

**Roosevelt County
Special Hospital District
doing business as
Roosevelt General Hospital**

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2015 and 2014



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, 2015**

Board of Trustees

Steven Connelly	President
Doug Stone	Secretary/Treasurer
Randy Lieb	Trustee
Paul Benoit	Trustee
Lorraine Goodrich	Trustee

Principal Employees

Kaye Greene	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 year ended June 30, 2015, 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, 2015, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 on the statement of net position as of June 30, 2015.

Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2015.

Basis for Disclaimer of Opinion on 2015 Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows

The predecessor auditor was unable to obtain sufficient appropriate audit evidence on the District's patient accounts receivable, allowance for bad debts, allowance for contractual adjustments, inventories, and accrued payroll taxes and benefits as of June 30, 2014. We were unable to satisfy ourselves regarding these opening balances and net position at July 1, 2014, by means of other auditing procedures. These balances as of July 1, 2014, enter into the determination of change in net position and cash flows for the year ended June 30, 2015.

Disclaimer of Opinion on 2015 Statements of Revenues, Expenses, and Changes in Net Position and Cash Flows

Because of the significance of the matters described in the Basis of Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2015. Accordingly, we do not express an opinion on the statements of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2015.

Opinion

In our opinion, the statement of net position of the District as of June 30, 2015, presents fairly, in all material respects, the net position of the District as of June 30, 2015, 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, 2015, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year (June 30, 2014) Auditor's Report

The financial statements of the District as of and for the year ended June 30, 2014, were audited by JW Anderson & Associates, PC, whose report, dated February 23, 2016, expressed a qualified opinion on those financial statements based on the inability to obtain sufficient appropriate audit evidence relating to the District's balances on patient accounts receivable, allowance for bad debts, allowance for contractual adjustments, inventories, and accrued payroll taxes and benefits.

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 and schedule of revenues and expenses – budget to actual. The schedule of pledged collateral and schedule of individual deposit and investment accounts, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of pledged collateral and schedule of individual deposit and investment accounts 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.

The schedule of vendor information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 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, 2015. JW Anderson & Associates, PC issued a similar report for the year ended June 30, 2014, dated February 23, 2016, which has not been included with the 2015 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
January 25, 2018

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Statements of Net Position
June 30, 2015 and 2014

ASSETS	2015	2014
<i>Current assets</i>		
Cash and cash equivalents	\$ 902,021	\$ 944,560
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$5,903,000 and \$4,994,000, respectively	3,115,007	4,420,095
Safety net care pool receivable	1,339,025	1,052,984
Estimated third-party payor settlement receivable	154,092	501,038
Grants receivable	8,790	-
Taxes receivable	283,769	238,763
Inventories	694,585	1,067,044
Prepaid expenses	86,720	96,632
Total current assets	6,584,009	8,321,116
<i>Noncurrent assets</i>		
Cash and cash equivalents, restricted as to use	1,580,647	1,243,805
Capital assets, net	10,882,671	10,122,360
Total noncurrent assets	12,463,318	11,366,165
Total assets	\$ 19,047,327	\$ 19,687,281

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, 2015 and 2014

LIABILITIES AND NET POSITION	2015	2014
<i>Current liabilities</i>		
Current maturities of long-term debt and capital lease obligations	\$ 1,463,797	\$ 1,319,456
Accounts payable	991,009	753,657
Accrued compensation and related liabilities	1,635,516	1,741,169
Patient refunds	294,000	-
Accrued interest payable	11,328	13,220
Total current liabilities	4,395,650	3,827,502
<i>Noncurrent liabilities</i>		
Long-term debt and capital lease obligations, net of current maturities	4,405,939	5,139,832
Total liabilities	8,801,589	8,967,334
<i>Net position</i>		
Net investment in capital assets	5,001,607	3,649,852
Restricted	1,580,647	1,243,805
Unrestricted	3,663,484	5,826,290
Total net position	10,245,738	10,719,947
Total liabilities and net position	\$ 19,047,327	\$ 19,687,281

