by government agencies. The New Mexico State Administrative Code, Title 2, Chapter 20, Part 1, *Accounting and Control of Fixed Assets of State Government, Accounting for Acquisitions and Establishing Controls* issued by the general services department, requires that the County implement a systematic and well documented system for accounting of fixed assets.

Effect – The County is not in compliance with New Mexico State Administrative Code 2.20.1. Non-compliance with New Mexico State Statutes and the Administrative Code subjects the governing board and management to penalties and punishment defined by state statute. Inadequate subsidiary capital asset records could allow assets to be lost or stolen, or even miss-recorded. The error for missing or duplicate assets would not necessarily be detected in a timely manner. Further, material variances between the financial statements/general ledger and subsidiary ledgers can occur and the ability to reconcile the variances is quickly lost. The inability to maintain adequate subsidiary capital assets has contributed to the modified opinion on the government-wide activities of the County.

Cause – Concerning the rural clinic, there was a conjecture that Union County General Hospital would assume responsibility for the operations of the rural clinic. The County did not follow through on documenting board-approved action to transfer to UCGH, capital assets purchased by the County, for the renovation of the rural clinic.

Recommendation – We recommend that the County formal meet with the financial staff of Union County General Hospital to eliminate the duplicate reporting of capital assets. Once the assets have been identified, the removal and transfer of capital assets, as deemed appropriate, should go through board resolution. Procedures should be established to ensure that all capital assets purchased with County funds, including but not limited to, mill levy funds, for the intention and use of the Hospital be transferred immediately upon delivery.

Primary Government (continued)

Item 2017-001 – Material Weakness – Duplication
Recording and Reporting of Capital Assets (continued)

Recommendation (continued) – Such procedures should ensure compliance with the state statutes that govern disposition of tangible personal property. Furthermore, it is recommended that the County review the capital assets listing and work with the software provider to clear miscalculations from its records. Annually, the capital asset supplement inventory listing must be certified by management.

Views of Responsible Officials and Planned Corrective Actions – The Union County Board of commissioners approved the sixth Amended and Restated Hospital Agreement at the September 11, 2018 meeting. The agreement clarifies the real property to be transferred to Clayton Health systems to operate and maintain the Rural Health Clinic as a part of the Union County General Hospital. The capital asset items in the hospital department on the Union County capital assets listing will be removed by the County Manager by December 31, 2018.

Component Unit

Finding CU 2018-001 – Material Weakness – Debt Accounting

Statement of 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 that show all activity.

Management's 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 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.

Component Unit (continued)

Finding CU 2018-001 – Material Weakness – Debt Accounting (continued)

Estimated Timeline to Correct – Will begin immediately.

Responsible Official – UCGH Chief Financial Officer.

Finding CU 2018-002 – Compliance and Other Matters – No Approval Over Annual Inventory

Statement of Condition – During our capital asset test work, we noted that a year-end physical inventory count for all capital assets was not done. Thus, there was no capital asset inventory count that 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 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's 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.

PRIOR YEAR'S AUDIT FINDINGS

Primary Government

Item 2016-02 – Other Non-Compliance – Balanced Original Budget – Resolved.

Item 2017-001 – Material Weakness – Duplication Recording and Reporting of Capital Assets – Repeated.

Component Unit

None.

EXIT CONFERENCE

The audit report for the fiscal year ended June 30, 2018, was discussed during the exit conference held on November 30, 2018 in Clayton, New Mexico. Present for Union County was Justin Bennett, county commission chairman; Angie Gonzales, county manager; Brandy Thompson, county treasurer and Frankie Aragon, county assessor. Present for Union County General Hospital was Judith Cooper, board president, Tammie Stump, chief executive officer and Melissa Prante, chief financial officer. Present for the auditing firm was Dominic Fierro.

The component unit's audit report for the fiscal year ended June 30, 2018, was discussed during an exit conference held on October 15, 2018. Present for Union County General Hospital was Judith Cooper, board president; Craig Reeves, board member; Tammie Stump, chief executive officer; Steve Bishop, interim chief financial officer. Present for the auditing firm of Ricci & Company was Dock Livingston, CPA, manager.

PREPARATION OF FINANCIAL STATEMENTS

The auditing firm of Fierro & Fierro, P.A., Certified Public Accountants, prepared the financial statements of Union County as of June 30, 2018. The County’s upper management has reviewed and approved the financial statements and related notes, and they believe the County’s books and records adequately support them.