CIBOLA General Hospital, Inc.

"Healthcare with a hometown touch"

CIBOLA GENERAL HOSPITAL CORPORATION
Financial Statements, Supplemental Information and
Independent Auditor's Report
For the Years Ended June 30, 2013 and 2012

GPS 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, 2013

PRINCIPAL EMPLOYEES

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

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GPS Griego Professional Services, LLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

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, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended.

Management's Responsibility or 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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 involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's 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 auditor considers 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.

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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, 2013 and 2012, 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 25, 2013 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 25, 2013

CIBOLA GENERAL HOSPITAL CORPORATION

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 and 2012

	2013	2012
ASSETS:		
CURRENT ASSETS:		
Cash and cash equivalents	$ 10,124,684	$ 4,429,455
Patient accounts receivable, net of allowance for doubtful accounts of $2,634,185 and $1,037,088 in 2013 and 2012, respectively	5,458,870	8,747,738
Prepaid expenses	422,225	318,231
Inventories	223,920	241,914
Other receivables	24,235	5,225
Total current assets	16,253,934	13,742,593
ASSETS LIMITED AS TO USE (Note 3)	9,639,430	7,757,749
PROPERTY AND EQUIPMENT, NET (Note 4)	11,206,107	9,819,430
TOTAL ASSETS	$ 37,099,471	$ 31,319,772
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 1,938,330	$ 1,511,709
Accrued payroll and taxes	964,861	891,057
Deferred revenue	187,802	187,802
Other liabilities	-	23,667
Total current liabilities	3,090,993	2,614,235
COMMITMENTS AND CONTINGENCIES (Notes 7 through 10)		
NET ASSETS:		
Unrestricted	34,008,478	28,705,537
Total net assets	34,008,478	28,705,537
TOTAL LIABILITIES AND NET ASSETS	$ 37,099,471	$ 31,319,772

See notes to financial statements.

CIBOLA GENERAL HOSPITAL CORPORATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2013 and 2012

	2013	2012
UNRESTRICTED NET ASSETS		
REVENUES		
Net patient service revenue (Note 2)	$ 27,764,120	$ 27,675,317
Mil Levy (Note 6)	1,234,057	1,211,558
Other	182,626	197,042
TOTAL REVENUES	29,180,803	29,083,917
EXPENSES		
Salaries and wages	10,720,252	10,019,826
Purchased services and other	4,342,314	4,193,458
Supplies	2,366,595	2,168,648
Payroll taxes and benefits	2,283,420	2,320,770
Utilities, insurance, rentals and repairs	2,196,565	1,957,255
Professional fees	945,304	993,017
Depreciation and amortization	1,035,220	915,915
TOTAL EXPENSES	23,889,670	22,568,889
OPERATING INCOME	5,291,133	6,515,028
OTHER INCOME (EXPENSES):		
Interest income	79,085	102,858
Loss on sale of property and equipment	(6,782)	26,468
Other expense	(50,303)	(43,052)
TOTAL OTHER INCOME	22,000	86,274
EXCESS OF REVENUES OVER EXPENSES	5,313,133	6,601,302
CHANGE IN NET UNREALIZED (LOSS) GAIN ON OTHER THAN TRADING SECURITIES	(14,642)	(156)
CONTRIBUTIONS	4,450	1,377
INCREASE IN UNRESTRICTED NET ASSETS	5,302,941	6,602,523
NET ASSETS, BEGINNING OF YEAR	28,705,537	22,103,014
NET ASSETS, END OF YEAR	$ 34,008,478	$ 28,705,537

See notes to financial statements.

CIBOLA GENERAL HOSPITAL CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Cash received from customers	31,034,008	25,798,854
Cash received from mil levy and other	1,416,683	1,408,600
Cash payments to suppliers	(10,123,095)	(11,501,910)
Cash paid for payroll, payroll taxes and benefits	(12,340,597)	(12,340,597)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,986,999	3,364,947
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of investments	-	4,638,823
Gains/loss on other trading securities	(14,642)	(156)
Contributions received	4,450	1,377
Interest received	79,085	102,858
Other expense	(50,303)	(43,052)
Purchases of investments	(1,881,681)	(1,723,532)
Gain/loss on sale of property and equipment	(6,782)	-
Purchases of property and equipment	(2,421,897)	(5,467,495)
NET CASH USED BY INVESTING ACTIVITIES	(4,291,770)	(2,491,177)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,695,229	873,770
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,429,455	3,555,685
CASH AND CASH EQUIVALENTS, END OF YEAR	10,124,684	4,429,455

See notes to financial statements.