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, 2015 and 2014

	2015	2014
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$4,003,140 and \$4,498,710, respectively	\$ 20,918,031	\$ 21,285,350
Safety net care pool	2,508,150	915,128
Electronic health records incentive payment	914,488	-
Grants	148,336	274,501
Other	503,487	435,475
Total operating revenues	24,992,492	22,910,454
<i>Operating expenses</i>		
Salaries and wages	12,708,589	12,830,378
Employee benefits	1,678,197	1,856,719
Professional fees	781,644	447,607
Purchased services	3,222,520	1,938,659
Supplies	3,389,419	2,355,355
Utilities	362,122	339,233
Repairs and maintenance	884,066	722,433
Leases and rentals	737,671	779,784
Depreciation and amortization	1,221,798	874,332
Insurance	409,773	360,026
Other	1,400,128	983,677
Total operating expenses	26,795,927	23,488,203
Operating loss	(1,803,435)	(577,749)
<i>Nonoperating revenues (expenses)</i>		
Gross receipts tax revenue	1,588,305	1,319,620
Interest income	5,101	715
Interest expense	(264,180)	(260,052)
Total nonoperating revenues, net	1,329,226	1,060,283
Change in net position	(474,209)	482,534
Net position, beginning of year	10,719,947	10,237,413
Net position, end of year	\$ 10,245,738	\$ 10,719,947

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, 2015 and 2014

	2015	2014
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 24,792,174	\$ 21,567,666
Receipts from grants	433,546	274,501
Receipts from other revenue	503,487	435,475
Electronic health records incentive	914,488	-
Payments to and on behalf of employees	(14,492,439)	(13,958,809)
Payments to suppliers and contractors	(10,567,620)	(9,179,220)
Net cash provided by (used in) operating activities	1,583,636	(860,387)
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt and capital lease obligations	(698,348)	(489,856)
Interest paid	(455,860)	(261,836)
Purchase of capital assets	(1,683,525)	(400,593)
Receipts from gross receipts tax for capital purposes	1,543,299	1,319,620
Net cash provided by (used in) capital and related financing activities	(1,294,434)	167,335
<i>Cash flows from investing activities</i>		
Purchase of investments	-	43,852
Interest received	5,101	715
Net cash provided by investing activities	5,101	44,567
Net increase (decrease) in cash and cash equivalents	294,303	(648,485)
Cash and cash equivalents, beginning of year	2,188,365	2,836,850
Cash and cash equivalents, end of year	\$ 2,482,668	\$ 2,188,365

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, 2015 and 2014**

	2015	2014
<i>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</i>		
Cash and cash equivalents in current assets	\$ 902,021	\$ 944,560
Cash and cash equivalents, restricted as to use	1,580,647	1,243,805
Total cash and cash equivalents	\$ 2,482,668	\$ 2,188,365
<i>Reconciliation of Operating Loss to Net Cash Provided By (Used in) Operating Activities</i>		
Operating loss	\$ (1,803,435)	\$ (577,749)
<i>Adjustments to reconcile operating loss to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	1,221,798	874,332
Provision for bad debts	4,003,140	4,498,710
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(2,698,052)	(5,216,618)
Safety net care pool	(286,041)	(1,052,984)
Estimated third-party payor settlements	346,946	1,138,080
Grants	(8,790)	-
Inventories	372,459	(549,466)
Prepaid expenses	9,912	(7,047)
Increase (decrease) in liabilities:		
Accounts payable	237,352	(695,933)
Accrued compensation and related liabilities	(105,653)	728,288
Patient refunds	294,000	-
Net cash provided by (used in) operating activities	\$ 1,583,636	\$ (860,387)

Noncash Investing, Capital, and Financing Activities

During the year ended June 30, 2014, the District entered into capital lease obligations in the amount of \$2,679,198 to finance the purchase and implementation of electronic health records software.

During the year ended June 30, 2015, the District entered into capital lease obligations in the amount of \$783,694 to finance the purchase of various pieces of medical equipment.

