Roosevelt County Special Hospital District doing business as Roosevelt General Hospital

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2018 and 2017

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
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INTRODUCTORY SECTION

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Governing Board and Principal Employees
June 30, 2018

Board of Trustees

Paul Benoit	President
Doug Stone	Secretary/Treasurer
Jenny Clemmons	Trustee
Scott Reeves	Trustee
Robin Inge	Trustee

Principal Employees

Kaye Green	Chief Executive Officer
Bill Boyer	Chief Financial Officer
Mercedes Lopez	Chief Nursing Officer

FINANCIAL SECTION

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Trustees
and Management of Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital,
and Mr. Wayne Johnson, New Mexico State Auditor
Portales, New Mexico

Report on the Financial Statements

We have audited the accompanying financial statements of Roosevelt County Special Hospital District doing business as Roosevelt General Hospital (the District) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents. We have also audited the schedule of revenues and expenses – budget to actual of the District for the year ended June 30, 2018, presented as supplemental information as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and 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 auditors' 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 auditors consider 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the District as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years 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 schedule of revenues and expenses – budget to actual of the District for the year ended June 30, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has not presented 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the District's basic financial statements as a whole and schedule of revenues and expenses – budget to actual. The schedule of pledged collateral, schedule of individual deposit and investment accounts, and indigent care cost and funding report are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2018, on our consideration of the District'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 for the year ended June 30, 2018. We issued a similar report for the year ended June 30, 2017, dated July 27, 2018, which has not been included with the 2018 financial and compliance report. The purpose of those reports 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 3, 2018

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Statements of Net Position
June 30, 2018 and 2017

ASSETS		**2018**		**2017**
Current assets				
Cash and cash equivalents	**$**	**1,489,816**	$	3,986,307
Patient accounts receivable, net of estimated uncollectible accounts		**2,610,228**		2,850,912
Safety net care pool receivable		**669,729**		168,513
Estimated third-party payor settlement receivable		**-**		54,008
Taxes receivable		**242,065**		268,931
Other receivable		**12,000**		35,125
340B contract pharmacy receivable		**78,325**		-
Inventories		**986,015**		768,876
Prepaid expenses		**153,740**		57,336
Total current assets		**6,241,918**		8,190,008
Noncurrent assets				
Cash and cash equivalents, restricted as to use		**1,114,908**		1,094,786
Capital assets, net		**9,739,788**		9,949,254
Total noncurrent assets		**10,854,696**		11,044,040
Total assets	**$**	**17,096,614**	$	19,234,048

See accompanying notes to basic financial statements.

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Statements of Net Position (Continued)
June 30, 2018 and 2017

LIABILITIES AND NET POSITION	**2018**	**2017**
Current liabilities		
Current maturities of long-term debt and capital lease obligations	**$ 1,426,043**	$ 1,507,331
Accounts payable	**1,341,665**	590,428
Accrued compensation and related liabilities	**967,203**	1,065,928
Compensated absences	**704,925**	628,454
Accrued interest payable	**9,496**	13,785
Total current liabilities	**4,449,332**	3,805,926
Noncurrent liabilities		
Long-term debt and capital lease obligations, net of current maturities	**1,188,861**	2,614,909
Total liabilities	**5,638,193**	6,420,835
Net position		
Net investment in capital assets	**7,115,388**	5,813,229
Restricted	**1,114,908**	1,094,786
Unrestricted	**3,228,125**	5,905,198
Total net position	**11,458,421**	12,813,213
Total liabilities and net position	**$ 17,096,614**	$ 19,234,048

See accompanying notes to basic financial statements.

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	2018	2017
Operating revenues		
Net patient service revenue	**$ 23,510,479**	$ 24,618,530
Safety net care pool	**2,082,728**	1,851,010
Electronic health records incentive (payback)	**(67,508)**	383,917
Grants	**359,557**	359,411
Other	**482,920**	210,808
Total operating revenues	**26,368,176**	27,423,676
Operating expenses		
Salaries and wages	**14,674,762**	14,436,035
Employee benefits	**1,890,147**	1,892,074
Professional fees	**1,325,855**	943,099
Purchased services	**3,420,027**	3,189,518
Supplies	**3,837,365**	3,426,099
Utilities	**429,134**	428,884
Repairs and maintenance	**712,045**	472,370
Leases and rentals	**311,166**	407,734
Depreciation and amortization	**1,482,695**	1,457,872
Insurance	**393,956**	421,246
Other	**781,980**	812,282
Total operating expenses	**29,259,132**	27,887,213
Operating loss	**(2,890,956)**	(463,537)
Nonoperating revenues (expenses)		
Gross receipts tax revenue	**1,528,013**	1,524,581
Interest income	**17,035**	8,405
Interest expense	**(212,055)**	(237,018)
Total nonoperating revenues, net	**1,332,993**	1,295,968
Excess of revenues (expenses) before gain on insurance settlement	**(1,557,963)**	832,431
Gain on insurance settlement	**203,171**	-
Change in net position	**(1,354,792)**	832,431
Net position, beginning of year	**12,813,213**	11,980,782
Net position, end of year	**$ 11,458,421**	$ 12,813,213

See accompanying notes to basic financial statements.