CIBOLA GENERAL HOSPITAL CORPORATION

STATEMENTS OF CASH FLOWS, CONTINUED
YEARS ENDED JUNE 30, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash provided by (used in) operating activities		
Operating income	$ 5,291,133	$ 6,515,028
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Provision for bad debts	4,345,118	2,981,597
Depreciation and amortization	1,035,220	915,915
Changes in Operating Assets and Liabilities:		
(Increase) decrease in:		
Patient accounts receivable	(1,056,250)	(2,548,014)
Prepaid expenses	(103,994)	(27,355)
Inventories	17,994	13,286
Other receivables	(18,980)	(7,149)
Increase (decrease) in:		
Accounts payable	426,621	90,588
Accrued liabilities	73,804	(5,489)
Deferred revenue	-	32,975
Other liabilities	(23,667)	(26,025)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,986,999	7,935,357

See notes to financial statements.

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, 2013, the Hospital had approximately $3,117,917 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.

Upon dissolution of the agreement between Cibola General Hospital, Inc., and Cibola County for any reason, all physical and tangible items of the Hospital will revert to Cibola County.

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, 2013, 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, 2013 and 2012.

Reclassifications

Certain amounts for the year ended June 30, 2012 have been reclassified to conform to the presentation of the June 30, 2013 amounts. The reclassifications have no effect on the changes in net assets for the year ended June 30, 2012.

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 53% and 44% of the Hospital's net patient service revenue for the years ended June 30, 2013 and 2012, 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 2011 and prior have been settled and 2012 remains open. Medicaid cost reports for 2011 and prior have been settled and 2012 remains open. The 2013 cost reports have not been prepared. Management believes that estimated settlement amounts accrued for June 30, 2013 are adequate to provide for the settlement of all open cost reports.

NET PATIENT SERVICE REVENUE (continued)

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 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:

	2013	2012
Inpatient gross charges	$ 14,346,937	$ 13,444,596
Outpatient gross charges	33,948,695	28,739,449
Sole community provider	2,909,785	6,339,358
	51,205,417	48,523,403
Less:		
Third-party contractual discounts and allowances	17,553,792	16,221,726
Unsponsored charges, including community care	5,887,505	4,626,360
Net patient service revenue	$ 27,764,120	$ 27,675,317

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:

	2013	2012
Certificates of deposit	$ 4,496,501	$ 4,591,055
Money market	5,124,713	3,145,548
Interest receivable	18,216	21,146
Total assets limited as to use	$ 9,639,430	$ 7,757,749

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, 2013 and 2012 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, 2013				
Assets limited as to use	$ 9,639,430	9,639,430	-	-
Total	$ 9,639,430	9,639,430	-	-
June 30, 2012				
Assets limited as to use	$ 7,757,749	7,757,749	-	-
Total	$ 7,757,749	7,757,749	-	-

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:

	2013	2012
Non-depreciable assets:		
Land	$ 733,729	$ 733,729
Construction in progress	430,715	4,913,733
Total non-depreciable assets	1,164,444	5,647,462
Depreciable assets:		
Building and leasehold improvements	9,337,088	3,038,644
Equipment	7,206,686	7,062,696
Total depreciable assets	16,543,774	10,101,340
Less accumulated depreciation and amortization	6,502,111	5,929,372
Net depreciable assets	10,041,663	4,171,968
Total property and equipment, net	$ 11,206,107	$ 9,819,430

5. ACCRUED LIABILITIES

Accrued liabilities consist of the following at June 30:

	2013	2012
Accrued paid time off	$ 507,996	$ 476,168
Accrued wages	296,690	276,162
Accrued payroll taxes	142,325	106,762
Other	17,850	31,965
Total accrued liabilities	$ 964,861	$ 891,057

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 $1,234,057 and $1,211,558 in the years ended June 30, 2013 and 2012, 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, 2013 and 2012. 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. The Hospital paid $265,000 in rental expense in both the year ended June 30, 2013 and ended June 30, 2012.

