

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

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2017 and 2016



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Table of Contents**

	Page
<i>INTRODUCTORY SECTION:</i>	
Governing board and principal employees	1
<i>FINANCIAL SECTION:</i>	
Independent auditors' report	2-3
Basic financial statements:	
Statements of net position	4-5
Statements of revenues, expenses, and changes in net position	6
Statements of cash flows	7-8
Notes to basic financial statements	9-22
<i>SUPPLEMENTAL INFORMATION:</i>	
Schedule of pledged collateral	23
Schedule of individual deposit and investment accounts	24
Indigent care cost and funding report	25-26
Schedule of revenues and expenses – budget to actual	27
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 <i>Government Auditing Standards</i>	28-29
Schedule of findings and responses	30-34
Schedule of prior audit findings	35
Exit conference	36

INTRODUCTORY SECTION

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Governing Board and Principal Employees
June 30, 2017**

Board of Trustees

Scott Reeves	President
Doug Stone	Secretary/Treasurer
Randy Lieb	Trustee
Paul Benoit	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, 2017 and 2016, 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, 2017, 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 opinions.

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, 2017 and 2016, and the changes in its net position and 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, 2017, 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 July 27, 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, 2017. We issued a similar report for the year ended June 30, 2016, dated March 14, 2018, which has not been included with the 2017 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
July 27, 2018

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Statements of Net Position
June 30, 2017 and 2016

ASSETS	2017	2016
<i>Current assets</i>		
Cash and cash equivalents	\$ 3,986,307	\$ 3,549,684
Patient accounts receivable, net of estimated uncollectible accounts of approximately \$3,626,000 and \$5,169,000, respectively	2,886,037	2,496,012
Safety net care pool receivable	168,513	342,221
Estimated third-party payor settlement receivable	54,008	175,644
Taxes receivable	268,931	228,788
Inventories	768,876	832,726
Prepaid expenses	57,336	99,737
Total current assets	8,190,008	7,724,812
<i>Noncurrent assets</i>		
Cash and cash equivalents, restricted as to use	1,094,786	1,085,164
Capital assets, net	9,949,254	10,954,016
Total noncurrent assets	11,044,040	12,039,180
Total assets	\$ 19,234,048	\$ 19,763,992

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, 2017 and 2016

LIABILITIES AND NET POSITION	2017	2016
<i>Current liabilities</i>		
Current maturities of long-term debt and capital lease obligations	\$ 1,507,331	\$ 1,438,171
Accounts payable	590,428	364,655
Accrued compensation and related liabilities	1,694,382	1,851,821
Patient refunds	-	184,000
Accrued interest payable	13,785	9,324
Total current liabilities	3,805,926	3,847,971
<i>Noncurrent liabilities</i>		
Long-term debt and capital lease obligations, net of current maturities	2,614,909	3,935,239
Total liabilities	6,420,835	7,783,210
<i>Net position</i>		
Net investment in capital assets	5,813,229	5,571,282
Restricted	1,094,786	1,085,164
Unrestricted	5,905,198	5,324,336
Total net position	12,813,213	11,980,782
Total liabilities and net position	\$ 19,234,048	\$ 19,763,992

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, 2017 and 2016

	2017	2016
<i>Operating revenues</i>		
Net patient service revenue, net of provision for bad debts of \$4,728,143 and \$3,667,979, respectively	\$ 24,618,530	\$ 24,370,125
Safety net care pool	1,851,010	1,850,171
Electronic health records incentive payment	383,917	573,562
Grants	359,411	453,568
Other	210,808	207,974
Total operating revenues	27,423,676	27,455,400
<i>Operating expenses</i>		
Salaries and wages	14,436,035	13,949,153
Employee benefits	1,892,047	1,875,948
Professional fees	943,099	558,519
Purchased services	3,189,518	3,314,705
Supplies	3,350,728	3,399,927
Utilities	428,884	400,785
Repairs and maintenance	472,370	562,518
Leases and rentals	407,734	350,252
Depreciation and amortization	1,457,872	1,421,257
Insurance	421,246	442,761
Other	887,680	715,965
Total operating expenses	27,887,213	26,991,790
Operating income (loss)	(463,537)	463,610
<i>Nonoperating revenues (expenses)</i>		
Gross receipts tax revenue	1,524,581	1,625,378
Interest income	8,405	6,925
Interest expense	(237,018)	(360,869)
Total nonoperating revenues, net	1,295,968	1,271,434
Change in net position	832,431	1,735,044
Net position, beginning of year	11,980,782	10,245,738
Net position, end of year	\$ 12,813,213	\$ 11,980,782