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Receipts from and on behalf of patients	**$ 25,331,483**	$ 26,190,859
Receipts from grants	**359,557**	359,411
Receipts from other revenue	**482,920**	210,808
Electronic health records incentive (payback)	**(67,508)**	383,917
Payments to and on behalf of employees	**(16,587,163)**	(16,485,548)
Payments to suppliers and contractors	**(10,773,834)**	(9,769,208)
Net cash provided by (used in) operating activities	**(1,254,545)**	890,239
Cash flows from capital and related financing activities		
Principal payments on long-term debt and capital lease obligations	**(1,507,336)**	(1,460,034)
Interest paid	**(216,344)**	(232,557)
Purchase of capital assets	**(1,273,229)**	(244,246)
Proceeds from insurance settlement	**203,171**	-
Receipts from gross receipts tax proceeds	**1,554,879**	1,484,438
Net cash used in capital and related financing activities	**(1,238,859)**	(452,399)
Cash flows from investing activities		
Interest received	**17,035**	8,405
Net increase (decrease) in cash and cash equivalents	**(2,476,369)**	446,245
Cash and cash equivalents, beginning of year	**5,081,093**	4,634,848
Cash and cash equivalents, end of year	**$ 2,604,724**	$ 5,081,093

See accompanying notes to basic financial statements.

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	**$ 1,489,816**	$ 3,986,307
Cash and cash equivalents, restricted as to use	**1,114,908**	1,094,786
Total cash and cash equivalents	**$ 2,604,724**	$ 5,081,093
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	**$ (2,890,956)**	$ (463,537)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization	**1,482,695**	1,457,872
Provision for bad debts	**1,414,067**	4,728,143
Decrease (increase) in assets:		
Receivables:		
Patient accounts	**(1,150,258)**	(5,118,168)
Safety net care pool	**(501,216)**	173,708
Estimated third-party payor settlement	**54,008**	121,636
340B contract pharmacy	**(78,325)**	-
Inventories	**(217,139)**	63,850
Prepaid expenses	**(96,404)**	42,401
Increase (decrease) in liabilities:		
Accounts payable	**751,237**	225,773
Accrued compensation and related liabilities	**(98,725)**	227,983
Compensated absences	**76,471**	(385,422)
Patient refunds	**-**	(184,000)
Net cash provided by (used in) operating activities	**$ (1,254,545)**	$ 890,239

Noncash Investing, Capital, and Financing Activities

During the years ended June 30, 2018 and 2017, the District entered into capital lease obligations in the amounts of $-0- and $36,368, respectively, to finance the purchase of various pieces of medical and office equipment.

The District directly financed equipment in the amount of $186,815 during the year ended June 30, 2017.

See accompanying notes to basic financial statements.

1. Reporting Entity, Related Organizations, and Summary of Significant Accounting Policies:

a. Reporting Entity

Roosevelt County Special Hospital District doing business as Roosevelt General Hospital (the District) operates a 24-bed hospital and rural health clinic in Portales, New Mexico. The District also operates a clinic in Melrose, New Mexico. The District provides inpatient, outpatient, physician, and counseling services for Roosevelt County, New Mexico residents.

Five Roosevelt County full-time residents are elected as hospital board members in accordance with the New Mexico Hospital Special District Act and New Mexico law.

b. Related Organizations

RGH Foundation Inc. – RGH Foundation Inc. (the Foundation) is a separate nonprofit corporation. The Foundation was organized to solicit and accept charitable contributions in order to provide support to the District. The Foundation's financial position is not material to the District and has not been included in these financial statements.

Roosevelt General Hospital Auxiliary Inc. – The Roosevelt General Hospital Auxiliary Inc. (the Auxiliary) is a separate nonprofit corporation. The Auxiliary runs the gift shop located in the District and is authorized by the District to solicit contributions on its behalf. The Auxiliary's financial position is not material to the District and has not been included in these financial statements.

c. Summary of Significant Accounting Policies

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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those estimates.

Enterprise fund accounting – The District's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include business checking accounts maintained with local financial institutions, cash on hand, and investments in highly liquid debt instruments with an original maturity of three months or less.

Inventories – Inventories consist of medical, pharmaceutical, and dietary supplies, and are stated at the lower of cost (using the first-in, first-out method) or market value.

Prepaid expenses – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

Assets restricted as to use – Assets restricted as to use include assets held by the New Mexico Finance Authority (NMFA) for debt service and debt service reserve.

1. Reporting Entity, Related Organizations, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued)

Compensated absences – The District's employees earn paid days off at varying rates, depending on years of service. Paid days off earned, but not used, are paid upon termination.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*.

Operating revenues and expenses – The District's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District's principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Grants and contributions – From time to time, the District receives grants from the state and others as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Grants that are unrestricted, or that are restricted to a specific operating purpose, are reported as operating revenues. Grants that are used to subsidize operating deficits are reported as nonoperating revenues. Contributions and amounts restricted for capital acquisitions are reported after nonoperating revenues and expenses.

