



**Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Grants, New Mexico**

*Financial Statements,
Supplementary Information and
Independent Auditor's Reports
June 30, 2014 and 2013*

REDW^{LLC}
CPAs | Business & Financial Advisors

Cibola General Hospital Corporation
(A Component Unit of Cibola County)

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Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Board of Trustees and Principal Employees
June 30, 2014

Board of Trustees

Ron Ortiz	Chairperson
Bob Tenequer	Vice-Chairperson
Nestor Griego	Secretary
Karl Gutierrez, MD	Chief of Medical Staff
Paul Milan	Treasurer
Carlos Tapia	Member
Donna Deming, MD	Member
Chase Elkins	Member
Lloyd Felipe	Member

Principal Employees
(Employed through Quorum Health Resources)

Donald Weidemann, MHS, MA	Chief Executive Officer
J.F. Rimel	Assistant Administrator and CFO

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Cibola General Hospital Corporation (the "Hospital"), a component unit of Cibola County (the "County"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the budget comparison schedule for the year ended June 30, 2014, presented as supplementary information, as defined by the Governmental Accounting Standards Board, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of June 30, 2014, and the changes in its financial position and cash flows, and the respective budget comparison schedule for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Adjustments to Prior Period Financial Statements

The financial statements of the Hospital as of June 30, 2013, were audited by other auditors whose report dated October 25, 2013, expressed an unmodified opinion. As discussed in Note 12 to the financial statements, the Hospital restated its 2013 financial statements during the current year to remove capital assets not owned by the Hospital. The other auditors reported on the 2013 financial statements before restatement. As part of our audit of the 2014 financial statements, we also audited adjustments described in Note 12 that were applied to restate the 2013 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2013 financial statements of the Hospital other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2013 financial statements as a whole.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements and the budget comparison schedule that collectively comprise the Hospital's financial statements as a whole. The accompanying schedules of pledged collateral and individual deposit and investment accounts, as required by Section 2.2.2 NMAC, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2014, 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.

REDW LLC

Phoenix, Arizona
November 5, 2014

Required Supplementary Information
Management's Discussion and Analysis

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Management's Discussion and Analysis
For the Year Ended June 30, 2014 and 2013

Introduction

This section of the financial report presents management's discussion and analysis of Cibola General Hospital Corporation (the "Hospital") financial performance during the fiscal year that ended June 30, 2014. This section presents comparative information and balances for the years ended June 30, 2014, 2013 and 2012. Please read it in conjunction with the Hospital's basic financial statements, which follow this section.

Financial Highlights

- ◆ Current assets decreased by \$1,636,573 in 2014 and increased by \$6,294,325 in 2013, or (7%) and 37%, respectively.
- ◆ Total funds set aside for future capital asset acquisitions/replacements increased by \$6,986,695 to \$16,626,125 in 2014 and \$1,881,681 in 2013, or 72% and 24%, respectively. The total balance is a sum of separately presented balances as related cash and cash equivalents, as investments in current assets, and as investments in non-current assets.
- ◆ The Hospital's net position increased by \$4,099,292 in 2014 and \$5,302,941 in 2013, or 15% and 25%, respectively.
- ◆ The Hospital reported operating income of \$2,727,915 in 2014, which represents a decrease of \$1,278,858, or 32%, compared to the operating income reported in 2013.
- ◆ Net nonoperating revenues increased by \$75,209 or 6% in 2014, compared to a decrease of \$2,885 or (0.2%) in 2013.

Using This Annual Report

The Hospital's financial statements consist of three statements: balance sheets; statements of revenues, expenses and changes in net position; and statements of cash flows. These statements provide information about the activities of the Hospital. The Hospital is accounted for as a business-type activity and presents its financial statement using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheets and Statements of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheets and the statements of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Management's Discussion and Analysis
For the Year Ended June 30, 2014 and 2013

These statements include all assets and liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position, the difference between assets and liabilities, is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statements of Cash Flows

The statements of cash flows report cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the balance sheets. The Hospital's net position increased in 2014 by \$4,099,292, or 15%, and increased in 2013 by \$5,302,941 or 25%, as shown in the following table:

ASSETS, LIABILITIES AND NET POSITION

	2014	2013 (as restated)	2012 (as restated)
Current assets	\$ 21,545,893	\$ 23,182,466	\$ 16,888,141
Capital assets, net	11,609,974	10,601,155	9,214,478
Funds set aside for future capital asset acquisitions/replacements - investments (Note 4)	7,233,386	2,710,898	4,612,201
Total assets	<u>40,389,253</u>	<u>36,494,519</u>	<u>30,714,820</u>
Current liabilities	<u>2,886,435</u>	<u>3,090,993</u>	<u>2,614,235</u>
Net position			
Net investment in capital assets	11,609,974	10,601,155	9,214,478
Unrestricted	<u>25,892,844</u>	<u>22,802,371</u>	<u>18,886,107</u>
Total net position	<u>37,502,818</u>	<u>33,403,526</u>	<u>28,100,585</u>
Total liabilities and net position	<u>\$ 40,389,253</u>	<u>\$ 36,494,519</u>	<u>\$ 30,714,820</u>

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Management's Discussion and Analysis
For the Year Ended June 30, 2014 and 2013

The increase in net position of \$4,099,292 in 2014, as opposed to the increase of \$5,302,941 in 2013, was due to lower operating revenue in 2014 than in 2013. This in turn is due to 2013 containing favorable, non-recurring, retroactive adjustments to Medicare and Medicaid reimbursement as part of the Hospital receiving Critical Access Hospital designation.

Operating Results and Changes in the Hospital's Net Position

The Hospital's operating income in 2014 was \$2,727,915, a 32% decrease in the operating income compared to 2013 results. In 2013, the operating income was \$4,006,773. This compares to 2012 operating income of \$5,303,470. These results are shown in the following table:

OPERATING RESULTS AND CHANGE IN NET POSITION

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<u>Operating Revenues</u>			
Net patient service revenues	\$ 24,173,954	\$ 24,854,335	\$ 21,335,959
Sole community provider	2,459,947	2,909,785	6,339,358
Safety net care pool	418,812	-	-
Other revenue	335,394	182,626	197,042
Total operating revenue	<u>27,388,107</u>	<u>27,946,746</u>	<u>27,872,359</u>
<u>Operating Expenses</u>			
Salaries, wages, payroll taxes and benefits	13,424,671	13,003,672	12,340,596
Purchased services and other	4,556,117	4,342,314	4,193,458
Depreciation	1,214,196	1,035,220	915,915
Other operating expenses	5,465,208	5,558,767	5,118,920
Total operating expenses	<u>24,660,192</u>	<u>23,939,973</u>	<u>22,568,889</u>
Operating income	<u>2,727,915</u>	<u>4,006,773</u>	<u>5,303,470</u>
<u>Nonoperating Revenues (Expenses)</u>			
Ad valorem taxes	1,310,975	1,234,057	1,211,558
Contributions	4,030	4,450	1,377
Interest income	96,966	79,085	102,858
Other expenses	(40,594)	(21,424)	(16,740)
Total nonoperating revenue (expense), net	<u>1,371,377</u>	<u>1,296,168</u>	<u>1,299,053</u>
Change in net position	4,099,292	5,302,941	6,602,523
Net position, beginning of year (as restated)	<u>34,008,478</u>	<u>28,705,537</u>	<u>21,498,062</u>
Net position, end of year	<u>\$ 38,107,770</u>	<u>\$ 34,008,478</u>	<u>\$ 28,100,585</u>

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Management's Discussion and Analysis
For the Year Ended June 30, 2014 and 2013

Operating Income

The first component of the overall change in the Hospital's net position is its operating income or loss – the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital reported an operating income in 2014 of \$2,727,915, a decrease of \$1,278,858 compared to the 2013 operating income of \$4,006,773. The primary components of the operating results in 2014 are as follows:

- ◆ Decrease in net patient service revenue of \$680,381, or (3%), was due in large part to increases in revenue adjustments (contractual allowances) exceeding increases in gross patient billings. In the prior year, the Hospital benefited from favorable, non-recurring adjustments to Medicare and Medicaid reimbursement related to Critical Access Hospital conversion.
- ◆ After receiving these funds for many years, the Hospital lost the Sole Community Provider (SCP) funding when the program ended on December 31, 2013. SCP was replaced with the Safety Net Care Pool Program that was created to offset some of the loss from the SCP Program. Revenue related to this new program was \$418,812 during the year ended June 30, 2014.
- ◆ Other revenue increased primarily due to funds received from the State of New Mexico to defray architectural costs of the Hospital's Medical Office Building.
- ◆ The Hospital recorded \$223,899 due from Medicare for Electronic Health Record (EHR) "Meaningful Use" during 2014. The amount was calculated based on regulations passed by Congress in the HITECH Act and was based on the Hospital meeting the Stage I "meaningful use" criteria.
- ◆ Salaries and employee benefits increased \$420,999, or 3%, compared to the prior year. There was an average overall 1.3% wage increase in 2014 and there were approximately 3 more full time equivalent employees at June 30, 2014 than at June 30, 2013.
- ◆ Purchased services and other increased by \$213,803 in 2014, or 5%, due primarily to increased fees paid for contracted services.
- ◆ Total operating income for 2014 of \$2,727,915 was 10% of total operating revenue, compared to \$4,006,773 (14% of total operating revenue) in 2013, and 19% in 2012.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses, which consists primarily of ad valorem taxes, noncapital grants and gifts, and interest income, increased by \$75,209, or 6% in 2014 compared to 2013. The increase was due mainly to an increase in valorem taxes and interest income.

Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating results and nonoperating revenues and expenses for 2014, 2013 and 2012 discussed earlier.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Management's Discussion and Analysis
For the Year Ended June 30, 2014 and 2013

Capital Assets and Debt Administration

Capital Assets

At the end of 2014, the Hospital had \$11.6 million invested in capital assets, net of accumulated depreciation. In 2014, the Hospital invested approximately \$2.2 million for the purchase of capital equipment and renovation projects and placed into service approximately \$431 thousand in assets recorded as construction-in-progress in the prior year. The capital asset additions above consisted of approximately \$1.3 million for new and upgraded information systems technology for both hardware and software, approximately \$900 thousand for new medical equipment, and other equipment purchases. Old, outdated equipment of \$1.3 million was retired during the year.

Budgetary Highlights

There were no budget modifications during fiscal year 2014. Total operating revenues were greater than budget by approximately \$255 thousand due primarily to higher outpatient ancillary revenues. Operating expenses were 2.4% above budget, primarily due to greater than planned utilization of contract employees in nursing areas.

Other Economic Factors

The Hospital's service area is comprised of the entirety of Cibola County. Over 90% of our patients are County residents. The County population is 27,127. Predictions are that the population will remain stable. Major employers are the local prisons, the school system, mining companies such as the Lee Ranch Mine, government, retailing, and the hospitality industry. With a diversity of employers, and with gradual but certain economic recovery, it is believed that the risk of loss of our patient base is low. As a Hospital, we also recognize the need to identify opportunities to better serve the community. We understand that our proximity to our patient base is a key advantage. Current efforts in growing services are aimed at being the preferred provider for some who might travel to Albuquerque for many health care needs which might be met right here in Cibola County.

Contacting the Hospital's Financial Management

This financial report is designed to provide the Hospital's Board of Trustees, customers, and the citizens of Cibola County with a general overview of the Hospital's finances and to show the Hospital's financial accountability. If you have any questions about this report or need additional financial information, contact:

Assistant Administrator and
Chief Financial Officer
Cibola General Hospital, Inc.
1016 Roosevelt Ave,
Grants, NM 87020
505-287-5300

Basic Financial Statements

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Balance Sheets
June 30,

	<u>2014</u>	<u>2013</u> (as restated)
Assets		
Current assets		
Cash and cash equivalents (Note 4)	\$ 8,147,080	\$ 10,124,684
Funds set aside for future capital asset acquisitions/ replacements - cash and cash equivalents (Note 4)	7,992,739	5,128,212
Receivables		
Patient accounts receivable, net of allowance for doubtful accounts of \$838,636 and \$2,634,185 in 2014 and 2013, respectively	3,146,394	2,895,707
Sole community provider (Note 3)	-	2,276,713
Safety net care pool (Note 3)	247,000	-
Ad valorem taxes receivable (Note 7)	132,445	-
Other receivables	-	24,235
Funds set aside for future capital asset acquisitions/ replacements - investments (Note 4)	1,400,000	1,800,320
Estimated third-party payor settlements (Note 3)	-	286,450
Prepaid expenses	288,808	422,225
Inventories	191,427	223,920
Total current assets	<u>21,545,893</u>	<u>23,182,466</u>
Funds set aside for future capital asset acquisitions/ replacements - investments (Note 4)	7,233,386	2,710,898
Capital assets, net (Note 5 and Note 12)	<u>11,609,974</u>	<u>10,601,155</u>
Total assets	<u>\$ 40,389,253</u>	<u>\$ 36,494,519</u>
Liabilities and Net Position		
Current liabilities		
Accounts payable	\$ 1,477,229	\$ 1,938,330
Accrued expenses (Note 6)	1,048,486	964,861
Estimated third-party payor settlements (Note 3)	360,720	-
Unearned revenue	-	187,802
Total current liabilities	<u>2,886,435</u>	<u>3,090,993</u>
Net Position		
Net investment in capital assets	11,609,974	10,601,155
Unrestricted	<u>25,892,844</u>	<u>22,802,371</u>
Total net position	<u>37,502,818</u>	<u>33,403,526</u>
Total liabilities and net position	<u>\$ 40,389,253</u>	<u>\$ 36,494,519</u>