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, 2017 and 2016

	2017	2016
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 26,190,859	\$ 27,704,543
Receipts from grants	359,411	462,358
Receipts from other revenue	210,808	207,974
Electronic health records incentive	383,917	573,562
Payments to and on behalf of employees	(16,485,521)	(15,608,796)
Payments to suppliers and contractors	(9,769,235)	(10,522,944)
Net cash provided by operating activities	890,239	2,816,697
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt and capital lease obligations	(1,460,034)	(1,598,289)
Interest paid	(232,557)	(362,873)
Purchase of capital assets	(244,246)	(390,639)
Receipts from gross receipts tax proceeds	1,484,438	1,680,359
Net cash used in capital and related financing activities	(452,399)	(671,442)
<i>Cash flows from investing activities</i>		
Interest received	8,405	6,925
Net increase in cash and cash equivalents	446,245	2,152,180
Cash and cash equivalents, beginning of year	4,634,848	2,482,668
Cash and cash equivalents, end of year	\$ 5,081,093	\$ 4,634,848

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, 2017 and 2016

	2017	2016
<i>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</i>		
Cash and cash equivalents in current assets	\$ 3,986,307	\$ 3,549,684
Cash and cash equivalents, restricted as to use	1,094,786	1,085,164
Total cash and cash equivalents	\$ 5,081,093	\$ 4,634,848
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities</i>		
Operating income (loss)	\$ (463,537)	\$ 463,610
<i>Adjustments to reconcile operating income (loss) to net cash provided by operating activities</i>		
Depreciation and amortization	1,457,872	1,421,257
Provision for bad debts	4,728,143	3,667,979
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(5,118,168)	(3,048,984)
Safety net care pool	173,708	996,804
Estimated third-party payor settlements	121,636	(21,552)
Grants	-	8,790
Inventories	63,850	(138,141)
Prepaid expenses	42,401	(13,017)
Increase (decrease) in liabilities:		
Accounts payable	225,773	(626,354)
Accrued compensation and related liabilities	(157,439)	216,305
Patient refunds	(184,000)	(110,000)
Net cash provided by operating activities	\$ 890,239	\$ 2,816,697

Noncash Investing, Capital, and Financing Activities

During the years ended June 30, 2017 and 2016, the District entered into capital lease obligations in the amounts of \$36,368 and \$1,101,693, respectively, to finance the purchase of various pieces of medical 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.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements
Years Ended June 30, 2017 and 2016**

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 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.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

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 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.

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.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

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

c. Summary of Significant Accounting Policies (continued)

Reclassifications – Certain reclassifications have been made to the 2016 financial statements to conform with the classifications used in the 2017 financial statements with no effect on previously reported change in net position.

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 (AROs). 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 March 2017, the GASB issued Statement No. 85, *Omnibus*, which addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The new guidance is effective for the District's year ending June 30, 2018, 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 May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, which establishes essentially the same requirements for when a government places cash and other monetary assets acquired with only existing resources in an irrevocable trust to extinguish debt as those requirements for when new debt is issued to provide for refunding. However, in financial statements using the economic resources measurement focus, governments should recognize any difference between the reacquisition price (the amount required to be placed in the trust) and the net carrying amount of the debt defeased in substance using only existing resources as a separately identified gain or loss in the period of the defeasance. This statement also specifies the treatment of any remaining bond issuance costs on any extinguished debt. The new guidance is effective for the District's year ending June 30, 2018, 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.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

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

c. Summary of Significant Accounting Policies (continued)

Upcoming accounting standard pronouncements (continued) – 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.

