

CIBOLA GENERAL HOSPITAL CORPORATION

**Financial Statements, Supplemental Information and
Independent Auditor's Report
For the Years Ended June 30, 2011 and 2010**



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CIBOLA GENERAL HOSPITAL CORPORATION

Table of Contents

	<u>Page</u>
Official Roster	1
Independent Auditor's Report	2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	7
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	20
Schedule of Findings and Responses	22
Summary Schedule of Prior Year Audit Findings	23
Other Disclosures	23

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CIBOLA GENERAL HOSPITAL CORPORATION

OFFICIAL ROSTER

June 30, 2011

BOARD OF TRUSTEES

Ida Chavez	Chairperson
Ron Ortiz	Vice-Chairperson
Paul Milan	Treasurer
Arnold Valdivia, MD	Chief of Medical Staff
Nestor Griego	Member
Carlos Tapia	Member
Les Gaines	Member
Karna Patel, MD	Member

PRINCIPAL EMPLOYEES

Mike Makosky	Chief Executive Officer
J.F. Rimel, Jr.	Assistant Administrator and CFO

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Cibola General Hospital Corporation
Grants, New Mexico and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying statements of financial position of Cibola General Hospital Corporation (the Hospital", a component unit of Cibola County, as of June 30, 2011 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Hospital as of June 30, 2010. These statements were audited by Meyners + Company, LLC, who expressed an unqualified opinion in their report dated September 9, 2010. Our opinion, insofar as it relates to the amounts included for the year then ended, is based solely on the report of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2011 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2011 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

GRIEGO PROFESSIONAL SERVICES, LLC.



October 20, 2011

CIBOLA GENERAL HOSPITAL CORPORATION**STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,**

	<u>2011</u>	<u>2010</u>
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,555,685	\$ 2,307,906
Patient accounts receivable, net of allowance for doubtful accounts of \$1,002,311 and \$944,185 in 2011 and 2010, respectively	3,881,759	4,423,488
Prepaid expenses	338,400	311,045
Inventories	219,963	233,249
Other receivables	13,174	6,025
Total current assets	<u>8,008,981</u>	<u>7,281,713</u>
ASSETS LIMITED AS TO USE (Note 3)	10,620,104	7,128,107
PROPERTY AND EQUIPMENT, NET (Note 4)	<u>5,294,318</u>	<u>5,239,761</u>
TOTAL ASSETS	<u><u>\$ 23,923,403</u></u>	<u><u>\$ 19,649,581</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$ 794,569	\$ 703,981
Accrued payroll and taxes	809,933	815,422
Deferred revenue	187,802	154,827
Other liabilities	28,085	54,110
Total current liabilities	<u>1,820,389</u>	<u>1,728,340</u>
COMMITMENTS AND CONTINGENCIES (Notes 7 through 10)		
NET ASSETS:		
Unrestricted	<u>22,103,014</u>	<u>17,921,241</u>
Total net assets	<u>22,103,014</u>	<u>17,921,241</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 23,923,403</u></u>	<u><u>\$ 19,649,581</u></u>

See notes to financial statements.

CIBOLA GENERAL HOSPITAL CORPORATION**STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30,**

	<u>2011</u>	<u>2010</u>
UNRESTRICTED NET ASSETS		
REVENUES		
Net patient service revenue (Note 2)	\$ 26,886,760	\$ 25,810,673
Mil Levy (Note 6)	1,153,088	1,131,447
Other	128,109	150,276
TOTAL REVENUES	28,167,957	27,092,396
EXPENSES		
Salaries and wages	9,329,805	9,248,090
Purchased services and other	3,790,965	4,394,969
Supplies	2,148,385	2,157,814
Payroll taxes and benefits	1,986,642	2,108,870
Utilities, insurance, rentals and repairs	1,853,699	1,529,173
Professional fees	955,690	895,847
Depreciation and amortization	924,237	857,431
Provision for bad debts	3,089,743	2,892,571
TOTAL EXPENSES	24,079,166	24,084,765
OPERATING INCOME	4,088,791	3,007,631
OTHER INCOME (EXPENSES):		
Interest income	126,159	159,058
Loss on sale of property and equipment	(4,217)	(10,179)
Other expense	(18,961)	(63,741)
TOTAL OTHER INCOME	102,981	85,138
EXCESS OF REVENUES OVER EXPENSES	4,191,772	3,092,769
CHANGE IN NET UNREALIZED (LOSS) GAIN ON OTHER THAN TRADING SECURITIES	(10,051)	(23,404)
CONTRIBUTIONS	52	300,380
INCREASE IN UNRESTRICTED NET ASSETS	4,181,773	3,369,745
NET ASSETS, BEGINNING OF YEAR	17,921,241	14,551,496
NET ASSETS, END OF YEAR	\$ 22,103,014	\$ 17,921,241