The following schedule details future minimum lease payments as of June 30, 2013, for operating leases with initial or remaining lease terms in excess of one year:

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

Years ending June 30:

2014	$ 363,203
2015	364,241
2016	364,241
2017	364,423
2018	364,985
	$ 1,821,093

COMMITMENTS AND CONTINGENCIES (continued)

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 25, 2013 to determine whether such events should be recorded or disclosed in the financial statements or notes for the year ended June 30, 2013. The date through which events were reviewed represents the date the financial statements were available to be issued. The agreement between the Hospital and the County expires in February of 2014. The Hospital and the County are currently discussing the terms of a potential renewed agreement. The Hospital cannot determine whether the financial arrangements related to the current agreement will be modified.

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 subject to IRS per-employee dollar limits. 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 $160,539 and $143,773 in 2013 and 2012, 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:

	2013	2012
Medicare	17%	39%
Medicaid	13%	11%
Commercial insurance	18%	7%
All other payors	52%	43%
	100%	100%

The decrease in Medicare accounts receivable is a result of resolution of Critical Access conversion issues related to 2012, which have since been resolved.

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:

	2013	2012
Health care services	14,794,375	13,987,076
General and administrative	9,095,295	8,581,809
Total functional expenses	23,889,670	22,568,885

GPS Griego Professional Services, LLC
Certified Public Accountants

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, in accordance with the auditing standards generally accepted in the United State 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 Cibola General Hospital Corporation (the Hospital), a component unit of Cibola County, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness..

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 We consider the deficiency described in the accompanying schedule of findings and responses as FS 13-01 to be a material weakness.

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

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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 13-02.

Hospital's Response to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result 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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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.

Albuquerque, New Mexico
October 25, 2013

CIBOLA GENERAL HOSPITAL CORPORATION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2013

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?	Yes
b. Significant deficiencies identified?	No
Noncompliance material to financial statements noted?	No

Section II – Financial Statement Findings

FS 13-01 Improper Revenue Recognition – Material Weakness

Criteria: The recognition, measurement, and display of revenues from transactions should be recognized when earned based on accrual accounting principles and should be measured by the increase in cash, receivables, or other assets or by the decreases in liabilities resulting from the transactions.

Condition: An adjusting entry, which reduced revenue by $2,039,018, was necessary to complete the audit for the year ended June 30, 2013. The error in revenue recognition was noted by Hospital personnel and recommended to the Auditors.

Cause: The terms of an agreement with the State of New Mexico for Sole Community Provider Funds were changed. In recalculating the amount of revenue earned for the year ended June 30, 2013, Hospital personnel were given information from the State of New Mexico which conflicted and misled the Hospital's interpretation of the final revenue earned.

Effect: June's financial statements were closed using best estimates of information provided. After further evaluation, it was realized that the financial statements were misstated by approximately two million dollars.

Auditors' Recommendation: In the instances where revenue transactions may be subject to misinterpretation, the Hospital should conduct a more thorough review prior to general ledger posting.

Management's Response: The Hospital has established procedures to ensure that journal entries are more thoroughly reviewed prior to finalizing the month's financial statements.

FS 13-02 Payroll Processes – Other Matter

Criteria: A properly filled out Form W-4 should be on file for all employees. Employees should be paid the rates established for the varying pay differentials.

Condition: In a payroll sample of twenty-five, we noted one instance in where the employee listed their birth date instead of signing the signature portion of the Form W-4.

We also noted one instance in where an employee has been paid at the incorrect pay differential since February of 2012. For the paycheck actually tested, the employee was underpaid approximately forty – two dollars.

Cause: A second person does not always review changes made to payroll related documents.

Effect: The Hospital was not following regulations governing the proper completion of a Form W-4. An employee has been underpaid since February of 2012.

Auditors' Recommendation: We recommend that the Hospital establish a procedure where there is an internal audit of payroll related documentation. Payroll documentation should be updated and revised when needed. We recommend that the hospital calculate and pay the employee for prior wages coded at the wrong differential rate.

Management's Response: Payroll has been instructed to double-check supporting documents received from Human Resources when changes to differentials, withholdings and other transactions are input to the system by Human Resources staff.

Section III – Prior Year Audit Findings

FS 12-01 Missing Form I-9 – Other Matter-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 November 8, 2013. The following individuals were in attendance.

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

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

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