Budgets and budgetary accounting – Prior to the beginning of each fiscal year, an accrual basis budget for the District is prepared by the District's management and is presented to the Board of Trustees for approval. Upon approval, the budget is sent to the State of New Mexico Department of Finance and Administration (DFA) for tentative approval. Final approval is granted after the beginning of the fiscal year when the fund balances for the prior year are known. Expenditures cannot legally exceed the total fund budget. Any budget amendments are approved by the Board of Trustees and sent to the DFA for approval. Budgeted amounts may be transferred between departments within a fund; however, any revisions that alter the total expenditures of a fund must be approved by the DFA.

Reclassifications – Certain reclassifications have been made to the 2017 financial statements to conform with the classifications used in the 2018 financial statements with no effect on previously reported change in net position.

1. Reporting Entity, Related Organizations, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements – In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires a government entity with legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The determination of when a liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event obligating a government entity to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The new guidance is effective for the District’s year ending June 30, 2019, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending June 30, 2021, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In March 2018, the GASB issued Statement No. 88*, Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the District’s year ending June 30, 2019, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption

1. Reporting Entity, Related Organizations, and Summary of Significant Accounting Policies (continued):

c. Summary of Significant Accounting Policies (continued)

Subsequent events – Subsequent events have been reviewed through October 3, 2018, the date on which the financial statements were available to be issued.

2. Deposits and Investments:

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it.

The District's deposits are covered by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 at each financial institution. In accordance with Section 6-10-17 NMSA 1978 Compilation, the District is required to collateralize an amount equal to one-half of the public money in excess of $250,000 at each financial institution.

Of the District's total deposits of $2,975,762 and $5,338,536 at June 30, 2018 and 2017, respectively, all deposits were insured and collateralized, and therefore were not subject to custodial credit risk.

Statutes authorize the District to invest in obligations of the United States Treasury, agencies and instrumentalities, commercial paper, and bankers' acceptances.

The District's certificates of deposit matured on November 28, 2017, and were not renewed.

Fair value – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's certificates of deposit are valued using quoted market prices (Level 2 input).

The pledged collateral for the funds held by the NMFA (see Note 3) is unavailable because the bank commingles pledged collateral for all state funds it holds. However, the Office of the State Treasurer's collateral bureau monitors pledged collateral for all state funds held by state agencies in such authorized bank accounts.

3. Cash and Cash Equivalents Restricted as to Use:

The composition of cash and cash equivalents restricted as to use was as follows:

		2018		2017
Restricted under New Mexico Finance Authority loan agreement for debt service, held by trustee	**$**	**582,028**	$	558,691
Restricted under New Mexico Finance Authority loan agreement for debt reserve, held by trustee		**532,880**		536,095
Total cash and cash equivalents restricted as to use	**$**	**1,114,908**	$	1,094,786

4. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District’s allowance for uncollectible accounts for self-pay patients has not changed significantly from the prior year. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

4. Patient Accounts Receivable (continued):

Patient accounts receivable reported as current assets by the District consisted of these amounts:

		2018		2017
Receivable from patients and their insurance carriers	**$**	**5,870,943**	$	5,763,133
Receivable from Medicare		**371,613**		407,892
Receivable from Medicaid		**290,672**		305,560
Total patient accounts receivable		**6,533,228**		6,476,585
Less allowance for uncollectible accounts		**3,923,000**		3,625,673
Net patient accounts receivable	**$**	**2,610,228**	$	2,850,912

5. Insurance Settlement:

During the year ended June 30, 2018, the District determined there was sufficient evidence of impairment due to hail damage to write down the reported value of the roof recorded by the District. The net book value of the roof at the time of the incident was $-0-, as it was fully depreciated. Insurance proceeds of $203,171 were recognized during the year ended June 30, 2018, as a result of this claim.

6. Capital Assets:

The District capitalizes assets whose costs exceed $5,000 and whose estimated useful life is at least two years. Capital asset acquisitions are recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated or amortized (in the case of capital leases) by the straight-line method of depreciation using these asset lives:

Land improvements	5 to 25 years
Buildings and improvements	5 to 30 years
Equipment	2 to 25 years

6. Capital Assets (continued):

Capital asset additions, retirements, transfers, and balances were as follows:

	2018				
	Beginning Balance	**Additions**	**Retirements**	**Transfers**	**Ending Balance**
Capital assets not being depreciated					
Construction in progress	$ -	$ 454,285	$ -	$ -	**$ 454,285**
Land	538,356	-	-	-	**538,356**
Total capital assets not being depreciated	538,356	454,285	-	-	**992,641**
Capital assets being depreciated					
Land improvements	396,376	-	-	-	**396,376**
Buildings and improvements	8,648,808	129,469	-	-	**8,778,277**
Equipment	16,046,651	689,475	(161,084)	-	**16,575,042**
Total capital assets being depreciated	25,091,835	818,944	(161,084)	-	**25,749,695**
Less accumulated depreciation for					
Land improvements	(357,054)	(2,031)	-	-	**(359,085)**
Buildings and improvements	(4,321,307)	(311,890)	-	-	**(4,633,197)**
Equipment	(11,002,576)	(1,168,774)	161,084	-	**(12,010,266)**
Total accumulated depreciation	(15,680,937)	(1,482,695)	161,084	-	**(17,002,548)**
Total capital assets being depreciated, net	9,410,898	(663,751)	-	-	**8,747,147**
Capital assets, net of accumulated depreciation	**$ 9,949,254**	**$ (209,466)**	**$ -**	**$ -**	**$ 9,739,788**