See notes to financial statements.

CIBOLA GENERAL HOSPITAL CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30,

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 4,181,773	\$ 3,369,745
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	3,089,743	2,892,571
Depreciation and amortization	924,237	857,431
Loss on disposal of property and equipment	4,217	10,179
Unrealized loss on investments	10,051	23,404
Changes in Operating Assets and Liabilities:		
(Increase) decrease in:		
Patient accounts receivable	(2,548,014)	(3,462,931)
Prepaid expenses	(27,355)	(29,364)
Inventories	13,286	(29,941)
Other receivables	(7,149)	19,325
Increase (decrease) in:		
Accounts payable	90,588	(208,455)
Accrued liabilities	(5,489)	101,531
Deferred revenue	32,975	154,827
Other liabilities	(26,025)	54,110
Estimated third-party settlements	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>5,732,838</u>	<u>3,752,432</u>

CIBOLA GENERAL HOSPITAL CORPORATION**STATEMENTS OF CASH FLOWS, CONTINUED
YEARS ENDED JUNE 30,**

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Cash received from customers	24,364,572	22,362,304
Cash received from mil levy and other	1,281,249	1,582,103
Cash payments to suppliers	(8,703,736)	(9,031,863)
Cash paid for payroll, payroll taxes and benefits	(11,316,446)	(11,255,429)
Interest received	126,160	159,058
Other expense	(18,961)	(63,741)
	<u>5,732,838</u>	<u>3,752,432</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,732,838	3,752,432
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of investments	-	750,000
Purchases of investments	(3,506,265)	(2,228,697)
Purchases of property and equipment	(978,794)	(1,450,192)
	<u>(4,485,059)</u>	<u>(2,928,889)</u>
NET CASH USED BY INVESTING ACTIVITIES	(4,485,059)	(2,928,889)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,247,779	823,543
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,307,906	1,484,363
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>3,555,685</u>	<u>2,307,906</u>

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CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 and 2010

1. ORGANIZATION - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose of the Organization

Cibola General Hospital Corporation (the Hospital) is a New Mexico not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (Code) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is located in Grants, New Mexico. The primary interest of the Hospital is to provide medical services to the residents of Grants, Cibola County and the surrounding area.

The Hospital meets the criteria set forth in accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) for inclusion as a component unit of Cibola County (the County) based on the financial accountability criteria as it relates to the following items: 1) while the agreement between the Hospital and the County does not directly address financial accountability, the County owns, and is obligated for the related debt, with respect to the building which the Hospital is entitled to use, for a quarterly fee and other consideration under the terms of the agreement, and 2) the County assesses and remits to the Hospital a 4.25 mil property tax levy which was approved by the voters of the County for the sole purpose of supporting the Hospital's operations.

This summary of significant accounting policies of the Hospital is presented to assist in the understanding of the Hospital's financial statements. The financial statements and notes are the representations of the Hospital's management who is responsible for their integrity and objectivity. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to not-for-profit healthcare entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing accounting and financial reporting principles. The more significant of the Hospital's accounting policies are described below.

Basis of Accounting

The accompanying financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenues are recognized when earned rather than when received, and expenses are recognized when the related liability is incurred rather than when paid.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, Cibola General Hospital Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets; and permanently restricted net assets.