The accompanying notes are an integral part of these financial statements.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30,

	2014	2013
Operating Revenues		
Net patient service revenue (Note 3)	\$ 24,173,954	\$ 24,854,335
Sole community provider (Note 3)	2,459,947	2,909,785
Safety net care pool (Note 3)	418,812	-
Other revenue	<u>335,394</u>	<u>182,626</u>
Total operating revenues	<u>27,388,107</u>	<u>27,946,746</u>
Operating Expenses		
Salaries and wages	11,071,353	10,720,252
Purchased services and other	4,556,117	4,342,314
Payroll taxes and benefits	2,353,318	2,283,420
Utilities, insurance, rentals and repairs	2,242,079	2,196,565
Supplies	2,201,474	2,366,595
Depreciation and amortization (Note 5)	1,214,196	1,035,220
Professional fees	996,885	945,304
Other expense	<u>24,770</u>	<u>50,303</u>
Total operating expenses	<u>24,660,192</u>	<u>23,939,973</u>
Operating income	<u>2,727,915</u>	<u>4,006,773</u>
Nonoperating Revenues (Expenses)		
Ad valorem taxes (Note 7)	1,310,975	1,234,057
Interest income	96,966	79,085
Contributions	4,030	4,450
Loss on sale of capital assets (Note 5)	(26,618)	(6,782)
Unrealized investment loss	<u>(13,976)</u>	<u>(14,642)</u>
Total nonoperating revenues (expenses), net	<u>1,371,377</u>	<u>1,296,168</u>
Change in net position	4,099,292	5,302,941
Net position, beginning of year	<u>33,403,526</u>	<u>28,705,537</u>
Restatement (Note 12)	-	(604,952)
Net position, beginning of year (as restated)	<u>33,403,526</u>	<u>28,100,585</u>
Net position, end of year	<u><u>\$ 37,502,818</u></u>	<u><u>\$ 33,403,526</u></u>

The accompanying notes are an integral part of these financial statements.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Statements of Cash Flows
For the Years Ended June 30,

	<u>2014</u>	<u>2013</u> (as restated)
Cash flows from operating activities		
Cash received from customers and third-party payors	\$ 29,650,736	\$ 31,034,008
Cash payments to suppliers	(10,316,516)	(10,123,095)
Cash paid for payroll, payroll taxes and benefits	<u>(13,341,046)</u>	<u>(12,340,597)</u>
Net cash provided by operating activities	<u>5,993,174</u>	<u>8,570,316</u>
Cash flows from capital and related financing activities		
Purchase of capital assets	<u>(2,249,633)</u>	<u>(2,428,679)</u>
Net cash used by capital and related financing activities	<u>(2,249,633)</u>	<u>(2,428,679)</u>
Cash flows from investing activities		
Cash received from ad valorem taxes and other	1,182,560	1,356,188
Interest on investments	96,966	79,085
Purchase of certificates of deposit	<u>(4,136,144)</u>	<u>(1,344,524)</u>
Net cash provided (used) by investing activities	<u>(2,856,618)</u>	<u>90,749</u>
Increase in cash and cash equivalents	886,923	6,232,386
Cash and cash equivalents, beginning of year	<u>15,252,896</u>	<u>9,020,510</u>
Cash and cash equivalents, end of year	<u><u>\$ 16,139,819</u></u>	<u><u>\$ 15,252,896</u></u>
Reconciliation of end of year cash and cash equivalents to balance sheet		
Cash and cash equivalents	\$ 8,147,080	\$ 10,124,684
Funds set aside for future capital asset acquisitions/ replacements - cash and cash equivalents (Note 4)	<u>7,992,739</u>	<u>5,128,212</u>
Cash and cash equivalents, end of year	<u><u>\$ 16,139,819</u></u>	<u><u>\$ 15,252,896</u></u>

The accompanying notes are an integral part of these financial statements.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Statements of Cash Flows — continued
For the Years Ended June 30,

	<u>2014</u>	<u>2013</u> (as restated)
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 2,727,915	\$ 4,006,773
Adjustments to reconcile change in net position to net cash provided by operating activities		
Provision for bad debts	4,505,647	4,345,118
Depreciation and amortization	1,214,196	1,035,220
Changes in operating assets		
(Increase) decrease in:		
Patient accounts receivable	(4,756,334)	(1,056,250)
Sole community provider receivable	2,276,713	-
Safety net care pool	(247,000)	-
Prepaid expenses	133,417	(103,994)
Inventories	32,493	17,994
Estimated third-party payer settlements	310,685	(18,980)
Changes in operating liabilities		
Increase (decrease) in:		
Accounts payable	(461,101)	426,621
Accrued expenses	83,625	73,804
Unearned revenues	(187,802)	-
Estimated third-party payer settlements	360,720	(155,990)
Net cash provided by operating activities	<u>\$ 5,993,174</u>	<u>\$ 8,570,316</u>

The accompanying notes are an integral part of these financial statements.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Notes to Basic Financial Statements
June 30, 2014

1) Organization and Operations

Nature of Operations and Reporting Entity

Cibola General Hospital Corporation (the "Hospital") is a 25-bed acute care hospital located in Grants, New Mexico. 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 primary interest of the Hospital is to provide medical services to the residents of Grants, Cibola County and the surrounding area. The Hospital is a component unit of Cibola County (the "County") and the Board of County Commissioners appoints four out of nine members to the Board of Trustees of the Hospital. The Hospital does not have component units as defined by Governmental Accounting Standards Board (GASB) *Codification*, Section 2300.106(a)(2). The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in the Cibola County area.

The Hospital meets the criteria set forth in accounting principles generally accepted in the United States of America as promulgated by the 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.