Subsequent events – Subsequent events have been reviewed through July 27, 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 \$5,338,536 and \$4,838,146 at June 30, 2017 and 2016, respectively, all deposits were insured and collateralized, and therefore were not subject to custodial credit risk.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

2. Deposits and Investments (continued):

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 have a maturity date of November 28, 2017.

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:

	2017	2016
Restricted under New Mexico Finance Authority loan agreement for debt service, held by trustee	\$ 558,691	\$ 550,371
Restricted under New Mexico Finance Authority loan agreement for debt reserve, held by trustee	536,095	534,793
Total cash and cash equivalents restricted as to use	\$ 1,094,786	\$ 1,085,164

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.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

4. Patient Accounts Receivable (continued):

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.

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

	2017	2016
Receivable from patients and their insurance carriers	\$ 5,798,258	\$ 6,863,320
Receivable from Medicare	407,892	431,262
Receivable from Medicaid	305,560	370,455
Total patient accounts receivable	6,511,710	7,665,037
Less allowance for uncollectible accounts	3,625,673	5,169,025
Net patient accounts receivable	\$ 2,886,037	\$ 2,496,012

5. 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

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

5. Capital Assets (continued):

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

	2017				Ending Balance
	Beginning Balance	Additions	Retirements	Transfers	
<i>Capital assets not being depreciated</i>					
Land	\$ 538,356	\$ -	\$ -	\$ -	\$ 538,356
Total capital assets not being depreciated	538,356	-	-	-	538,356
<i>Capital assets being depreciated</i>					
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
<i>Less accumulated depreciation for</i>					
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

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016

5. Capital Assets (continued):

	2016				
	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	1,355,804	-	-	(817,448)	538,356
<i>Capital assets being depreciated</i>					
Land improvements	396,376	-	-	-	396,376
Buildings and improvements	8,528,386	120,422	-	-	8,648,808
Equipment	13,403,913	1,372,180	-	817,448	15,593,541
Total capital assets being depreciated	22,328,675	1,492,602	-	817,448	24,638,725
<i>Less accumulated depreciation for</i>					
Land improvements	(343,826)	(10,961)	-	-	(354,787)
Buildings and improvements	(3,660,329)	(348,358)	-	-	(4,008,687)
Equipment	(8,797,653)	(1,061,938)	-	-	(9,859,591)
Total accumulated depreciation	(12,801,808)	(1,421,257)	-	-	(14,223,065)
Total capital assets being depreciated, net	9,526,867	71,345	-	817,448	10,415,660
Capital assets, net of accumulated depreciation	\$ 10,882,671	\$ 71,345	\$ -	\$ -	\$ 10,954,016

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

6. Noncurrent Liabilities:

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

	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

	2016				
	Beginning Balance	Additions	Decreases	Ending Balance	Amounts Due Within One Year
NMFA hospital facility direct loan	\$ 2,215,000	\$ -	\$ (395,000)	\$ 1,820,000	\$ 420,000
NMFA medical office facility direct loan	255,955	-	(48,210)	207,745	49,657
Roosevelt County Electric Cooperative (RCEC) loan	342,922	-	(63,939)	278,983	64,581
Roosevelt County Rural Telephone Cooperative (RCRTC) loan no. 30602	22,223	-	(22,223)	-	-
RCRTC loan no. 30601	57,038	-	(57,038)	-	-
RCRTC loan no. 20601	4,715	-	(4,715)	-	-
RCRTC loan no. 112012	338,412	-	(64,142)	274,270	64,787
Capital lease obligations	2,633,471	1,101,963	(943,022)	2,792,412	839,146
Compensated absences	677,325	1,156,847	(1,130,662)	703,510	703,510
Total noncurrent liabilities	\$ 6,547,061	\$ 2,258,810	\$ (2,728,951)	\$ 6,076,920	\$ 2,141,681