6. Capital Assets (continued):

	2017				
	Beginning Balance	**Additions**	**Retirements**	**Transfers**	**Ending Balance**
Capital assets not being depreciated					
Land	$ 538,356	$ -	$ -	$ -	**$ 538,356**
Total capital assets not being depreciated	538,356	-	-	-	**538,356**
Capital assets being depreciated					
Land improvements	396,376	-	-	-	**396,376**
Buildings and improvements	8,648,808	-	-	-	**8,648,808**
Equipment	15,593,541	453,110	-	-	**16,046,651**
Total capital assets being depreciated	24,638,725	453,110	-	-	**25,091,835**
Less accumulated depreciation for					
Land improvements	(354,787)	(2,267)	-	-	**(357,054)**
Buildings and improvements	(4,008,687)	(312,620)	-	-	**(4,321,307)**
Equipment	(9,859,591)	(1,142,985)	-	-	**(11,002,576)**
Total accumulated depreciation	(14,223,065)	(1,457,872)	-	-	**(15,680,937)**
Total capital assets being depreciated, net	10,415,660	(1,004,762)	-	-	**9,410,898**
Capital assets, net of accumulated depreciation	**$ 10,954,016**	**$ (1,004,762)**	**$ -**	**$ -**	**$ 9,949,254**

7. Noncurrent Liabilities:

A schedule of changes in the District's noncurrent liabilities follows:

	2018				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
NMFA hospital facility direct loan	$ 1,400,000	$ -	$ (440,000)	$ 960,000	$ 465,000
NMFA medical office facility direct loan	158,088	-	(51,146)	106,942	52,681
Roosevelt County Electric Cooperative (RCEC) loan	214,402	-	(65,229)	149,173	65,885
RCRTC loan no. 112012	209,483	-	(65,438)	144,045	66,095
LEAF Finance Agreement	172,496	-	(59,467)	113,029	63,135
Capital lease obligations	1,967,771	-	(826,056)	1,141,715	713,247
Compensated absences	628,454	690,467	(613,996)	704,925	704,925
Total noncurrent liabilities	**$ 4,750,694**	**$ 690,467**	**$ (2,121,332)**	**$ 3,319,829**	**$ 2,130,968**

	2017				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
NMFA hospital facility direct loan	$ 1,820,000	$ -	$ (420,000)	$ 1,400,000	$ 440,000
NMFA medical office facility direct loan	207,745	-	(49,657)	158,088	51,146
Roosevelt County Electric Cooperative (RCEC) loan	278,983	-	(64,581)	214,402	65,230
RCRTC loan no. 112012	274,270	-	(64,787)	209,483	65,438
LEAF Finance Agreement	-	186,815	(14,319)	172,496	59,467
Capital lease obligations	2,792,412	36,368	(861,009)	1,967,771	826,050
Compensated absences	703,510	1,185,183	(1,260,239)	628,454	628,454
Total noncurrent liabilities	**$ 6,076,920**	**$ 1,408,366**	**$ (2,734,592)**	**$ 4,750,694**	**$ 2,135,785**

At June 30, 2018, the capitalized costs and accumulated depreciation of the capital lease obligations were $3,972,989 and $1,557,511, respectively.

At June 30, 2017, the capitalized costs and accumulated depreciation of the capital lease obligations were $3,972,989 and $1,074,230, respectively.

7. Noncurrent Liabilities (continued):

Below are the original amounts, terms, amounts due within one year, and maturity dates of the District's outstanding long-term debt:

Debt Instrument	Original Amount	Interest Rate	Payment Frequency	Payment Amount	Maturity Date	Due Within One Year
NMFA hospital facility direct loan	$ 6,115,000	5.5% to 5.61%	annual	$ varies	5/1/2020	$ 465,000
NMFA medical office facility direct loan	814,469	3%	annual	varies	5/1/2020	52,681
RCEC loan	500,000	1%	monthly	5,590	9/1/2020	65,885
RCRTC loan no. 112012	470,000	1%	monthly	5,603	8/20/2020	66,095
LEAF finance agreement	186,815	6%	monthly	5,683	3/15/2020	63,135
Celtic EMR capital lease no. 1	2,055,378	11%	monthly	38,625	8/1/2019	376,820
Toshiba capital lease no. 1	460,500	4%	monthly	8,625	6/25/2020	96,943
Toshiba capital lease no. 2	59,500	6%	monthly	1,134	3/25/2020	12,662
Toshiba capital lease no. 3	999,419	5%	monthly	18,692	10/25/2020	205,699
Toshiba capital lease no. 4	102,544	5%	monthly	1,917	9/25/2020	21,123
						$ 1,426,043

Sections 7-20C-1 and 7-1-6.13 NMSA 1978 authorize the District to issue revenue bonds and borrow funds from NMFA and secure the bonds and loans with the Gross Receipts Tax (GRT) revenue and any resulting equipment purchased with the funds received from issuing the bonds. The District participates in an intercept agreement with NMFA through which a certain portion of the District's monthly GRT receipts are paid directly to the NMFA and held in escrow to fund the annual principal and semiannual interest payments due to the state agency.

