CIBOLA GENERAL HOSPITAL CORPORATION
Financial Statements, Supplemental Information and
Independent Auditor's Report
For the Years Ended June 30, 2012 and 2011

Griego Professional Services, LLC
Certified Public Accountants

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CIBOLA GENERAL HOSPITAL CORPORATION

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CIBOLA GENERAL HOSPITAL CORPORATION

OFFICIAL ROSTER

June 30, 2012

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
Bob Tenequer	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 (" Hospital", a component unit of Cibola County, as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets and cash flows for the years 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control over financial reporting. Accordingly we express no opinion. 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 the significant estimated made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2012 and 2011, and the changes in its net assets and its cash flows for the years 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 18, 2012 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.

Griego Professional Services, LLC

October 18, 2012

CIBOLA GENERAL HOSPITAL CORPORATION

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30,

	2012	2011
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,429,455	$ 3,555,685
Patient accounts receivable, net of allowance for doubtful accounts of $1,037,088 and $1,002,311 in 2012 and 2011, respectively	8,747,738	3,881,759
Prepaid expenses	318,231	338,400
Inventories	241,914	219,963
Other receivables	5,255	13,174
Total current assets	13,742,593	8,008,981
ASSETS LIMITED AS TO USE (Note 3)	7,757,749	10,620,104
PROPERTY AND EQUIPMENT, NET (Note 4)	9,819,430	5,294,318
TOTAL ASSETS	$ 31,319,772	$ 23,923,403
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 1,511,709	$ 794,569
Accrued payroll and taxes	891,057	809,933
Deferred revenue	187,802	187,802
Other liabilities	23,667	28,085
Total current liabilities	2,614,235	1,820,389
COMMITMENTS AND CONTINGENCIES (Notes 7 through 10)		
NET ASSETS:		
Unrestricted	28,705,537	22,103,014
Total net assets	28,705,537	22,103,014
TOTAL LIABILITIES AND NET ASSETS	$ 31,319,772	$ 23,923,403

See notes to financial statements.

CIBOLA GENERAL HOSPITAL CORPORATION

STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30,

	2012	2011
UNRESTRICTED NET ASSETS		
REVENUES		
Net patient service revenue (Note 2)	$ 30,656,914	$ 26,886,760
Mil Levy (Note 6)	1,211,558	1,153,088
Other	197,042	128,109
TOTAL REVENUES	32,065,514	28,167,957
EXPENSES		
Salaries and wages	10,019,826	9,329,805
Purchased services and other	4,193,458	3,790,965
Supplies	2,168,644	2,148,385
Payroll taxes and benefits	2,320,774	1,986,642
Utilities, insurance, rentals and repairs	1,957,255	1,853,699
Professional fees	993,017	955,690
Depreciation and amortization	915,915	924,237
Provision for bad debts	2,981,597	3,089,743
TOTAL EXPENSES	25,550,486	24,079,166
OPERATING INCOME	6,515,028	4,088,791
OTHER INCOME (EXPENSES):		
Interest income	102,858	126,159
Loss on sale of property and equipment	26,468	(4,217)
Other expense	(43,052)	(18,961)
TOTAL OTHER INCOME	86,274	102,981
EXCESS OF REVENUES OVER EXPENSES	6,601,302	4,191,772
CHANGE IN NET UNREALIZED (LOSS) GAIN ON OTHER THAN TRADING SECURITIES	(156)	(10,051)
CONTRIBUTIONS	1,377	52
INCREASE IN UNRESTRICTED NET ASSETS	6,602,523	4,181,773
NET ASSETS, BEGINNING OF YEAR	22,103,014	17,921,241
NET ASSETS, END OF YEAR	$ 28,705,537	$ 22,103,014

See notes to financial statements.