See accompanying notes to basic financial statements.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements
Years Ended June 30, 2015 and 2014**

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 provider based 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 consolidated in these financial statements.

Roosevelt General Hospital Auxiliary, Inc. – The Roosevelt General Hospital Auxiliary (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 consolidated 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.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

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

c. Summary of Significant Accounting Policies (continued)

Assets restricted as to use – Assets restricted as to use include cash received from gross tax receipts restricted for debt service by bond indentures. Assets restricted as to use include assets held by the New Mexico Finance Authority (NMFA) for debt service and debt service reserve.

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.

Sole community provider/safety net care pool – The District qualifies as a sole community provider (SCP) hospital based on the Indigent Hospital and County Health Care Act (the Act). The Sole Community Provider Fund (Fund) was established under this Act. The Fund is administered by the New Mexico Human Services Department and consists of funds provided by counties to match federal funds for Medicaid Sole Community Provider hospital payments. Money in the Fund is used to make SCP hospital payments pursuant to the State Medicaid Program. The SCP has been restructured to provide New Mexico hospitals with less favorable rates than in past years. Effective January 1, 2014, the Fund was replaced by the safety net care pool. Changes to the program are ongoing, and as the program continues to undergo changes, the District will receive less funding.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

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

c. Summary of Significant Accounting Policies (continued)

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 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 2014 financial statements to conform with the classifications used in the 2015 financial statements with no effect on previously reported change in net position.

Subsequent events – Subsequent events have been reviewed through January 25, 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 Hospital’s total deposits of \$2,758,280 and \$2,188,362 at June 30, 2015 and 2014, respectively, a total of \$108,233 and \$-0-, respectively, was uninsured and uncollateralized, and therefore, subject to custodial credit risk.

Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, commercial paper, and bankers’ acceptances.

The District’s certificates of deposit have a maturity date of November 28, 2017.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

2. Deposits and Investments (continued):

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:

	2015	2014
Restricted under New Mexico Finance Authority loan agreement for debt service, held by trustee	\$ 541,964	\$ 538,403
Restricted under New Mexico Finance Authority loan agreement for debt reserve, held by trustee	533,986	532,036
Restricted by bond indentures for debt service	504,697	173,366
Total cash and cash equivalents restricted as to use	\$ 1,580,647	\$ 1,243,805

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.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

4. Patient Accounts Receivable (continued):

The District's allowance for uncollectible accounts for self-pay patients increased 18 percent as of June 30, 2015, as compared to June 30, 2014, due to a large allowance for aged receivables that were carried forward when the District changed accounting software and deemed uncollectible. 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.

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

	2015	2014
Receivable from patients and their insurance carriers	\$ 8,175,704	\$ 7,774,708
Receivable from Medicare	670,905	811,679
Receivable from Medicaid	170,981	828,093
Total patient accounts receivable	9,017,590	9,414,480
Less allowance for uncollectible accounts	5,902,583	4,994,385
Net patient accounts receivable	\$ 3,115,007	\$ 4,420,095

5. Capital Assets:

The District capitalizes assets whose costs exceed \$5,000 and with an estimated useful life of 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:

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

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014

5. Capital Assets (continued):

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

	2015				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Construction in progress	\$ -	\$ 817,448	\$ -	\$ -	\$ 817,448
Land	538,356	-	-	-	538,356
Total capital assets not being depreciated	538,356	817,448	-	-	1,355,804
<i>Capital assets being depreciated</i>					
Land improvements	396,376	-	-	-	396,376
Buildings and improvements	8,331,188	197,198	-	-	8,528,386
Equipment	12,436,450	967,463	-	-	13,403,913
Total capital assets being depreciated	21,164,014	1,164,661	-	-	22,328,675
<i>Less accumulated depreciation for</i>					
Land improvements	(361,797)	(11,273)	-	-	(373,070)
Buildings and improvements	(3,306,011)	(325,074)	-	-	(3,631,085)
Equipment	(7,912,202)	(885,451)	-	-	(8,797,653)
Total accumulated depreciation	(11,580,010)	(1,221,798)	-	-	(12,801,808)
Total capital assets being depreciated, net	9,584,004	(57,137)	-	-	9,526,867
Capital assets, net of accumulated depreciation	\$ 10,122,360	\$ 760,311	\$ -	\$ -	\$ 10,882,671