Scheduled future annual payments on the District's long-term debt and capital lease obligations payable are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 1,426,043	$ 143,069	$ 1,569,112
2020	1,081,177	45,330	1,126,507
2021	107,684	42	107,726
	$ 2,614,904	**$ 188,441**	**$ 2,803,345**

The District entered into two loan agreements with the NMFA, dated December 21, 1999, in the original amounts of $6,115,000 and $814,469, for the construction of a hospital and medical office buildings. The notes are due in annual installments, including varying interest rates, through May 1, 2020.

The NMFA loan agreements require that the District have a coverage ratio of 120 percent. The coverage ratio requires the sum of pledged revenue, which consists of all gross tax receipts revenue, to be 120 percent of the maximum aggregate annual debt service requirement. The District met this requirement as of June 30, 2018.

8. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients and the deductible and coinsurance portion of payments due from beneficiaries in the period the services are provided. The District has not changed its charity care or uninsured discount policies during fiscal years 2018 or 2017. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2018	2017
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	**$ 4,680,385**	$ 6,583,934
Medicaid	**6,845,036**	7,389,612
Other third-party payors	**9,627,388**	12,142,339
Patients	**3,590,091**	3,938,271
340B contract pharmacy	**702,330**	-
	25,445,230	30,054,156
Less:		
Charity care	**520,684**	707,483
Provision for bad debts	**1,414,067**	4,728,143
Net patient service revenue	**$ 23,510,479**	$ 24,618,530

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

- *Medicare* – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

- *Medicaid/Centennial Care* – The state of New Mexico (the State) administers its Medicaid program through contracts with several managed care organizations (MCOs). Medicaid beneficiaries are required to enroll with one of the MCOs. The State pays each MCO a per-member, per-month rate based on their current enrollment. These amounts are allocated by each MCO to separate pools for the hospital, physicians, and ancillary providers. As a result, the MCOs assume the financial risk of providing healthcare to its members.

8. Net Patient Service Revenue (continued):

- *Medicaid/Centennial Care (continued)* – Though the District contracts with MCOs, inpatient acute care services and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge and discounted fee schedules. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

The District also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily 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. The net patient service revenue decreased approximately $-0- and $46,000 for the years ended June 30, 2018 and 2017, respectively, due to differences between original estimates and final settlements or revised estimates.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District’s policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended June 30, 2018 and 2017, were approximately $219,000 and $269,000, respectively.

9. Safety Net Care Pool:

The District receives funding for uncompensated care costs through the state of New Mexico’s safety net care pool program. The District receives interim quarterly payments subject to settlements based on actual uncompensated care costs. The District estimates the settlement amounts for each calendar year. There is a reasonable possibility that recorded estimates will change by a material amount.

10. Gross Receipts Tax Revenue:

The District receives the proceeds of a ½ cent Local Hospital Gross Receipts Tax (GRT) imposed by Roosevelt County (the County) pursuant to Local Hospital GRT, Section 7-20C-1 through 7-20C-17 New Mexico Laws 1997, Chapter 54, Section 2, Section 7-20C-3.A(3), and County Ordinance 99-5, and distributed pursuant to Sections 7-20C-6, 7-1-6.1 and 7-1-6.3, NMSA 1978. The ½ cent gross receipts tax is set to expire in June 2037.

The District received a share of GRT collected by the County, approximating $1,528,000 and $1,525,000 in 2018 and 2017, respectively.

11. Retirement Plans:

The District has a deferred compensation plan created in accordance with Internal Revenue Code §457. The name of the plan is Roosevelt General Hospital 457(b) Plan (the 457(b) Plan). Substantially all employees are eligible. Employees may contribute from 1 percent to 15 percent of their annual compensation to the plan, limited to a maximum annual amount set by the Internal Revenue Service. Employee contributions were approximately $312,000 and $300,000 during the years ended June 30, 2018 and 2017, respectively.

The District provides a 401(a) profit-sharing pension plan for all employees that are at least part-time employees and benefit-eligible, after 90 days of service. The name of the plan is Roosevelt General Hospital 401(a) profit-sharing plan and trust (the 401(a) Plan). The District matches up to 5 percent of employee's contributions when the employee elects to contribute 7 percent of their annual compensation. Employees are vested in the matching contributions at a rate of 50 percent after three years of employment, and 100 percent after five years of employment. The District's contributions to the 401(a) Plan were approximately $213,000 and $155,000 for the years ended June 30, 2018 and 2017, respectively.

The plans are administered by the District. The District has the authority to amend the plans.