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

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

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	5.5% to 5.61%	annual	\$ varies	5/1/2020	\$ 440,000
NMFA medical office facility direct loan	814,469	3%	annual	varies	5/1/2020	51,146
RCEC loan	500,000	1%	monthly	5,590	9/1/2020	65,230
RCRTC loan no. 112012	470,000	1%	monthly	5,603	8/20/2020	65,438
LEAF finance agreement	186,815	6%	monthly	5,683	3/15/2020	59,467
Celtic EMR capital lease no. 1	2,055,378	11%	monthly	38,625	8/1/2019	411,076
Toshiba capital lease no. 1	460,500	4%	monthly	8,625	6/25/2020	92,909
Toshiba capital lease no. 2	59,500	6%	monthly	1,134	3/25/2020	11,976
Toshiba capital lease no. 3	999,419	5%	monthly	18,692	10/25/2020	196,408
Toshiba capital lease no. 4	102,544	5%	monthly	1,917	9/25/2020	20,140
Olympus capital lease no. 1	228,690	0%	monthly	6,353	5/4/2018	69,878
Olympus capital lease no. 2	30,088	0%	monthly	836	5/4/2018	9,195
Olympus capital lease no. 3	36,368	3%	monthly	1,229	6/15/2018	14,468
						\$ 1,507,331

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 semi-annual 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
2018	\$ 1,507,331	\$ 194,647	\$ 1,701,978
2019	1,426,042	143,069	1,569,111
2020	1,081,179	45,331	1,126,510
2021	107,688	42	107,730
	\$ 4,122,240	\$ 383,089	\$ 4,505,329

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, 2017.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

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 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 2017 or 2016. 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:

	2017	2016
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 6,583,934	\$ 7,078,952
Medicaid	7,389,612	6,744,911
Other third-party payors	12,142,339	10,845,534
Patients	3,938,271	4,046,326
	30,054,156	28,715,723
Less:		
Charity care	707,483	677,619
Provision for bad debts	4,728,143	3,667,979
Net patient service revenue	\$ 24,618,530	\$ 24,370,125

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 Hospital 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.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

7. Net Patient Service Revenue (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 \$46,000 and \$16,000 for the years ended June 30, 2017 and 2016, 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 year ended June 30, 2017 and 2016, were approximately \$277,000 and \$272,000, respectively.

8. 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.

9. 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 \$1,525,000 and \$1,625,000 in 2017 and 2016, respectively.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

10. 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 \$181,000 and \$214,000 during the years ended June 30, 2017 and 2016, 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 \$155,000 and \$191,000 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

11. Electronic Health Records Incentive Payment:

The District recognized a Medicare electronic health records (EHR) incentive payment during the years ended June 30, 2017 and 2016. 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 and \$573,562 was recognized in the years ended June 30, 2017 and 2016, respectively.

12. 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.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2017 and 2016**

12. 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.

13. 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:

	2017	2016
Medicare	25 %	15 %
Medicaid	13	12
Patients	36	52
Commercial and other	26	21
	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.

14. Subsequent Events:

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, 2017

	JP Stone Community Bank	Wells Fargo
Deposits at June 30, 2017	\$ 4,178,032	\$ 68,813
Less: FDIC coverage	(250,000)	(68,813)
Uninsured public funds	3,928,032	-
Pledged collateral held by the pledging bank's trust department or agent but not in the District's name	5,281,144	-
Total uninsured and uncollateralized public funds	\$ (1,353,112)	\$ -
50% pledged collateral requirement per statute	\$ 1,964,016	\$ -
Total pledged collateral	5,281,144	-
Pledged collateral over the requirement	\$ 3,317,128	\$ -

Pledged collateral at June 30, 2017, consists of the following:

JP Stone Community Bank	Fair Value
FHLB QTRLY CALL STEP - 3130A7ZL2	\$ 963,682
FHLB QTRLY CALL STEP - 3130A9RN3	492,167
FHLB QTRLY CALL STEP - 3130AAGP7	1,000,103
FNMA CALL ONLY 04/17/14 - 3136G1JV2	499,787
FNMA QTRLY CALL STEP - 3136G3PW9	674,280
CARLSBAD NM MUNI - 142735DV8	538,655
SANTA FE CNTY NM - 801889NS1	1,112,470
Total pledged securities	\$ 5,281,144