Management Agreement

Quorum Health Resources (QHR) manages the Hospital pursuant to a five-year agreement effective December 2, 2011 through December 1, 2015. Under this agreement, the Hospital reimburses QHR for the appointed administrators 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. According to this agreement, QHR will offer unlimited access to Group Purchasing Organizations (GPO), currently HealthTrust Purchasing Group (HPG). The Hospital will pay QHR an annual fee of \$302,556. The fee will be adjusted annually by the percentage change over the preceding twelve months up to and including the month of August in the medical care component of the Consumer Price Index (CPI) for urban wage earners and clerical workers. 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

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negotiated with an alternate management firm. The Hospital is not aware of, and does not anticipate, any termination of the existing contract.

2) Significant Accounting Policies

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 of the Hospital have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units and funds. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. GASB statements and interpretations constitute GAAP for governmental entities. The following is a summary of significant accounting policies.

Basis of Presentation

The Hospital's financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as county appropriations), ad valorem taxes, investment income, losses on sales of capital assets, changes in unrealized losses of certificates of deposit, and other income and expenses are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable GASB pronouncements.

New and Recently Issued Accounting Pronouncements

The following GASB pronouncements have been recently issued and adopted and were effective at June 30, 2014:

- ◆ GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.

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The pronouncement is effective for financial statements for periods beginning after December 15, 2011.

- ◆ GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The pronouncement is effective for financial statements for periods beginning after December 15, 2011.
- ◆ GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The pronouncement is effective for financial statements for periods beginning after December 15, 2012.

The following GASB pronouncements have been issued, but were not effective at June 30, 2014:

- ◆ GASB Statement No. 67, *Financial Reporting for Pension Plans*
- ◆ GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*
- ◆ GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*
- ◆ GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- ◆ GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*

The implementation of these pronouncements is not expected to significantly impact the financial reporting at the Hospital.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. This also pertains to investments of cash related to funds set aside for future capital asset acquisitions/replacements. Certificates of deposit have original maturities in excess of three months and are not considered to be cash

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equivalents. As of June 30, 2014, the Hospital's cash and cash equivalents consist of cash deposits held in checking and savings accounts with local financial institutions.

Patient Accounts Receivable and Allowance

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, 2014, the Hospital had approximately \$1,362,100 in patient accounts receivables past 90 days or older.

Management believes that the allowances for doubtful accounts and contractual allowances are adequate. Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is a possibility that recorded estimates of the allowance for doubtful accounts and contractual allowances will change by a material amount in the near term.

Prepaid Expenses

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid expenses in the balance sheets and expensed as the items are used.

Inventories

Inventories consist of pharmaceutical, medical, and dietary supplies that are stated at the lower of cost, determined using the first-in, first-out method, or market value.

Funds Set Aside for Future Capital Asset Acquisitions/Replacements

Funds set aside for future capital asset acquisitions/replacements consist primarily of internally designated assets set aside by the Board of Trustees of the Hospital to fund future Hospital expansion or replacement. The Board of Trustees retains control over the internally designated assets and may, at its discretion, use the assets for other purposes.

Capital Assets and Depreciation

Acquisitions of property and equipment are recorded at cost when the useful life exceeds one year and cost exceeds \$5,000 or more in accordance with Section 12-6-10 NMSA 1978, in addition to outlays for items that significantly extend the useful life of a capital asset. Costs incurred for repair and maintenance are expensed as incurred.

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Depreciation is provided over the estimated useful life of the asset and is computed using the straight-line method. The estimated useful lives used to depreciate assets, by each class, are as follows:

Buildings and leasehold improvements	10 – 40 years
Equipment	3 – 20 years

Gifts of long-lived assets such as land, buildings or equipment, and cash or other assets that must be used to acquire long-lived assets are reported as contributions and are excluded from operating income. Upon dissolution of the agreement between the Hospital and the County for any reason, all physical and tangible items of the Hospital will revert to the County.

Compensated Absences

Under terms of employment, employees are granted paid time off (PTO) and Extended Illness Bank (EIB) in varying amounts. Employees accumulate PTO hours for subsequent use according to the length of continuous employment and within established maximum accrual limits, which may be paid out at separation of employment. EIB hours are not paid out at separation of employment. PTO may be accrued up to a maximum of 400 hours. Hours in excess of the maximum personal leave available are written off and are not payable to the employee.

When employees are terminated, they are compensated at their current hourly rate for accumulated unpaid PTO hours. All accumulated PTO is recorded as an expense and a liability in the Hospital’s financial statements.

Net Position

The Hospital follows GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Accordingly, the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources, is referred to as net position. Net position is categorized as follows:

- ◆ *Net investment in capital assets*—Is intended to reflect the portion of net position which is associated with capital assets less outstanding capital asset related debt, if any. The Hospital has no capital asset related debt at fiscal year-end.
- ◆ *Restricted net position*—Restricted net position results when constraints placed on an assets’ use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.
- ◆ *Unrestricted net position*—Represents net position not otherwise classified as invested in capital assets or restricted net position.

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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.

Change in Net Position

The accompanying statements of revenues, expenses and changes in net position include change in net position, which consistent with industry practice, may 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).

Ad Valorem Taxes

Ad valorem taxes are collected by the County on behalf of the Hospital. Ad valorem taxes are considered imposed nonexchange transactions under Governmental Accounting Standards Board Statement No. 33, and therefore, are recorded by the Hospital in the period for which the taxes are levied, based on amounts reported by the County to the Hospital.

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 restricted net position. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished by the Hospital, the net position is reclassified as unrestricted. Donor restricted contributions whose restrictions are met within the same year as received are reported as contributions and included in unrestricted net position 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,

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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.

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to this Section. As such, its normal activities do not result in any income tax liability.

Budget Process

Hospital's budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), using an estimate of the anticipated revenues and expenditures. Budgets are approved and amended by the Board of Trustees. Formal budgetary integration is employed as a management control device during the year. Since the Hospital is a proprietary entity and does not receive legislative appropriations, the budget is not a binding budget.

Fair Value of Financial Instruments

Financial instruments include various cash equivalents, receivables, and payables. The carrying amount of those financial instruments has been estimated by management to approximate fair value due to their short maturity.

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. Investments do not represent significant concentrations of market risk since the Hospital's investment portfolio is adequately diversified among issuers.

Reclassifications

Certain amounts reported for the year ended June 30, 2013, have been reclassified to conform to the presentation of the June 30, 2014, amounts. The reclassifications have no effect on the changes in net position for the year ended June 30, 2013. In previous years, the financial statements were prepared under Financial Accounting Standards Board (FASB) rules and its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*.

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3) 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 49% and 53% of the Hospital's net patient service revenue for the years ended June 30, 2014 and 2013, 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 and Medicaid cost reports for fiscal years 2012 and prior have been settled and the 2013 fiscal year cost report remains open. The 2014 cost reports have not been prepared.