CIBOLA GENERAL HOSPITAL CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30,

	2012	2011
Cash Flows from Operating Activities:		
Change in net assets	$ 6,602,523	$ 4,181,773
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	2,981,597	3,089,743
Depreciation and amortization	915,915	924,237
Loss on disposal of property and equipment	(26,468)	4,217
Unrealized loss on investments	156	10,051
Changes in Operating Assets and Liabilities:		
(Increase) decrease in:		
Patient accounts receivable	(7,847,576)	(2,548,014)
Prepaid expenses	20,169	(27,355)
Inventories	(21,951)	13,286
Other receivables	7,919	(7,149)
Increase (decrease) in:		
Accounts payable	717,140	90,588
Accrued liabilities	81,124	(5,489)
Deferred revenue	-	32,975
Other liabilities	(4,418)	(26,025)
Estimated third-party settlements	-	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,426,130	5,732,838

CIBOLA GENERAL HOSPITAL CORPORATION

STATEMENTS OF CASH FLOWS, CONTINUED
YEARS ENDED JUNE 30,

	2012	2011
Cash Flows from Operating Activities:		
Cash received from customers	25,798,698	24,364,572
Cash received from mil levy and other	1,409,977	1,281,249
Cash payments to suppliers	(12,526,061)	(8,703,736)
Cash paid for payroll, payroll taxes and benefits	(11,316,446)	(11,316,446)
Interest received	59,806	126,160
Other expense	156	(18,961)
NET CASH PROVIDED BY OPERATING ACTIVITIES	3,426,130	5,732,838
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of investments	4,638,667	-
Purchases of investments	(1,750,000)	(3,506,265)
Purchases of property and equipment	(5,441,027)	(978,794)
NET CASH USED BY INVESTING ACTIVITIES	(2,552,360)	(4,485,059)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	873,770	1,247,779
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,555,685	2,307,906
CASH AND CASH EQUIVALENTS, END OF YEAR	4,429,455	3,555,685

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.

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, 2012, the Hospital had approximately $3,148,700 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 cost exceeds $5,000. 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

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 adverse trends in reimbursement, including increased managed care penetration within the Hospital's service area. 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.

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.

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.

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, 2012 and 2011.

Reclassifications

Certain amounts for the year ended June 30, 2011 have been reclassified to conform to the presentation of the June 30, 2012 amounts. The reclassifications have no effect on the changes in net assets for the year ended June 30, 2011.

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 are cost-based reimbursed, and Outpatient services are reimbursed based upon a Medicare-determined percentage of gross charges rates. 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 44% and 43% of the Hospital's net patient service revenue for the years ended June 30, 2012 and 2011, 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. The 2011 cost reports have not been prepared. 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 2008 and prior have been settled. Because of re-filings due to the Critical Access designation, Medicare 2009, 2010, and 2011 remain open. Medicaid 2011 remains open. Management believes that estimated settlement amounts accrued for June 30, 2012 are adequate to provide for the settlement of all open cost reports. The 2012 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 payment to the

NET PATIENT SERVICE REVENUE (continued)

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:

	2012	2011
Inpatient gross charges	$ 13,444,596	$ 13,333,416
Outpatient gross charges	28,739,449	26,244,209
Sole community provider	6,339,358	6,327,048
	48,523,403	45,904,673
Less:		
Third-party contractual discounts and allowances	16,221,406	17,737,437
Unsponsored charges, including community care	1,645,083	1,280,476
Net patient service revenue	$ 30,656,914	$ 26,886,760

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:

	2012	2011
Certificates of deposit	$ 4,591,055	$ 4,055,200
Money market	3,145,548	6,536,702
Interest receivable	21,146	28,202
Total assets limited as to use	$ 7,757,749	$ 10,620,104

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

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.

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, 2012 and 2011 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)
June 30, 2012				
Assets limited as to use	$ 7,757,749	7,757,749	-	-
Total	$ 7,757,749	7,757,749	-	-
June 30, 2011				
Assets limited as to use	$ 10,620,104	10,620,104	-	-
Total	$ 10,620,104	10,620,104	-	-

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.