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, 2017

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	\$ 366,426	\$ 17,643	\$ (279,354)	\$ (5,736)	\$ 98,979
JP Stone Community Bank	Payroll account	Interest bearing checking	216,307	-	(12,531)	23	203,799
JP Stone Community Bank	Physician's Clinic account	Interest bearing checking	55,186	15,880	(8,075)	9,107	72,098
JP Stone Community Bank	Grants account	Interest bearing checking	500	-	-	-	500
JP Stone Community Bank	Cash reserves	Savings	3,539,613	-	-	505	3,540,118
Cash on hand	Petty cash	Petty cash	2,000	-	-	-	2,000
Certificates of Deposit							
Wells Fargo	Investment - CD	Certificates of Deposit	68,813	-	-	-	68,813
New Mexico Finance Authority	Debt service	Money Market	558,696	-	-	(5)	558,691
New Mexico Finance Authority	Debt reserve	Money Market	530,995	-	-	5,100	536,095
Total deposits and investments			\$ 5,338,536	\$ 33,523	\$ (299,960)	\$ 8,994	\$ 5,081,093

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, 2017**

		For the year ended June 30,		
		2017	2016	2015
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		<u>-</u>	<u>-</u>	<u>-</u>
B Cost of Providing Indigent Care				
Total cost of care for providing services to:				
B1	Uninsured patients qualifying for indigent care	268,989	266,990	230,908
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		<u>268,989</u>	<u>266,990</u>	<u>230,908</u>
Excess (Shortfall) of Funding for Charity Care to Cost of Providing Indigent Care		<u>\$ (268,989)</u>	<u>\$ (266,990)</u>	<u>\$ (230,908)</u>
C Patients Receiving Indigent Care Services				
C1	Total number of patients receiving indigent care	193	155	112
C2	Total number of patient encounters receiving indigent care	429	280	235

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, 2017**

	For the year ended June 30,		
	2017	2016	2015
Uninsured patients qualifying for indigent care			
Charges for these patients	\$ 672,472	\$ 667,476	\$ 536,995
Ratio of cost to charges	40.0%	40.0%	43.0%
Cost for uninsured patients qualifying for indigent care	<u>\$ 268,989</u>	<u>\$ 266,990</u>	<u>\$ 230,908</u>
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)	<u>-</u>	<u>-</u>	<u>-</u>
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	<u>-</u>	<u>-</u>	<u>-</u>
Direct costs paid to other providers on behalf of patients qualifying for indigent care			
Payments to other providers for care of these patients	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>

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, 2017

	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	\$ 26,853,457	\$ 34,470,403	\$ (7,616,946)
Gross receipts tax revenue	1,524,581	1,400,000	124,581
Other revenue	578,624	2,152,252	(1,573,628)
Total revenues	28,956,662	38,022,655	(9,065,993)
<i>Expenses</i>			
Salaries and wages, and benefits	16,328,082	21,063,278	(4,735,196)
Other	11,796,149	15,307,483	(3,511,334)
Total expenses	28,124,231	36,370,761	(8,246,530)
Change in net position	\$ 832,431	\$ 1,651,894	\$ (819,463)

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 27, 2018. We also audited the schedule of revenues and expenses – budget to actual of the District for the year ended June 30, 2017, 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 preceding 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 and 2015-002 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, 2017-001, and 2017-002.

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
July 27, 2018

**Roosevelt County Special Hospital District
 doing business as Roosevelt General Hospital
 Schedule of Findings and Responses
 Year Ended June 30, 2017**

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 correct the accrued expenses liability (\$199,385), and adjust estimated safety net care pool (SNCP) (\$151,487). The District did not make progress on implementing the corrective action plan because the 2015 audit was completed in 2017 and the 2016 audit was completed in early 2018. The District will not make any progress on the corrective action plan until fiscal year 2018.
<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 safety net care pool settlements, and begin to accrue liabilities at year end that relate to the fiscal year, but are received after.
<i>Management's Response</i>	The Chief Financial Officer has established a new process 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 invoices that are not received until after year end. These changes will take place in fiscal year 2018.