12. Electronic Health Records Incentive Payment:

The District recognized a Medicare electronic health records (EHR) incentive payment during the years ended June 30, 2018 and 2017. The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology. EHR incentive payments are reported as operating revenue. The Medicare incentive payment of $383,917 was recognized in the year ended June 30, 2017. In 2018, the District paid back $67,508 toward the program as a result of final settlements.

13. Contingencies:

Risk management – The District 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; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Medical malpractice claims – The District is insured with a commercial insurance company for medical malpractice under a policy written on a self-insured retention of $25,000 per occurrence. Coverage is limited to $1,000,000 per occurrence and a $3,000,000 annual aggregate. Should the claims-made policy not be renewed, or be replaced with equivalent insurance, claims based on occurrences during its term but reported subsequently will be uninsured. Management intends to continue claims-made coverage.

Litigation – The District is occasionally involved in litigation arising in the course of business. Management estimates that these matters will be resolved without a material adverse effect on the District's future financial position or results of operations.

13. Contingencies (continued):

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. 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. Management believes that the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

14. Concentration of Risk:

Patient accounts receivable – The District receives payment for services rendered from federal and state agencies, private insurance carriers, employers, managed care programs, and patients. The majority of these patients are geographically concentrated in and around Roosevelt County. The mix of receivables from patients and third-party payors was as follows:

	2018	2017
Medicare	**20 %**	25 %
Medicaid	**12**	13
Patients	**40**	36
Commercial and other	**28**	26
	100 %	100 %

Physicians – The District is dependent on local physicians in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or a change in their utilization patterns may have an adverse effect on the District's operations.

15. Subsequent Event:

In July 2018, the District was issued a $618,938 loan from the USDA for capital expenditures. The loan is to be paid in monthly installments of approximately $5,400 over a ten-year period.

SUPPLEMENTAL INFORMATION

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Pledged Collateral
June 30, 2018

		JP Stone Community Bank
Deposits at June 30, 2018	$	1,860,854
Less: FDIC coverage		(250,000)
Uninsured public funds		1,610,854
Pledged collateral held by the pledging bank's trust department or agent, but not in the District's name		2,976,948
Total uninsured and uncollateralized public funds	$	(1,366,094)
50 percent pledged collateral requirement per statute	$	805,427
Total pledged collateral		2,976,948
Pledged collateral over the requirement	**$**	**2,171,521**

Pledged collateral at June 30, 2018, consists of the following:

JP Stone Community Bank		**Fair Value**
FHLB QTRLY CALL STEP - 3130A7ZL2	$	937,222
FHLB QTRLY CALL STEP - 3130A9RN3		479,272
FHLB QTRLY CALL STEP - 3134G9UP0		919,003
FNMA QTRLY CALL STEP - 3136G3PW9		641,451
Total pledged securities	**$**	**2,976,948**

The custodian of the pledged securities is the Independent Bankers Bank – Dallas, Texas.

See accompanying independent auditors' report.

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Individual Deposit and Investment Accounts
June 30, 2018

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Other Reconciling Items	Book Balance
Deposit Accounts							
JP Stone Community Bank	Operating account	Interest bearing checking	$ 1,138,246	$ 1,933	$ (323,590)	$ (7,064)	$ 809,525
JP Stone Community Bank	Payroll account	Interest bearing checking	403,148	-	(27,821)	-	375,327
JP Stone Community Bank	Physician's Clinic account	Interest bearing checking	230,216	6,696	(642)	(22,699)	213,571
JP Stone Community Bank	Grants account	Interest bearing checking	925	-	-	-	925
JP Stone Community Bank	Cash reserves	Savings	88,319	-	-	(51)	88,268
Cash on hand	Petty cash	Petty cash	2,200	-	-	-	2,200
New Mexico Finance Authority	Debt service	Money Market	582,028	-	-	-	582,028
New Mexico Finance Authority	Debt reserve	Money Market	532,880	-	-	-	532,880
Total deposits and investments			**$ 2,977,962**	**$ 8,629**	**$ (352,053)**	**$ (29,814)**	**$ 2,604,724**

See accompanying independent auditors' report.

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Indigent Care Cost and Funding Report
Year Ended June 30, 2018

			For the year ended June 30,		
			2018	**2017**	**2016**
A	**Funding for Indigent Care**				
	A1	State appropriations specified for indigent care	$ -	$ -	$ -
	A2	County indigent funds received	-	-	-
	A3	Out of county indigent funds received	-	-	-
	A4	Payments and copayments received from uninsured patients qualifying for indigent care	-	-	-
	A5	Reimbursement received for services provided to patients qualifying for coverage under EMSA	-	-	-
	A6	Charitable contributions received from donors that are designated for funding indigent care	-	-	-
		Other sources			
	A7	Other source 1 (if applicable)	-	-	-
		Total Funding for Indigent Care	-	-	-
B	**Cost of Providing Indigent Care**				
		Total cost of care for providing services to:			
	B1	Uninsured patients qualifying for indigent care	218,687	268,989	266,990
	B2	Patients qualifying for coverage under EMSA	-	-	-
	B3	Cost of care related to patient portion of bill for insured patients qualifying for indigent care	-	-	-
	B4	Direct costs paid to other providers on behalf of patients qualifying for indigent care	-	-	-
	B5	Other costs of providing indigent care (please specify)			
		Total Cost of Providing Indigent Care	218,687	268,989	266,990
	Shortfall of Funding for Charity Care to Cost of Providing Indigent Care		$ (218,687)	$ (268,989)	$ (266,990)
C	**Patients Receiving Indigent Care Services**				
	C1	Total number of patients receiving indigent care	171	193	155
	C2	Total number of patient encounters receiving indigent care	233	429	280

See accompanying independent auditors' report.