Management believes that estimated settlement amounts accrued for at June 30, 2014 are adequate to provide for the settlement of all open cost reports. Estimates are continually monitored and reviewed, and as settlements are made or more information becomes available to improve estimates, differences are reflected in current operations. Medicare and Medicaid cost report receivables (liabilities) are as follows:

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	<u>2014</u>	<u>2013</u>
Medicare		
2013	\$ 301,615	\$ 286,450
2014	<u>(683,232)</u>	<u>-</u>
	<u>(381,617)</u>	<u>286,450</u>
Medicaid		
2013	<u>20,897</u>	<u>-</u>
	<u>20,897</u>	<u>-</u>
Estimated third-party payor settlements	<u>\$ (360,720)</u>	<u>\$ 286,450</u>

As of June 30, 2014, in addition to \$360,720 the Hospital also recorded general reserves related to third-party settlements. These reserves were \$322,000 for Medicare and \$516,000 for Medicaid and were included in the net patient account receivable balance on the balance sheet.

Other Third-Party Payors—The Hospital also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined fee schedules.

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

	<u>2014</u>	<u>2013</u>
Gross charges		
Inpatient gross charges	\$ 16,355,881	\$ 14,346,937
Outpatient gross charges	<u>39,465,233</u>	<u>33,948,695</u>
	55,821,114	48,295,632
Less		
Third-party contractual discounts and allowance for doubtful accounts	25,484,543	17,553,792
Un-sponsored charges, including charity care	<u>6,162,617</u>	<u>5,887,505</u>
Net patient service revenue	<u>\$ 24,173,954</u>	<u>\$ 24,854,335</u>

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Sole Community Provider Indigent Care Program (SCP)—The Hospital, due to its isolated location and service to indigent patients, participated in a sole community provider indigent care program that was administered by the State of New Mexico. The program was funded by the County by way of an intergovernmental transfer, which paid the County’s share amount to the State, that was required to draw down federal monies. The supplemental payments were based on service to indigent and Medicaid patients as well as consideration of the Hospital’s Medicaid contractual write-offs. Revenues from the SCP program were approximately \$2.5 million and \$2.9 million for fiscal years 2014 and 2013, respectively. The SCP was terminated and replaced with the Safety Net Care Pool Program at December 31, 2013.

Safety Net Care Pool Program (SNCP)—Senate Bill 314 amended and repealed various sections of existing statute to comply with federally approved changes to the Sole Community Provider Fund. The law provides for a county-imposed tax of one-twelfth percent of gross receipts be permanently transferred to the “Safety Net Care Pool Fund” and expended pursuant to the Indigent Hospital and County Health Care Act. The law allows counties to budget for expenditures on ambulance services, burial expenses, and hospital or medical expenses for indigent residents of their county. The law requires that qualifying hospitals receiving payment from the Safety Net Care Pool file a quarterly report on all indigent health care funding with the Human Services Department (HSD) and the County Commission, and the HSD to submit a quarterly report to the Legislative Finance Committee containing the previous quarter’s Safety Net Care Pool Fund receipts and the disposition of funds. Revenues from the SNCP were approximately \$418 thousand for the year ended June 30, 2014, of which approximately \$247 thousand was due to the Hospital at June 30, 2014.

4) Cash, Cash Equivalents, and Funds Set Aside for Future Capital Asset Acquisitions/Replacements

Cash and Cash Equivalents

Custodial credit risk is the risk that in the event of a bank failure, the Hospital’s deposits may not be returned to it. In accordance with Section 6-10-17, NMSA, 1978 compilation, the Hospital is required to obtain collateral in an amount equal to one-half of the deposited public money in excess of \$250,000 and 102 percent for repurchase agreements. The Hospital’s policy is to require collateral in accordance with state statutes. As of June 30, 2014, the Hospital was not in compliance with the state statutes because collateral obtained for deposits at two financial institutions were less than required by \$83,975.

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As of June 30, 2014, the Hospital had deposits with a bank balance of \$25,031,308. As noted in the previous paragraph, the Hospital was non-compliant to the extent of \$83,975. The remainder of the \$7,920,340 uninsured and uncollateralized amount, while subject to custodial credit risk, does not fall out of compliance with the applicable State regulations.

On June 4, 2014, the Hospital was designated as a beneficiary by a bank on a Line-of-Credit (LOC) issued by a Federal Home Loan Bank in the amount of up to \$1,250,000 to secure uninsured deposits. The LOC expires on June 4, 2015 and as of June 30, 2014, it has not been drawn on.

Funds Set Aside for Future Capital Asset Acquisitions/Replacements

Funds set aside for future capital asset acquisitions/replacements are stated at fair value (which approximates cost) and are comprised of the following at June 30:

	2014	2013
Certificates of deposit	\$ 8,650,861	\$ 4,514,717
Deposits and money market	7,992,739	5,128,212
Unrealized investment loss	(17,475)	(3,499)
Total funds set aside for future capital asset acquisitions/replacements	<u>\$ 16,626,125</u>	<u>\$ 9,639,430</u>

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

At June 30, the Hospital had deposits and investments with the following maturities:

	2014				
	Maturities in Years				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 8,633,386	\$ 1,400,000	\$ 7,233,386	\$ -	\$ -
Deposits and money market	7,992,739	7,992,739	-	-	-
	<u>\$ 16,626,125</u>	<u>\$ 9,392,739</u>	<u>\$ 7,233,386</u>	<u>\$ -</u>	<u>\$ -</u>
	2013				
	Maturities in Years				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 4,511,218	\$ 1,800,320	\$ 2,710,898	\$ -	\$ -
Deposits and money market	5,128,212	5,128,212	-	-	-
	<u>\$ 9,639,430</u>	<u>\$ 6,928,532</u>	<u>\$ 2,710,898</u>	<u>\$ -</u>	<u>\$ -</u>

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Interest Rate Risk—As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital’s practice is to invest in certificates of deposits with maturities of less than five year.

Custodial Credit Risk—For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk—The Hospital places no limit on the amount that may be invested in any one issuer.