4. PROPERTY AND EQUIPMENT

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

	2012	2011
Non-depreciable assets:		
Land	$ 733,729	$ 733,729
Construction in progress	4,913,733	466,623
Total non-depreciable assets	5,647,462	1,200,352
Depreciable assets:		
Building and leasehold improvements	3,038,644	2,925,644
Equipment	7,062,696	6,813,115
Total depreciable assets	10,101,340	9,738,759
Less accumulated depreciation and amortization	5,929,372	5,644,793
Net depreciable assets	4,171,968	4,093,966
Total property and equipment, net	$ 9,819,430	$ 5,294,318

5. ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30:

	2012	2011
Accrued paid time off	$ 476,168	$ 461,871
Accrued wages	276,162	321,057
Accrued payroll taxes	106,762	-
Other	31,965	27,005
Total accrued liabilities	$ 891,057	$ 809,933

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 voters of Cibola County approved a mil levy tax in 2011. The Hospital recorded $1,211,558 and $1,153,088 in the years ended June 30, 2012 and 2011, 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, 2012 and 2011. 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 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 in both the year ended June 30, 2011 and ended June 30,2012.

The following schedule details future minimum lease payments as of June 30, 2012, for operating leases with initial or remaining lease terms in excess of one year:

COMMITMENTS AND CONTINGENCIES (continued)

Operating Leases (continued)

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

Years ending June 30:

2013	$ 400,263
2014	344,655
2015	14,095
2016	10,661
2016	10,661
	$ 780,335

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 18, 2012 to determine whether such events should be recorded or disclosed in the financial statements or notes for the year ended June 30, 2012. The date through which events were reviewed represents the date the financial statements were available to be issued.

The Hospital anticipates opening a new medical facility in late October or early November 2012. The facility is located on seventeen acres owned by Cibola County.

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. Hospital matching contributions to the Plan totaled $143,773 and $108,220 in 2012 and 2011, respectively.

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:

	2012	2011
Medicare	39%	18%
Medicaid	11%	18%
Commercial insurance	7%	11%
All other payors	43%	53%
	100%	100%

The increase in Medicare accounts receivable is a result of the Critical Access Hospital conversion which required CGHC to resubmit its inpatient claims back to July of 2011.

QHR manages the Hospital pursuant to a five-year agreement effective December 1, 2011 through December 1, 2015, 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:

	2012	2011
Health care services	16,968,677	16,209,631
General and administrative	8,581,809	7,869,535
Total functional expenses	25,550,486	24,079,166

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, 2012, and have issued our report thereon dated October 18, 2012. 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

Management of the Hospital is responsible for establishing and maintaining effective 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 opinions 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 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

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 described above

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board'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 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 FS 12-01.

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 18, 2012

CIBOLA GENERAL HOSPITAL CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012

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

FS 12-01 Missing Form I-9 – Other Matter

Criteria: Employers must retain an employee's completed Form I-9 for as long as the individual works for the employer. Once the individual's employment has terminated, the employer must determine how long after termination the Form I-9 must be retained, which is either three years after the date of hire, or one year after the date employment is terminated, whichever is later.

Condition: In a payroll sample of forty, we noted one instance in where the hospital could not locate a Form I-9 for an employee.

Cause: Hospital personnel were not in full awareness of the retention requirements regarding the Form I-9.
Effect: The Hospital was not following regulations governing the Form I-9.

Auditors' Recommendation: We recommend that the Hospital retain the Form I-9 for its employees for the appropriate time frame indicated in the I-9 regulations.

Management's Response: The Hospital's Human Resources Director is fully aware of the I-9 retention requirements and always maintains the I-9 for all current and past employees. They are kept in a locked file cabinet in the Director's office. We cannot explain why we are missing one out of the forty samples, but we will continue a concentrated effort to remain in compliance with the appropriate regulations. A new Form I-9 has been obtained to replace the one that could not be located.

Section III – Prior Year Audit Findings

No Audit findings were reported in prior year.

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 18, 2012. The following individuals were in attendance.

Cibola General Hospital Corporation
Ron Ortiz, Board Chairman
Paul Milan, Board Treasurer
Nestor Griego, Board Secretary
Laura Council, Board Member
Mike Makosky, CEO
Jeff Rimel, Assistant Administrator and CFO
Jenny Jensen, Executive Assistant

Griego Professional Services, LLC
J.J. Griego, CPA
David Baca