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Indigent Care Cost and Funding Report (Continued)
Year Ended June 30, 2018

	For the year ended June 30,		
	2018	**2017**	**2016**
Uninsured patients qualifying for indigent care			
Charges for these patients	$ 520,684	$ 672,472	$ 667,476
Ratio of cost to charges	42.0%	40.0%	40.0%
Cost for uninsured patients qualifying for indigent care	$ 218,687	$ 268,989	$ 266,990
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)			
Charges for these patients	$ -	$ -	$ -
Ratio of cost to charges	0.0%	0.0%	0.0%
Cost for patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	$ -	$ -	$ -
Cost of care related to patient portion of bill for insured patients qualifying for indigent care			
Indigent care adjustments for these patients	$ -	$ -	$ -
Ratio of cost to charges	0.0%	0.0%	0.0%
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	$ -	$ -	$ -
Direct costs paid to other providers on behalf of patients qualifying for indigent care			
Payments to other providers for care of these patients	$ -	$ -	$ -
	$ -	$ -	$ -

See accompanying independent auditors' report.

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Revenues and Expenses – Budget to Actual
Year Ended June 30, 2018

	Actual	Approved Budget	Variance with Approved Budget - Over (Under)
Revenues			
Net patient service revenue, safety net care pool, and electronic health records incentive payment	**$ 25,525,699**	$ 26,114,240	$ (588,541)
Gross receipts tax revenue	**1,528,013**	1,395,396	132,617
Other revenue	**1,062,683**	891,204	171,479
Total revenues	**28,116,395**	28,400,840	(284,445)
Expenses			
Salaries and wages, and benefits	**16,564,909**	16,434,054	130,855
Other	**12,906,278**	9,986,508	2,919,770
Total expenses	**29,471,187**	26,420,562	3,050,625
Change in net position	**$ (1,354,792)**	$ 1,980,278	$ (3,335,070)

See accompanying independent auditors' report.

DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
and Management of Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital,
and Mr. Wayne Johnson, New Mexico State Auditor
Portales, 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 Roosevelt County Special Hospital District doing business as Roosevelt General Hospital (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 3, 2018. We also audited the schedule of revenues and expenses – budget to actual of the District for the year ended June 30, 2018, presented as supplemental information as listed in the table of contents.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 were not identified. We consider deficiencies 2015-001, 2018-001 and 2018-002 described in the accompanying schedule of findings and responses to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2018-003 and 2018-004.

The District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
October 3, 2018

2015-001 Auditor – Detected Adjustments

[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness

Criteria Timely and accurate information should be available to management and those charged with governance to make decisions. No material adjusting journal entries should be detected by auditors during the audit process.

Condition Material audit adjustments were made to correct the following audit areas with respective net income effects:

- Accounts payable ($326,647)
- Allowance for doubtful accounts ($1,909,046)
- Accrued payroll and compensated absences $402,941
- Various other areas $243,441

The net income effect of all auditor detected journal entries decreased net income by $1,559,311.

The District did not make progress on implementing the corrective action plan from the 2017 audit, because the 2017 audit was not completed until after the 2018 year end.

Context This finding appears to be a *systemic* problem.

Effect There were material errors in the financial statements that were corrected through auditor-proposed adjustments.

Cause The accounts payable liability was understated, as invoices relating to fiscal year 2018 were received in fiscal year 2019, and the District had already closed the accounts payable system. The allowance for doubtful accounts was understated, as the District did not adjust the balance during the year. Accrued payroll and compensated absences were overstated, as they had not been adjusted for year end changes relating to productivity standards and time-off carryover policies.

Recommendation The District should develop review processes to ensure the allowance for doubtful accounts remains accurate throughout the year, and also begin to accrue liabilities at year end that relate to the fiscal year, but are received after. The District should also adjust the accrued payroll and compensated absences liability at year end to account for productivity standards and time-off carryover policies.

Management's Response The Chief Financial Officer will be establishing a routine to calculate the allowance for bad debts on a monthly basis, and complete a journal entry to record the results. An accrual will be made at year end for invoices received after year end, but relating to the fiscal year. The trial balance will be reviewed on a regular basis to help identify miscoding and detect other irregularities on a periodic basis, eliminating significant year end adjustments. These new processes will be implemented in fiscal year 2019.