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

5. Capital Assets (continued):

	2014				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 538,356	\$ -	\$ -	\$ -	\$ 538,356
<i>Capital assets being depreciated</i>					
Land improvements	396,376	-	-	-	396,376
Buildings and improvements	8,309,960	21,228	-	-	8,331,188
Equipment	9,841,002	2,595,448	-	-	12,436,450
Total capital assets being depreciated	18,547,338	2,616,676	-	-	21,164,014
<i>Less accumulated depreciation for</i>					
Land Improvements	(347,167)	(14,630)	-	-	(361,797)
Buildings and improvements	(2,961,409)	(344,602)	-	-	(3,306,011)
Equipment	(7,397,102)	(515,100)	-	-	(7,912,202)
Total accumulated depreciation	(10,705,678)	(874,332)	-	-	(11,580,010)
Total capital assets being depreciated, net	7,841,660	1,742,344	-	-	9,584,004
Capital assets, net of accumulated depreciation	\$ 8,380,016	\$ 1,742,344	\$ -	\$ -	\$ 10,122,360

Construction in progress at June 30, 2015, consisted of three capital lease obligations for medical equipment acquired by the District before year end that was placed into service during fiscal year 2016 with no additional cost to complete.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

6. Noncurrent Liabilities:

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

	2015				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
NMFA hospital facility direct loan	\$ 2,590,000	\$ -	\$ (375,000)	\$ 2,215,000	\$ 395,000
NMFA medical office facility direct loan	302,761	-	(46,806)	255,955	48,210
Roosevelt County Electric Cooperative (RCEC) loan	406,225	-	(63,303)	342,922	63,939
Roosevelt County Rural Telephone Cooperative (RCRTC) loan no. 30602	55,556	-	(33,333)	22,223	22,222
RCRTC loan no. 30601	142,107	-	(85,069)	57,038	57,038
RCRTC loan no. 20601	12,597	-	(7,882)	4,715	4,715
RCRTC loan no. 112012	401,916	-	(63,504)	338,412	64,142
Capital lease obligations	2,548,125	783,694	(698,348)	2,633,471	808,531
Compensated absences	891,202	1,127,011	(1,055,388)	962,825	962,825
Total noncurrent liabilities	\$ 7,350,489	\$ 1,910,705	\$ (2,428,633)	\$ 6,832,561	\$ 2,426,622

	2014				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
NMFA hospital facility direct loan	\$ 2,945,000	\$ -	\$ (355,000)	\$ 2,590,000	\$ 375,000
NMFA medical office facility direct loan	348,204	-	(45,443)	302,761	46,806
RCEC loan	468,898	-	(62,673)	406,225	63,303
RCRTC loan no. 30602	88,890	-	(33,334)	55,556	33,333
RCRTC loan no. 30601	226,241	-	(84,134)	142,107	84,979
RCRTC loan no. 20601	20,056	-	(7,459)	12,597	7,841
RCRTC loan no. 112012	464,789	-	(62,873)	401,916	63,504
2004 grant bonds	16,514	-	(16,514)	-	-
2004 loan bonds	4,032	-	(4,032)	-	-
2004 grant bonds	5,495	-	(5,495)	-	-
2004 loan bonds	5,496	-	(5,496)	-	-
Capital lease obligations	139,446	2,679,198	(270,519)	2,548,125	644,690
Compensated absences	498,722	516,543	(124,063)	891,202	891,202
Total noncurrent liabilities	\$ 5,231,783	\$ 3,195,741	\$ (1,077,035)	\$ 7,350,489	\$ 2,210,658