Reconciliation to Balance Sheets

The carrying values of cash, cash equivalents, and funds set aside for future capital asset acquisitions/replacements are included in the balance sheets as follows:

	<u>2014</u>	<u>2013</u>
Carrying value		
Deposits	\$ 16,139,039	\$ 7,415,634
Certificates of deposit	8,633,386	4,514,717
Money market	-	7,851,229
Petty cash	<u>780</u>	<u>750</u>
	<u>\$ 24,773,205</u>	<u>\$ 19,782,330</u>
Included in the following balance sheets captions		
Cash and cash equivalents	\$ 8,147,080	\$ 10,124,684
Funds set aside for future capital asset acquisitions/ replacements - cash and cash equivalents	7,992,739	5,128,212
Funds set aside for future capital asset acquisitions/ replacements - investments	1,400,000	1,800,320
Funds set aside for future capital asset acquisitions/ replacements - investments	<u>7,233,386</u>	<u>2,710,898</u>
	<u>\$ 24,773,205</u>	<u>\$ 19,764,114</u>

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5) Capital Assets

Capital asset activity of the Hospital for the years ended June 30 was as follows:

	2014				
	Beginning Balance (as restated)	Additions	Disposals and Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 128,777	\$ -	\$ -	\$ -	\$ 128,777
Construction in progress	430,715	664,437	-	(430,715)	664,437
Total capital assets not being depreciated	<u>559,492</u>	<u>664,437</u>	<u>-</u>	<u>(430,715)</u>	<u>793,214</u>
<i>Capital assets being depreciated</i>					
Buildings and leasehold improvements	9,337,088	314,013	-	(304,171)	9,346,930
Equipment	7,206,686	1,271,183	(1,269,483)	734,886	7,943,272
Total capital assets being depreciated	<u>16,543,774</u>	<u>1,585,196</u>	<u>(1,269,483)</u>	<u>430,715</u>	<u>17,290,202</u>
<i>Less accumulated depreciation for</i>					
Buildings and leasehold improvements	1,663,684	404,730	-	-	2,068,414
Equipment	4,838,427	809,466	(1,242,865)	-	4,405,028
Total accumulated depreciation	<u>6,502,111</u>	<u>1,214,196</u>	<u>(1,242,865)</u>	<u>-</u>	<u>6,473,442</u>
Total capital assets being depreciated, net	<u>10,041,663</u>	<u>371,000</u>	<u>(26,618)</u>	<u>430,715</u>	<u>10,816,760</u>
Total capital assets, net	<u>\$ 10,601,155</u>	<u>\$ 1,035,437</u>	<u>\$ (26,618)</u>	<u>\$ -</u>	<u>\$ 11,609,974</u>
2013					
	Beginning Balance (as restated)	Additions	Disposals and Retirements	Transfers	Ending Balance
<i>Capital assets not being depreciated</i>					
Land	\$ 128,777	\$ -	\$ -	\$ -	\$ 128,777
Construction in progress	4,913,733	362,281	-	(4,845,299)	430,715
Total capital assets not being depreciated	<u>5,042,510</u>	<u>362,281</u>	<u>-</u>	<u>(4,845,299)</u>	<u>559,492</u>
<i>Capital assets being depreciated</i>					
Buildings and leasehold improvements	3,038,644	1,453,145	-	4,845,299	9,337,088
Equipment	7,062,696	613,253	(469,263)	-	7,206,686
Total capital assets being depreciated	<u>10,101,340</u>	<u>2,066,398</u>	<u>(469,263)</u>	<u>4,845,299</u>	<u>16,543,774</u>
<i>Less accumulated depreciation for</i>					
Buildings and leasehold improvements	1,318,613	345,071	-	-	1,663,684
Equipment	4,610,759	690,149	(462,481)	-	4,838,427
Total accumulated depreciation	<u>5,929,372</u>	<u>1,035,220</u>	<u>(462,481)</u>	<u>-</u>	<u>6,502,111</u>
Total capital assets being depreciated, net	<u>4,171,968</u>	<u>1,031,178</u>	<u>(6,782)</u>	<u>4,845,299</u>	<u>10,041,663</u>
Total capital assets, net	<u>\$ 9,214,478</u>	<u>\$ 1,393,459</u>	<u>\$ (6,782)</u>	<u>\$ -</u>	<u>\$ 10,601,155</u>

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6) Accrued Expenses

Accrued liabilities consist of the following at June 30:

	2014	2013
Accrued compensated absences	\$ 490,486	\$ 507,996
Accrued wages	355,227	296,690
Accrued payroll taxes	153,189	142,325
Other	49,584	17,850
Total accrued liabilities	\$ 1,048,486	\$ 964,861

A schedule of changes in the Hospital's accrued compensated absences for the years ended June 30, as follows:

2014				
Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
\$ 507,996	\$ 569,223	\$ 586,733	\$ 490,486	\$ 490,486

2013				
Balance	Additions	Reductions	Balance	Due Within
\$ 476,168	\$ 609,718	\$ 577,890	\$ 507,996	\$ 507,996

7) Ad Valorem Taxes

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 an ad valorem tax in 2011. The Hospital recorded \$1,310,975 and \$1,234,057 in the years ended June 30, 2014 and 2013, respectively, in ad valorem taxes. The amounts were used in accordance with the provisions of the ad valorem tax referendum. The Hospital receives ad valorem taxes from the Treasurer of Cibola County. The County

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serves as the intermediary collecting agency and remits the Hospital's share of ad valorem tax collections. The Hospital does not maintain detailed records of ad valorem taxes receivable by the individual taxpayer.

Ad valorem 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.

8) Commitments

Operating Leases

The Hospital has agreed, as part of a settlement with the County, to a five-year lease agreement for the use of the Hospital facility effective February 2014 with annual lease amount of \$338,000. The Hospital paid \$290,342 and \$265,000 in rental expenses in the years ended June 30, 2014 and 2013, respectively.

The following schedule details future minimum lease payments as of June 30, 2014, for operating leases with initial or remaining lease terms in excess of one year:

<u>Year Ending June 30,</u>	
2015	\$ 417,123
2016	386,694
2017	385,227
2018	367,450
2019	213,085
2020 and after	<u>6,490</u>
	<u>\$ 1,776,069</u>

9) Contingencies

Healthcare Regulatory Environment—The healthcare industry is subject to laws and regulations of federal, state, and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. The government continues to conduct reviews and

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Notes to Basic Financial Statements
June 30, 2014

investigations of allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayment for patient services previously billed.

Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act (HIPAA) was enacted August 21, 1996, to assure health insurance portability, guarantee security and privacy of health information, enforce standards for health information and establish administrative simplification provisions. Under the Health Information Technology for Economic and Clinical Health (HITECH) Act, several of the HIPAA security and privacy requirements have been expanded, including business associates being subject to civil and criminal penalties and enforcement proceedings for violations of HIPAA. Management believes that the Hospital is in compliance with all applicable provisions of HIPAA and HITECH.

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.