2018-001 Account Reconciliations

	[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness
Criteria	All balance-sheet accounts should be reconciled to supporting documentation at month end.
Condition	Numerous accounts were not reconciled prior to or during our on-site visit. In addition, numerous reports used during the audit process had not been archived. As a result, a significant number of journal entries were made during the audit to correct the account balances.
Context	This finding appears to be a *systemic* problem.
Effect	There is an increased risk fraudulent activity would not be detected, and inaccurate financial information would be used by management and the Board of Trustees.
Cause	The District had limited accounting staff and experienced turnover in the business office during the year, which did not allow ample time to perform the necessary reconciliations at year end in a timely fashion.
Recommendation	We recommend all balance-sheet accounts be reconciled to supporting documentation each month. We recommend the District develop and use a systematic methodology to monitor all balance-sheet accounts. This methodology should include all accounts, along with who is responsible for reconciling each month and the supporting documentation used in the reconciliation.
Management's Response	Balance-sheet accounts ,including bank accounts, will be reconciled to the general ledger on a monthly basis with adjustments and corrections made as needed which will begin in fiscal year 2019. The Chief Financial Officer is responsible for ensuring the account reconciliations are prepared.

2018-002 Arise Sexual Assault Services

	[ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness
Criteria	There should not be any significant unresolved reconciling items in balance-sheet accounts at month end. The Arise Sexual Assault Services program accounts receivable balance was not reconciled prior to or during our on-site visit.
Condition	The Arise Sexual Assault Services program is maintaining its own accounting records outside of the District's and there is currently no system in place to reconcile the two records on a regular basis. Discrepancies between the two systems existed at year end, as the District is recording revenue on a cash basis while the program is recording revenue on a modified cash basis.
Context	This finding appears to be an *isolated* instance.
Effect	There is an increased risk material misstatements will occur while operating under two different accounting systems without a standard reconciliation process that is followed. Additionally, there is an increased risk material misstatements will occur while recording revenue on a cash basis.
Cause	The District had limited accounting staff during the year which did not allow ample time to perform the necessary reconciliations at year end in a timely fashion.
Recommendation	We recommend only one accounting system be used and that the District move to recording revenue and expenses for the program on an accrual basis.
Management's Response	The Arise Sexual Assault Services record keeping will be done in the Paragon accounting system used by the District. Their activity will be entered into our system by the program director on a regular basis. This eliminates the need for converting the program's accounts to the District's and posting only on a month-end basis. This new process will begin in fiscal year 2019. The Chief Financial Officer is responsible for implementation.

2018-003 State Compliance Audit Requirements – Operating Budget

	[X] Compliance Finding [ ] Significant Deficiency [ ] Material Weakness
Criteria	New Mexico State Audit Rule 2.2.10 J (11) NMAC, requires the District to have its operating budget approved by the state.
Condition	The District did not have its operating budget approved by the state.
Context	This finding appears to be an *isolated* instance.
Effect	The District is not in compliance with the New Mexico state audit rule.
Cause	The District did not follow New Mexico state regulations regarding the approval of operating budgets.
Recommendation	We recommend the District have its operating budget approved by the state annually.
Management's Response	Correspondence was located that posed this issue to the state; interpretation was that only the gross receipts tax funds and capital purchases made with those funds were required to be included in the annual State Budget submitted to Department of Finance and Administration. A 2019 operating budget with Board resolution will be submitted to the state for approval, and quarterly reports will be submitted per Statute by the Chief Financial Officer.

2018-004 State Compliance Audit Requirements – Actual Expenses Exceed Budgeted Expenses

	[X] Compliance Finding [ ] Significant Deficiency [ ] Material Weakness
Criteria	New Mexico State Audit Rule 2.2.10 R (1) NMAC, requires the actual expenses to not exceed budgeted expenses.
Condition	The District's actual expenses exceeded its budgeted expenses by $3,050,625.
Context	This finding appears to be an *isolated* instance.
Effect	The District is not in compliance with the New Mexico state audit rule.
Cause	The District did not amend its budget during the year to ensure it would not exceed budgeted expenses.
Recommendation	We recommend the District amend its operating budget when it is aware circumstances will lead to increased expenses.
Management's Response	With the different interpretation of what budget or budgets the District needs to submit, the District will also include in our procedures to include amending our original budget as needed. This process will begin in fiscal year 2019. The Chief Financial Officer will be responsible for monitoring the budget.

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Prior Audit Findings
Year Ended June 30, 2018

Prior-Year Number	Description	Current Status
2015-001	Auditor-Detected Adjustments	Repeated
2015-002	Control Environment	Resolved
2010-001	Late Submission of Audit Report	Resolved
2017-001	Exit Conference and Related Confidentiality Issues	Resolved
2017-002	Pertaining to Audits of Hospitals	Resolved

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Exit Conference
Year Ended June 30, 2018

An exit conference was held October 3, 2018, with the following individuals to discuss the basic financial statements and results of the audit. The personnel attending this meeting were:

Robin Inge	Board of Trustees Member
Kaye Green	Chief Executive Officer
James Ybarra	Accountant
Sandra Martinez	Accountant
Josh Rettinghouse	Dingus, Zarecor & Associates PLLC

These financial statements were prepared by Dingus, Zarecor & Associates PLLC from records of the District.