At June 30, 2015, the capitalized costs and accumulated depreciation of the capital lease obligations were \$3,457,978 and \$330,302, respectively.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

6. 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	5.43% to 5.61%	annual	\$ varies	5/1/2020	\$ 395,000
NMFA medical office facility direct loan	814,469	3%	annual	varies	5/1/2020	48,210
RCEC loan	500,000	1%	monthly	5,590	9/1/2020	63,939
RCRTC loan no. 30602	300,000	0%	monthly	2,778	2/28/2016	22,222
RCRTC loan no. 30601	740,000	1%	monthly	7,168	2/28/2016	57,038
RCRTC loan no. 20601	60,000	5%	monthly	691	1/28/2016	4,715
RCRTC loan no. 112012	470,000	1%	monthly	5,603	8/20/2020	64,142
Celtic EMR capital lease no. 1	2,055,378	11%	monthly	38,625	8/1/2019	411,076
Celtic EMR capital lease no. 2	623,820	5%	monthly	18,322	8/1/2016	207,940
Allscripts Bancorp capital lease	450,000	2.76%	monthly	4,821	9/1/2014	7,174
Toshiba capital lease no. 1	460,500	4%	monthly	8,625	6/25/2020	85,369
Toshiba capital lease no. 2	59,500	6%	monthly	1,134	3/25/2020	10,713
Olympus capital lease no. 1	228,690	0%	monthly	6,353	5/4/2018	76,230
Olympus capital lease no. 2	30,088	0%	monthly	836	5/4/2018	10,029
						\$ 1,463,797

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
2016	\$ 1,463,797	\$ 233,376	\$ 1,697,173
2017	1,231,387	188,492	1,419,879
2018	1,216,848	154,885	1,371,733
2019	1,136,084	117,523	1,253,607
2020	793,689	34,354	828,043
2021	27,931	42	27,973
	\$ 5,869,736	\$ 728,672	\$ 6,598,408

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

6. Noncurrent Liabilities (continued):

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 includes all operating revenue and all tax receipts, to be 120 percent of the maximum aggregate annual debt service requirement. The District met this requirement as of June 30, 2015.

7. 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 that 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 year 2015. 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:

	<u>2015</u>
Patient service revenue (net of contractual adjustments and discounts):	
Medicare	\$ 5,297,124
Medicaid	5,286,607
Other third-party payors	12,532,913
Patients	3,138,513
	<u>26,255,157</u>
Less:	
Charity care	1,333,986
Provision for bad debts	4,003,140
	<u>20,918,031</u>
Net patient service revenue	\$ 20,918,031

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

7. Net Patient Service Revenue (continued):

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* – The District has been designated a critical access hospital, and the clinic a rural health clinic, by Medicare. The District is paid on a cost reimbursement method for substantially all services provided to Medicare beneficiaries. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after the 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.

Through 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 \$483,000 in 2015, 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, wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the year ended June 30, 2015, were approximately \$577,000.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

8. Gross Receipts Tax Revenue:

The District receives the proceeds of a ½ cent Local Hospital Gross Receipts Tax (GRT) imposed by Roosevelt County pursuant to Local Hospital GRT, Section 7-20C-1 through 7-20C-17 New 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 funds are received monthly from the State of New Mexico Taxation and Revenue Department (TRD) through intercept payments applied directly to the bond funded and cash loans received by the District from the New Mexico Finance Authority. Funds received directly from TRD are deposited into a debt service account for the payment of principal and interest on the Hospital Gross Receipts Tax Subordinate Lien Revenue Bonds, Series 2000 through 2006, secured through agreements with the Roosevelt County Rural Electric Cooperative and the Roosevelt County Rural Telephone Cooperative, as required by the bond indentures. These amounts are included in the GRT revenue in the Statement of Revenues, Expenses and Changes in Net Position, and are recorded as revenue when the underlying exchange has taken place, regardless if the District has actually received the funds. The ½ cent gross receipt tax is set to expire in June 2020.