Medical Malpractice Claims—The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Litigation—In the ordinary course of business, claims alleging malpractice and other matters may have been filed against the Hospital. Claims may also be filed for incidents that have occurred, including some of which the Hospital is not presently aware. It is not possible to estimate the likelihood and amount of such potential 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, 2014 and 2013. Certain malpractice claims have been

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Notes to Basic Financial Statements
June 30, 2014

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.

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. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

10) Defined Contribution Retirement Plan

The Hospital has a 403(b) Plan (the “Plan”) to provide retirement and incidental benefits for its employees. The Plan allows eligible employees to defer a portion of their annual compensation pursuant to Section 403(b) of the Internal Revenue Code.

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 \$185,453 and \$160,539 in 2014 and 2013, respectively. The Plan does not have stand-alone financial reports available for the public.

11) Concentration of Credit Risk

Receivables—The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Management believes that estimates made for the allowance for doubtful accounts are adequate.

Because of the uncertainty regarding the ultimate collectability of patient accounts receivable, there is at least a reasonable possibility that recorded estimates of the allowance for doubtful accounts will change by a material amount in the near term.

The Hospital recognizes that revenue and receivables from government agencies are significant to its operations, however does not believe that there are any significant credit

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Notes to Basic Financial Statements
June 30, 2014

risks associated with these governmental agencies. The mix of receivables from patients and third-party payors at June 30 was as follows:

	2014		2013	
Medicare	28	%	17	%
Medicaid	20		13	
Commercial insurance	11		18	
All other payors	41		52	
	100	%	100	%
	100	%	100	%

12) Restatement

As a result of incorrect recordings of \$604,952 in land purchases during fiscal years 2008 and 2009, the Hospital restated its July 1, 2012 beginning balances for both capital assets (land) and net position. The Hospital purchased parcels of land which was “deeded” to Cibola County; these transactions were recorded as capital assets (land) of the Hospital rather than as “distributions to Cibola County”. The following recap will illustrate the effect of such restatement:

Net position originally reported, June 30, 2012	\$ 28,705,537
Restatement	<u>(604,952)</u>
Net position, July 1, 2012	<u>\$ 28,100,585</u>
Land originally reported, June 30, 2012	\$ 733,729
Restatement	<u>(604,952)</u>
Land, July 1, 2012	<u>\$ 128,777</u>

Supplementary Information (Audited)

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Schedule of Revenues, Expenses and
Changes in Net Position—Budget and Actual
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenue	\$ 27,132,797	\$ 27,132,797	\$ 27,388,107	\$ 255,310
Operating Expenses				
Salaries and wages	11,035,147	11,035,147	11,071,353	(36,206)
Purchased services	4,099,089	4,099,089	4,556,117	(457,028)
Payroll taxes and benefits	2,425,609	2,425,609	2,353,318	72,291
Utilities, insurance, rentals and repairs	2,189,481	2,189,481	2,242,079	(52,598)
Supplies and other	2,188,125	2,188,125	2,226,244	(38,119)
Depreciation and amortization	1,267,225	1,267,225	1,214,196	53,029
Professional fees	882,600	882,600	996,885	(114,285)
Total operating expenses	24,087,276	24,087,276	24,660,192	(572,916)
Operating income	3,045,521	3,045,521	2,727,915	(317,606)
Nonoperating Revenue (Expense), Net	1,344,386	1,344,386	1,371,377	26,991
Change in net position	\$ 4,389,907	\$ 4,389,907	4,099,292	\$ (290,615)
Net position, beginning of year (as restated)			33,403,526	
Net position, end of year			\$ 37,502,818	

Note to Schedule

Annual budgets are adopted as required by New Mexico statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America.

This is for informational purposes only because the Hospital is a proprietary entity and does not receive legislative appropriations; therefore, the budget is not a binding budget.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Schedule of Revenues, Expenses and
Changes in Net Position—Budget and Actual
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget - Favorable (Unfavorable)
	Original	Final		
Operating Revenue	\$ 27,378,564	\$ 27,378,564	\$ 27,946,746	\$ 568,182
Operating Expenses				
Salaries and wages	10,582,537	10,582,537	10,720,252	(137,715)
Purchased services	3,807,227	3,807,227	4,342,314	(535,087)
Payroll taxes and benefits	2,318,393	2,318,393	2,283,420	34,973
Utilities, insurance, rentals and repairs	2,080,750	2,080,750	2,196,565	(115,815)
Supplies and other	2,204,835	2,204,835	2,416,898	(212,063)
Depreciation and amortization	1,408,128	1,408,128	1,035,220	372,908
Professional fees	1,023,456	1,023,456	945,304	78,152
Total operating expenses	23,425,326	23,425,326	23,939,973	(514,647)
Operating income	3,953,238	3,953,238	4,006,773	53,535
Nonoperating Revenue (Expense), Net	110,136	110,136	1,296,168	1,186,032
Change in net position	\$ 4,063,374	\$ 4,063,374	5,302,941	\$ 1,239,567
Net position, beginning of year (as restated)			28,705,537	
Net position, end of year			\$ 34,008,478	

Note to Schedule

Annual budgets are adopted as required by New Mexico statutes. Formal budgetary integration is employed as a management control device during the year. Budgets are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America.

This is for informational purposes only because the Hospital is a proprietary entity and does not receive legislative appropriations; therefore, the budget is not a binding budget.

New Mexico State Auditor's Supplementary Information

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Schedule of Pledged Collateral
For the Year Ended June 30, 2014

Account	Account Type	Wells Fargo Bank, NA	Grants State Bank	US Bank	World Financial Network Bank	Various (23) Banks	Total
Operating Account	Checking	\$ 10,363,528	\$ 6,005,541	\$ -	\$ -	\$ -	\$ 16,369,069
Sweep Account	Sweep	28,853	-	-	-	-	28,853
Certificate of Deposits	CD	-	900,000	1,800,000	300,000	5,633,386	8,633,386
Total amount of deposit in bank		10,392,381	6,905,541	1,800,000	300,000	5,633,386	25,031,308
Less FDIC insurance		250,000	250,000	250,000	250,000	5,750,000	6,750,000
Total uninsured public funds		<u>\$ 10,142,381</u>	<u>\$ 6,655,541</u>	<u>\$ 1,550,000</u>	<u>\$ 50,000</u>	<u>\$ (116,614)</u>	<u>\$ 18,281,308</u>
Collateral requirement - 50% (Section 6-10-17)		\$ 5,071,191	\$ 3,327,771	\$ 775,000	\$ 25,000	\$ -	\$ 9,198,962