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

ORGANIZATION - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts and a money market savings account maintained with local financial institutions, as well as cash on hand. Amounts whose use is limited by Board of Trustees designation or other arrangements under trust agreements are excluded from cash and cash equivalents.

Patient Accounts Receivable

Patient accounts receivable represent the amount billed but uncollected for services provided to patients. Such receivables are carried at the billed amount less estimates for contractual discounts and allowances, as well as for doubtful accounts. Management determines the allowance for doubtful accounts by examining aging categories by payor and by using historical experience applied to the aging. Individual accounts receivable are written off when deemed uncollectible. Recoveries of patient accounts receivable previously written off are recorded when received. Delinquent status is based on how recently payments have been received. The Hospital does not accrue interest on past-due accounts. As of June 30, 2011, the Hospital had approximately \$1.4 million in patient accounts receivable past 90 days or older.

Inventories

Inventories, consisting primarily of pharmaceuticals and medical supplies, are stated at the lower of cost or market (first-in, first-out) basis.

Property and Equipment

Acquisitions of property and equipment are recorded at cost when the useful life exceeds one year and \$1,000. Depreciation is provided over the estimated useful life of the asset and is computed using the straight-line method over the following useful lives:

Equipment	3 to 20 years
Buildings and land improvements	10 to 40 years

Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying statements of activities.

Gifts of long-lived operating assets such as land, buildings or equipment are reported as unrestricted support and are excluded from excess of revenues, gains and other support over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

ORGANIZATION - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Property and Equipment (continued)

and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Assets Whose Use is Limited

Assets limited as to use consist primarily of internally designated assets set aside by the Board of Trustees of the Hospital to purchase property and equipment as well as to offset the effects of increasing managed care penetration within the Hospital's service area. Such penetration typically results in reduced reimbursement levels. The Board of Trustees retains control over the internally designated assets and may, at its discretion, use the assets for other purposes.

Deferred Revenue

The Hospital recognizes grant and contract revenues in the accounting period when the related expenditure is incurred and the revenue is earned. Deferred revenue represents cash advances to the Hospital that have not been earned.

Temporarily Restricted Net Assets

Temporarily restricted net assets are amounts whose use has been specified by donors for a specific time period or purpose. Such amounts are restricted for the purchase of property and equipment.

Operating Revenues

Operating revenues are all revenues derived from the Hospital's core business operations.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and for other services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

ORGANIZATION - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Excess of Revenues over Expenses

The accompanying statements of activities include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts received with donor stipulations that limit the use of the donated assets are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished by the Hospital, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying financial statements.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at any amount less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. In addition, the Hospital provides services to other medically indigent patients under various state and local government programs. Such programs pay amounts that are less than the cost of the services provided to the recipients.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. The Hospital has obtained commercial insurance coverage to protect itself against such losses.

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

ORGANIZATION - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Concentrations of Credit and Market Risk

Financial instruments that potentially expose the Hospital to concentrations of credit and market risk consist primarily of cash and cash equivalents and investments. Cash equivalents are maintained at high-quality financial institutions and credit exposure is limited at any one institution. The Hospital has not experienced any losses on its cash equivalents. The Hospital's investments do not represent significant concentrations of market risk since the Hospital's investment portfolio is adequately diversified among issuers.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Hospital is a non-profit corporation and qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and is classified as other than a private foundation. As such, its normal activities do not result in any income tax liability.

In 2006, FASB issued authoritative guidance relating to the accounting for the uncertainty in income taxes, which was effective for the Hospital for the year ended June 30, 2010. The guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with GAAP. The guidance also requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Hospital's information returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense in the current year. In addition, guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition was also provided. As of June 30, 2010, the Hospital performed a comprehensive review of its material tax positions in accordance with recognition and measurement standards established by GAAP. As a result of this review, the Hospital qualified as a tax exempt organization under Section 501(c)(3) of the IRC and had no income derived from unrelated business activities and did not identify any entity level tax positions that would not meet the more-likely-than-not threshold.

The Hospital files informational tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Hospital is subject to examination by federal, state, local and foreign jurisdictions, where applicable. As of June 30, 2011, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the year ended June 30, 2010 and forward.