The District received a share of GRT collected by the County, approximating \$1,588,000 and \$1,320,000 in 2015 and 2014, respectively.

9. 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 \$189,000 and \$143,000 during the years ended June 30, 2015 and 2014, 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 \$174,000 and \$187,000 for the years ended June 30, 2015 and 2014, respectively.

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

10. Electronic Health Records Incentive Payment:

The District recognized a Medicare electronic health records (EHR) incentive payment during the year ended June 30, 2015. The EHR incentive payments are provided to incent hospitals to become meaningful users of EHR technology, not to reimburse providers for the cost of acquiring EHR assets. EHR incentive payments are therefore reported as operating revenue. The Medicare incentive payment of \$914,488 was recognized in the year ended June 30, 2015.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2015 and 2014**

11. 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.

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.

12. 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:

	2015	2014
Medicare	15 %	16 %
Medicaid	9	12
Patients	55	39
Commercial and other	21	33
	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.

SUPPLEMENTAL INFORMATION

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Pledged Collateral
June 30, 2015

	JP Stone Community Bank	Wells Fargo
Deposits at June 30, 2015	\$ 1,611,994	\$ 68,607
Less: FDIC coverage	(250,000)	(68,607)
Uninsured public funds	1,361,994	-
Pledged collateral held by the pledging bank's trust department or agent but not in the District's name	1,253,761	-
Total uninsured and uncollateralized public funds	\$ 108,233	\$ -
50% pledged collateral requirement per statute	\$ 680,997	\$ -
Total pledged collateral	1,253,761	-
Pledged collateral over the requirement	\$ 572,765	\$ -

Pledged collateral at June 30, 2015, consists of the following:

JP Stone Community Bank	Fair Value
CARLSBAD NM MUNI - 142735DV8	\$ 569,235
CLOVIS NM MUNI - 18941HS7	431,052
CLOVIS NM MUNI - 189414JE6	50,078
ROSWELL NM ISD - 778550GY3	203,396
Total pledged securities	\$ 1,253,761

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, 2015

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	\$ 307,409	\$ -	\$ (290,135)	\$ 135	\$ 17,409
JP Stone Community Bank	Payroll account	Interest bearing checking	16,342	-	(1,944)	(161)	14,237
JP Stone Community Bank	Physician's Clinic account	Interest bearing checking	187,976	23,849	(5,666)	(1,690)	204,469
JP Stone Community Bank	Grants account	Interest bearing checking	1,075	-	-	-	1,075
JP Stone Community Bank	Cash reserves	Savings	1,099,192	-	-	-	1,099,192
Cash on hand	Petty cash	Petty cash	1,729	-	-	-	1,729
Certificates of Deposit							
Wells Fargo	Investment - CD	Certificates of Deposit	68,607	-	-	-	68,607
New Mexico Finance Authority	Debt service	Money Market	541,964	-	-	-	541,964
New Mexico Finance Authority	Debt reserve	Money Market	533,986	-	-	-	533,986
Total deposits and investments			\$ 2,758,280	\$ 23,849	\$ (297,745)	\$ (1,716)	\$ 2,482,668

See accompanying independent auditors' report.

**Roosevelt County Special Hospital District
 doing business as Roosevelt General Hospital
 Schedule of Vendor Information
 Year Ended June 30, 2015**

Agency Number	Agency Name	Agency Type	RFB#/RFP# (If applicable)	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical address of vendor (City, State)	Did the Vendor provide documentation of eligibility for in-state preference?	Did the Vendor provide documentation of eligibility for veterans' preference?	Brief Description of the Scope of Work	If the procurement is attributable to a Component Unit, Name of Component Unit
Roosevelt General Hospital did not enter into any contracts exceeding \$60,000 during the year ended June 30, 2015, that required procurement procedures per New Mexico Procurement code.													