**Roosevelt County Special Hospital District
 doing business as Roosevelt General Hospital
 Schedule of Findings and Responses (Continued)
 Year Ended June 30, 2017**

2015-002 Control Environment

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

<i>Criteria</i>	The Board of Trustees (the Board) 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, 2016, which was completed in March 2018. The bylaws also state the Board is required to review and approve all equipment purchases in excess of \$500.
<i>Condition</i>	<p>Purchases in excess of \$500 were executed without Board of Trustees approval and the District is two years behind on its annual financial statement audit.</p> <p>The District did not make progress on implementing the corrective action plan because the 2015 audit was completed in 2017, and the 2016 audit was completed in early 2018. The District will not make any progress on the corrective action plan until fiscal year 2018.</p>
<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 two 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. These changes will take place in fiscal year 2018.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2017**

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 New Mexico Office of the State Auditor by October 15 following the end of the fiscal year.
<i>Condition</i>	<p>The audit report was not submitted before the deadline.</p> <p>The District did not make progress on implementing the corrective action plan because the 2015 audit was completed in 2017 and the 2016 audit was completed in early 2018. The District will not make any progress on the corrective action plan until fiscal year 2018.</p>
<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, 2016, and 2017 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 submit the 2016 audit in March 2018 and plan to have the 2017 audit submitted by the middle of 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 Findings and Responses (Continued)
Year Ended June 30, 2017**

2017-001 Exit Conference and Related Confidentiality Issues

Compliance Finding Significant Deficiency Material Weakness

<i>Criteria</i>	New Mexico State Audit Rule 2.2.10M requires the District and the District's Independent Public Accountant to not release information to the public relating to the audit until the audit report is released by the New Mexico Office of the State Auditor (OSA) and has become public record.
<i>Condition</i>	The fiscal year 2016 audited financial statements were presented by management at a public board meeting prior to the audit being released by the OSA and it becoming public record.
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Effect</i>	The District is not in compliance with the New Mexico State audit rule.
<i>Cause</i>	The District did not follow New Mexico State regulations regarding the release of audit information to the public.
<i>Recommendation</i>	We recommend the District not present the audit report until approval for release is provided by the OSA.
<i>Management's Response</i>	Management will not discuss any audit that has not been approved by the State in open meeting. Any discussion that is needed prior to receiving approval from the State will be done in executive session. This change is effective immediately and will be met for this audit and future audits.

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2017**

2017-002 Pertaining to Audits of Hospitals:

Compliance Finding Significant Deficiency Material Weakness

<i>Criteria</i>	New Mexico State Audit Rule 2.2.10F requires the District to report an indigent care cost funding report within the financial statements. Additionally, samples of patients who are reported on the schedule should be selected by the auditor to test for management's determination the patient qualified for indigent care under the District's policies.
<i>Condition</i>	The District was unable to provide sufficient appropriate audit evidence for nine out of thirty patients selected for testing to illustrate management's determination that the patient qualified for indigent care.
<i>Context</i>	This finding appears to be an <i>isolated</i> problem.
<i>Effect</i>	The District is not in compliance with the New Mexico State audit rule.
<i>Cause</i>	The District did not keep adequate records of the indigent care applications.
<i>Recommendation</i>	We recommend the District keep adequate records of all patient files for up to seven years.
<i>Management's Response</i>	The Chief Financial Officer wrote a new charity policy in November 2016 to standardize the charity and financial assistance between the hospital and clinic. Shortly after the enacted policy was being used, issues of procedure were noted. In March 2017, the Chief Financial Officer created a spreadsheet to track all charity for both the hospital and clinic, and took the approval process from the business office and administers the program himself. Copies of all received applications are maintained by the Chief Financial Officer, and logged into the spreadsheet. This issue has been corrected in fiscal year 2018.

Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Schedule of Prior Audit Findings
Year Ended June 30, 2017

Prior-Year Number	Description	Current Status
2015-001	Auditor-Detected Adjustments	Repeated
2015-002	Control Environment	Repeated
2010-001	Late Submission of Audit Report	Repeated

**Roosevelt County Special Hospital District
doing business as Roosevelt General Hospital
Exit Conference
Year Ended June 30, 2017**

An exit conference was held July 27, 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.