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

ORGANIZATION - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The Hospital would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There was no such interest or penalties recorded for the years ended June 30, 2011 and 2010.

Reclassifications

Certain amounts for the year ended June 30, 2010 have been reclassified to conform to the presentation of the June 30, 2011 amounts. The reclassifications have no effect on the changes in net assets for the year ended June 30, 2010.

2. NET PATIENT SERVICE REVENUE

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

Medicare - Inpatient acute care services and 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. Inpatient, non-acute services and defined capital and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicaid fiscal intermediary. Net revenue from the Medicare and Medicaid programs accounted for approximately 43% and 44% of the Hospital's net patient service revenue for the years ended June 30, 2011 and 2010, respectively. 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. Medicare cost reports 2009 and prior have been settled and 2010 remains open. Medicaid cost reports for 2009 and prior have been settled and 2010 remains open. Management believes that estimated settlements accrued for June 30, 2011 are adequate to provide for the settlement of all open cost reports. The 2011 cost reports have not been prepared.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

NET PATIENT SERVICE REVENUE (continued)

payment to the Hospital under these agreements includes prospectively determined rates per discharge and discounts from established charges.

Net patient service revenue consists of the following at June 30:

	<u>2011</u>	<u>2010</u>
Inpatient gross charges	\$ 13,333,416	\$ 13,425,732
Outpatient gross charges	26,244,209	24,389,860
Sole community provider	<u>6,327,048</u>	<u>5,373,323</u>
	45,904,673	43,188,915
Less:		
Third-party contractual discounts and allowances	17,737,437	16,486,932
Un-sponsored charges, including community care	<u>1,280,476</u>	<u>891,310</u>
Net patient service revenue	<u>\$ 26,886,760</u>	<u>\$ 25,810,673</u>

3. ASSETS LIMITED AS TO USE AND FAIR VALUE MEASUREMENT

Assets Limited as to Use

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

	<u>2011</u>	<u>2010</u>
Certificates of deposit	\$ 4,055,200	\$ 5,334,901
Money market	6,536,702	1,755,685
Interest receivable	<u>28,202</u>	<u>37,521</u>
Total assets limited as to use	<u>\$ 10,620,104</u>	<u>\$ 7,128,107</u>

The Board of Trustees retains control over these assets and may, at its discretion, use the assets for other purposes.

Fair Value of Financial Instruments

Effective January 1, 2008, the Hospital adopted FASB ASC 820-10, which provides a framework for measuring fair value under GAAP and expands disclosures about fair value measurement. ASC 820-10 defines fair value as the exchange price that would be received for

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

ASSETS LIMITED AS TO USE AND FAIR VALUE MEASUREMENT (continued)

an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820-10 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. ASC 820-10 also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels. The three levels defined by the ASC 820-10 hierarchy are as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves, prepayment speeds, loss credit risk, etc.)

Level 3- Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Unobservable inputs shall be developed based on the best information available in the circumstances, which might include the reporting entity's own data and assumptions.

There are three general valuation techniques that may be used to measure fair value, as described below:

Market approach- Uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Prices may be indicated by pricing guides, sale transactions, market trades, or other sources;

Cost approach -Based on the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach- Uses valuation techniques to convert future amounts to a single present amount based on current market expectations about the future amounts (includes present value techniques and option-pricing models). Net present value is an income approach where a stream of expected cash flows is discounted at an appropriate market interest rate.

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

ASSETS LIMITED AS TO USE AND FAIR VALUE MEASUREMENT (continued)

Fair Value of Financial Instruments (continued)

Fair value of assets measured on a recurring basis at June 30, 2011 and 2010 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>June 30, 2011</u>				
Assets limited as to use	\$ 10,620,104	10,620,104	-	-
Total	<u>\$ 10,620,104</u>	<u>10,620,104</u>	<u>-</u>	<u>-</u>
<u>June 30, 2010</u>				
Assets limited as to use	\$ 7,128,107	7,128,107	-	-
Total	<u>\$ 7,128,107</u>	<u>7,128,107</u>	<u>-</u>	<u>-</u>

In January 2010, the Financial Accounting Standards Board released ASU 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 is effective for annual and interim reporting periods beginning after December 15, 2009. ASU 2010-06 requires new disclosures related to transfers in and out of Levels 1 and 2; as well as additional purchase, sale, issuance and settlement information in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). ASU 2010-06 also provides amendments that clarify existing disclosure requirements regarding levels of disaggregation and disclosures of inputs and valuation techniques. Given the nature of the investments held, management has determined that ASU 2010-06 is inapplicable to the Hospital.