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, 2015**

	Actual	Approved Budget	Variance with Approved Budget -Over (Under)
<i>Revenues</i>			
Net patient service revenue, safety net care pool, and electronic health records incentive payment	\$ 24,340,669	\$ 29,531,270	\$ (5,190,601)
Gross receipts tax revenue	1,588,305	1,268,061	320,244
Other revenue	656,924	682,640	(25,716)
Total revenues	26,585,898	31,481,971	(4,896,073)
<i>Expenses</i>			
Salaries, wages, and benefits	14,386,786	16,519,004	(2,132,218)
Other	12,673,321	14,797,480	(2,124,159)
Total expenses	27,060,107	31,316,484	(4,256,377)
Change in net position	\$ (474,209)	\$ 165,487	\$ (639,696)

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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 25, 2018. We also audited the schedule of revenues and expenses – budget to actual of the District for the year ended June 30, 2015, 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, 2015-002, and 2014-001 described in the accompanying schedule of findings and responses to be material weaknesses.

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 item 2010-001.

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
January 25, 2018

**Roosevelt County Special Hospital District
 doing business as Roosevelt General Hospital
 Schedule of Findings and Responses
 Year Ended June 30, 2015**

2015-001 Auditor – Detected Adjustments

Compliance Finding Significant Deficiency Material Weakness

<i>Criteria</i>	Timely and accurate information should be available to management and those charged with governance to make decisions.
<i>Condition</i>	Material audit adjustments were made to adjust settlement expense (\$326,667), correct capital assets (\$520,000), estimated safety net care pool (SNCP) (\$965,011), and the District’s allowance for uncollectible patient accounts (\$1,614,000).
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	There were material errors in the financial statements that were corrected through auditor-proposed adjustments.
<i>Cause</i>	The SNCP program settlement estimate was misstated due to the misunderstanding of the settlement process. Other audit adjustments were caused by incorrect calculations and misposted journal entries.
<i>Recommendation</i>	The District should develop review processes for the estimated Medicare settlements and allowance for uncollectible patient accounts receivable. The District should seek consultation regarding unique transactions.
<i>Management’s Response</i>	The Chief Financial Officer has established new processes to recognize fixed assets when purchased, and placed into service. New assets will be logged into the fixed asset schedule, with documentation, into the corresponding asset archive book. A new process has been established by the Chief Financial Officer to properly account for the safety net care pool payments by accruing anticipated payments on a monthly basis, and truing them up when payments are received. A new process has been established by the Chief Financial Officer to accrue estimated settlements on a timely basis with anticipated amounts that will be trued up when final figures are known. A new model for contractual allowances will be created by the Chief Financial Officer using historical data, which will increase the accuracy of the net accounts receivable balance and anticipated revenues.

**Roosevelt County Special Hospital District
 doing business as Roosevelt General Hospital
 Schedule of Findings and Responses (Continued)
 Year Ended June 30, 2015**

2015-002 Control Environment

Compliance Finding Significant Deficiency Material Weakness

<i>Criteria</i>	The Board of Trustees should maintain effective oversight of the District’s financial reporting and operation. The governing bylaws require the District to undergo an annual financial statement audit by an independent certified public accounting firm selected by the board. The District’s last audit was for the fiscal year ended June 30, 2014. The bylaws also state the board is required to review and approve all equipment purchases in excess of \$500.
<i>Condition</i>	Purchases in excess of \$500 were executed without Board of Trustees approval and the District is three years behind on its annual financial statement audit.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	Limited oversight of management increases the risk of fraud and misappropriation of assets.
<i>Cause</i>	Inadequate internal control policies and procedures allowed purchases greater than \$500 to be made without the consent or input of the Board of Trustees. Limited oversight of management also allowed the District to become three years behind on its annual financial statement audit.
<i>Recommendation</i>	We recommend the Board of Trustees either amend its bylaws, or it should review and approve significant purchases of capital assets and be proactive in ensuring the financial statement audit is performed on a timely basis.
<i>Management’s Response</i>	The Chief Financial Officer and Chief Executive Officer have kept the Board of Trustees informed during the auditor selection process. Management complied with all New Mexico procurement statutes and received assistance from the state during the procurement and selection process. The Board of Trustees and current management were unaware of the stipulation in the governing bylaws that the Board of Trustees were to select the audit firm for the annual audit. The Board of Trustees is currently reviewing and modifying the bylaws to amend this requirement. The Board of Trustees is also modifying its bylaws to amend the dollar amount of purchases that require the Board of Trustees’ approval, so it will be involved in major purchases only and give management flexibility to manage the operations without micro management. New policies will then be written by the Chief Financial Officer and Chief Executive Officer to follow the bylaws and administration will adhere to the new policies.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2015**