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

4. PROPERTY AND EQUIPMENT

As of June 30, property and equipment consisted of the following:

	<u>2011</u>	<u>2010</u>
Non-depreciable assets:		
Land	\$ 733,729	\$ 733,729
Construction in progress	466,623	273,058
Total non-depreciable assets	1,200,352	1,006,787
Depreciable assets:		
Building and land improvements	2,925,644	2,852,798
Equipment	6,813,115	6,449,004
Total depreciable assets	9,738,759	9,301,802
Less accumulated depreciation and amortization	<u>5,644,793</u>	<u>5,068,828</u>
Net depreciable assets	<u>4,093,966</u>	<u>4,232,974</u>
Total property and equipment, net	<u>\$ 5,294,318</u>	<u>\$ 5,239,761</u>

5. ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30:

	<u>2011</u>	<u>2010</u>
Accrued paid time off	\$ 461,871	\$ 482,988
Accrued wages	321,057	304,871
Accrued payroll taxes	-	-
Other	27,005	27,563
Total accrued liabilities	<u>\$ 809,933</u>	<u>\$ 815,422</u>

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

6. MIL LEVY

Pursuant to New Mexico law adopted in 1980 and amended in 1981 allowing counties to provide expanded tax support to qualified hospitals, the County of Cibola approved mil levy tax in 1998. The Hospital recorded \$1,153,088 and \$1,131,447 in the years ended June 30, 2011 and 2010, respectively, in mil levy proceeds. The amounts were used in accordance with the provisions of the property tax referendum. The Hospital receives mil levy taxes from the Treasurer of Cibola County. The County serves as the intermediary collecting agency and remits the Hospital's share of mil levy tax collections. The Hospital does not maintain detailed records of mil levy taxes receivable by the individual taxpayer.

Mil levy taxes are levied on November 1 based on the assessed value of property as listed on the previous January 1st and are due in two payments by November 10th and April 10th. The taxes attach as an enforceable lien on property thirty (30) days thereafter, at which time they become delinquent.

7. MEDICAL MALPRACTICE CLAIMS

The Hospital has purchased a commercial insurance policy on a claims-made basis for coverage of its professional liability expense. Losses under this policy have not exceeded the coverage limits for the years ended June 30, 2011 and 2010. Certain malpractice claims have been asserted against the Hospital by various claimants. The claims are in various stages of processing and some may ultimately be brought to trial. In the opinion of legal counsel, the outcome of these actions will not have a significant effect on the financial position or the operating results of the Hospital.

8. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Hospital has agreed, as part of a settlement with the County of Cibola, to a ten-year lease agreement for the use of the Hospital facility effective March 31, 2004. In the prior fiscal year, 2010, the County forgave the facility lease. The facility lease was not forgiven in 2011 and, as such, the Hospital paid \$265,000 in rental expense related to the said lease. Total rental expense in 2011 and 2010 was \$533,879 and \$262,026, respectively.

The following schedule details future minimum lease payments as of June 30, 2011, for operating leases with initial or remaining lease terms in excess of one year:

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases (continued)

Minimum future rentals to be received on non-cancelable leases are approximately:

Years ending June 30:

2012	\$ 381,326
2013	333,272
2014	253,649
2015 and thereafter	<u>3,434</u>
	<u>\$ 971,681</u>

Regulatory Audits

The Hospital is involved in standard regulatory audits arising in the ordinary course of business. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management that the resolution of the outstanding audits will not have a material adverse effect on the financial position or results of operations of the Hospital.

Subsequent Events

Management has evaluated subsequent events through October 20, 2011 to determine whether such events should be recorded or disclosed in the financial statements or notes for the year ended June 30, 2011. The date through which events were reviewed represents the date the financial statements were available to be issued.

On September 8, 2011, the Hospital was certified as a Medicare Critical Access Provider effective September 2, 2008. This certification will result in a retrospective increase in the applicable Medicare rate as of the effective date. The aforementioned certification will result in an increase in net patient revenue; however, the significance of the increase is unknown at this time.

9. RETIREMENT PLAN

The Hospital has a 403(b) Plan (the Plan) to provide retirement and incidental benefits for its employees. Employees may contribute up to a maximum annual amount as set periodically by the Internal Revenue Service. The Hospital matches 50% of an employee's contributions up to 5% of the employee's gross income. All matching contributions vest 20% each year for five years. In addition, the Plan provides for discretionary contributions as determined by the Board of Trustees. Company matching contributions to the Plan totaled \$108,220 and \$62,758 in 2011 and 2010, respectively.

CIBOLA GENERAL HOSPITAL CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (continued)
JUNE 30, 2011 and 2010

10. CONCENTRATION OF CREDIT RISK

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

	<u>2011</u>	<u>2010</u>
Medicare	18%	18%
Medicaid	18%	18%
Commercial insurance	11%	10%
All other payors	53%	54%
	<u>100%</u>	<u>100%</u>

QHR manages the Hospital pursuant to a five-year agreement effective December 1, 2006 through December 1, 2011, between QHR and the Hospital, whereby the Hospital reimburses QHR for the appointed administrator's and chief financial officer's salaries, including, but not limited to, social security payments, retirement benefits and other benefits accruing to executive level employees of QHR. This agreement may be terminated by either party upon 60 days written notice. As part of this agreement, the Hospital is able to purchase medical supplies from various vendors at more favorable prices than the Hospital could negotiate on its own. An unexpected termination of this contract with QHR could have an adverse effect on the operations of the Hospital due to the loss of key management personnel and loss of the favorable purchasing agreements until such time a new contract could be negotiated with an alternate management firm. The Hospital is not aware of, and does not anticipate, any termination of the existing contract.

11. FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2011</u>	<u>2010</u>
Health care services	16,209,631	16,051,845
General and administrative	7,869,535	8,032,920
Total functional expenses	<u>24,079,166</u>	<u>24,084,765</u>

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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
Cibola General Hospital Corporation
Grants, New Mexico and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the financial statements of Cibola General Hospital Corporation (the Hospital), a component unit of Cibola County, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 20, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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This report is intended solely for the information and use of the Board of Trustees, management, the Office of the State Auditor, and the State of New Mexico Cibola County and is not intended to be and should not be used by anyone other than these specified parties.

GRIEGO PROFESSIONAL SERVICES, LLC.

Griego Professional Services, LLC

Albuquerque, New Mexico
October 20, 2011

CIBOLA GENERAL HOSPITAL CORPORATION
JUNE 30, 2011

Section I – Summary of Audit Results

Financial Statements:

1. Type of auditors' report issued	Unqualified
2. Internal control over financial reporting:	
a. Material weaknesses identified?	No
b. Significant deficiencies identified?	No
Noncompliance material to financial statements noted?	No

Section II – Financial Statement Findings

None

CIBOLA GENERAL HOSPITAL CORPORATION
JUNE 30, 2011

Section III – Prior Year Audit Findings

10-01 – DUE DATE OF AUDIT REPORT (noncompliance) – resolved.

Section IV – Other Disclosures

Auditor Prepared Financials

The financial statements presented in this report were prepared by the auditors, Griego Professional Services, LLC but are the responsibility of the Hospital and were reviewed by Hospital personnel.

Exit Conference

The contents of this report were discussed on October 20, 2011. The following individuals were in attendance.

Cibola General Hospital Corporation

Mike Makosky, Chief Executive Officer
J.F Rimel, Chief Financial Officer
Arnold Valdivia, MD
Paul Milan
Nestor Griego

Griego Professional Services, LLC

J.J. Griego, CPA
Kimberly Clay, CPA