2014-001 Qualified Opinion on Financial Statements

Compliance Finding Significant Deficiency Material Weakness

<i>Criteria</i>	A qualified opinion was issued on the District’s financial statements for the year ended June 30, 2014, due to a lack of supporting documentation. Sufficient appropriate audit evidence was not able to be obtained to support the District’s patient accounts receivable (\$12,520,826), allowance for bad debts (\$4,994,384), allowance for contractual adjustments (\$3,108,434), inventory (\$1,067,043) and accrued payroll taxes and benefits (\$408,989) carried at a net of \$5,076,062 on the statement of net position as of June 30, 2014. As a result, beginning net position was unable to be substantiated as of July 1, 2014, and audit procedures were not able to be applied to the statements of revenues, expenses, and changes in net position and cash flows for the year ended June 30, 2015.
<i>Condition</i>	Generally Accepted Auditing Standards states “The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.”
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Effect</i>	The District’s financial statements include a modified opinion.
<i>Cause</i>	The District’s former CFO was the main contact for a large project that took up much of her time. The project was not complete until well into the 2014 calendar year. Also, the transition to new software has caused multiple accounting issues. This caused issues with supporting documentation for several balance sheet accounts.
<i>Recommendation</i>	We recommend the District maintain appropriate documentation to support account balances.
<i>Management’s Response</i>	The Chief Financial Officer has balanced a significant amount of general ledger accounts to sub-ledgers and has developed a new process to be implemented to continually reconcile them on a regular basis, and correct variances on a timely basis. Management believes the year end balances for fiscal year 2015 are now accurate.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2015**

2010-001 Late Submission of Audit Report

Compliance Finding Significant Deficiency Material Weakness

<i>Criteria</i>	New Mexico State Audit Rule 2.2.9A requires audit reports for hospitals to be submitted to the state auditing office by October 15 following the end of the fiscal year.
<i>Condition</i>	The audit report was not submitted before the deadline.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	The District is not in compliance with the New Mexico state audit rule.
<i>Cause</i>	When the District upgraded its medical records and accounting software it caused multiple accounting issues, which caused a delay in the 2014 audit, ultimately causing a delay in the 2015 audit as well.
<i>Recommendation</i>	We recommend the District be proactive in keeping their records up to date so an audit may be performed and completed in a timely manner after year end.
<i>Management's Response</i>	The District has a new Chief Executive Officer, who started in June 2017, and a new Chief Financial Officer who started in January 2017, who are committed to correcting the deficiency. The Chief Financial Officer and Chief Executive Officer believe they are now on target to complete the 2016 audit by the middle of May 2018. The 2017 audit will be close behind, and completed by approximately July 2018. With these audits finished, the Chief Financial Officer and Chief Executive Officer believe they will have enough time to have the 2018 audit completed and submitted to the state before the deadline. This will remove the District from the late audit list.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Prior Year Findings
Year Ended June 30, 2015**

Prior-Year Number	Description	Current Status
2014-001	Qualified Opinion on Financial Statements	Repeated
2012-001	Actual Expenditures Exceeded Budgeted Expenditures – Compliance Finding	Resolved
2010-001	Late submission of the audit report	Repeated

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Exit Conference
Year Ended June 30, 2015**

An exit conference was held January 18, 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 Greene	Chief Executive Officer
Bill Boyer	Chief Financial Officer
Josh Rettinghouse	Dingus, Zarecor & Associates PLLC

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