Account	Maturity	CUSIP	Wells Fargo Bank, NA	Grants State Bank	World Financial Network Bank	Total	
Pledged securities held by The Bank of New York Mellon from Wells Fargo; held in the name of the Hospital							
FN AS0024	FNMA	Matures 07/01/2043	3138W9A26 (2)	\$ 4,463,548	\$ -	\$ -	\$ 4,463,548
FN AS0023	FNMA	Matures 07/01/2043	3138W9AZ3 (2)	168,198	-	-	168,198
FN AS0416	FNMA	Matures 09/01/2043	3138W9PA2 (2)	304,694	-	-	304,694
FN MA1688	FNMA	Matures 11/01/2033	31418A2W7 (2)	75,776	-	-	75,776
Pledged securities held by Ambank; held in the name of the Hospital							
Chama VY ISD NONCALL FR	MUNI	Matures 04/01/2017	157670ED8 (1)	-	53,833	-	53,833
Farmington NM MSD BQ CALL	MUNI	Matures 09/01/2017	311441HN2 (1)	-	503,110	-	503,110
Gallup Mckinley CNTY NM BQ	MUNI	Matures 08/01/2021	364010NW4 (1)	-	267,723	-	267,723
Grant CNTY NM BQ NONC	MUNI	Matures 09/01/2014	387766BT4 (1)	-	501,980	-	501,980
Grants & Cibola CNTYS NM SD	MUNI	Matures 10/15/2018	388240E22 (1)	-	524,035	-	524,035
Grants & Cibola CNTYS NM CALL	MUNI	Matures 10/15/2019	388240FA6 (1)	-	523,825	-	523,825
Los Lunas, NM SD #1 BQ	MUNI	Matures 07/15/2018	545562QE3 (1)	-	154,364	-	154,364
San Juan CNTY, NM JRCO	MUNI	Matures 02/15/2016	798360EB5 (1)	-	200,478	-	200,478
Central LA CMNTY SCH BQ CALL	MUNI	Matures 01/01/2025	153136BK1 (1)	-	484,880	-	484,880
Delaware OH Pks & Rec BQ CALL	MUNI	Matures 12/01/2026	246213AS1 (1)	-	309,069	-	309,069
Harris CO TX CALL	MUNI	Matures 08/15/2026	414005BE7 (1)	-	575,455	-	575,455
Total pledged collateral				<u>5,012,216</u>	<u>4,098,752</u>	<u>-</u>	<u>9,110,968</u>
Amount over collateralized for 50% requirement				<u>\$ (58,975)</u>	<u>\$ 770,981</u>	<u>\$ (25,000)</u>	<u>\$ 687,006</u>

FHLBank (A Federal Home Loan Bank) - Line of Credit

Investments at US Bank - total uninsured funds	<u>\$ 1,550,000</u>
Required collateralization - 50% of uninsured portion	<u>775,000</u>
Irrevocable Letter of Credit No 64387 (expires 6/4/2015)	<u>1,250,000</u>
Amount over collateralized for 50% requirement	<u>\$ 475,000</u>

(1) Municipal bond.

(2) U.S. Treasury or agency bond.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Schedule of Individual Deposit and Investment Accounts
June 30, 2014

Depository	Account Name	Account Type	Bank Balance	Deposits in Transit	Outstanding Checks	Book Balance
Wells Fargo	Operating	Checking	\$ 10,363,528	\$ -	\$ 256,821	\$ 10,106,707
Wells Fargo	Payroll	Checking	-	-	2,062	(2,062)
Wells Fargo	Deposit Sweep	Sweep	28,853	-	-	28,853
Grants State Bank	Operating	Checking	<u>6,005,541</u>	<u>-</u>	<u>-</u>	<u>6,005,541</u>
			<u>16,397,922</u>	<u>-</u>	<u>258,883</u>	<u>16,139,039</u>
Certificates of Deposit						
Multiple Banks (in custody of Wells Fargo Advisors)	Board Designated	Certificates of Deposit	5,933,386	-	-	5,933,386
Grants State Bank	Board Designated	Certificates of Deposit	900,000	-	-	900,000
U.S. Bank	Board Designated	Certificates of Deposit	<u>1,800,000</u>	<u>-</u>	<u>-</u>	<u>1,800,000</u>
			8,633,386	-	-	8,633,386
Cash on hand						
Cash on hand		Petty cash	<u>-</u>	<u>-</u>	<u>-</u>	<u>780</u>
Total deposits and investments			<u>\$ 25,031,308</u>	<u>\$ -</u>	<u>\$ 258,883</u>	<u>\$ 24,773,205</u>

Independent Auditor's 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 States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cibola General Hospital Corporation (the "Hospital"), a component unit of Cibola County (the "County"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as well as the budget comparison schedules for the year ended June 30, 2014, presented as supplementary information, and have issued our report thereon dated November 5, 2014.

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 opinion 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.

A deficiency *in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2014-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2014-001, 2014-002 and 2014-003.

The Hospital's Responses to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

REDW LLC

Phoenix, Arizona
November 5, 2014

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Schedule of Findings and Responses
For the Year Ended June 30, 2014

Section I — Financial Statement Findings

2014-001 — Lack of Pledged Collateral— Significant Deficiency and Other Matters

Condition: Cash equivalents and CDs with a balance of \$10,692,381 at June 30, 2013, invested with two issuers were not collateralized as required by New Mexico State Statute. The Hospital was in violation of the 50% pledged collateral requirement of Section 6-10-17 NMSA 1978 for this type of investments because collateral obtained for deposits at two financial institutions were less than required by \$83,975.

Criteria: Custodial credit risk is defined as the risk that the government’s money may not be returned to it in the event of a financial institution’s failure. According to New Mexico State Statute (NMSA 1978) 6-10-16, “Deposits of public money shall be secured by (1) securities of the United States...(2) securities of the state of New Mexico...(3) securities that are guaranteed by the United States or the State of New Mexico, (4) revenue bonds that are underwritten by a member of the national association of securities dealers (NASD) and are rated “BAA,” (5) letters of credit issued by a federal home loan bank.” In addition, according to NMAC 2.2.2.10(N)(4)(b), if the pledged collateral, in an aggregate amount, is not equal to one half of the amount of public money in each account (Section 6-10-17 NMSA 1978), there should be a finding in the audit report.

Cause: The Hospital failed to follow the New Mexico State Statute related to the pledged collateral requirement mainly due to lack of effective procedures and understanding of the applicable Statute.

Effect: The assignment of securities as collateral of public money that do not meet the state statute requirements has resulted, leaving the public money inadequately guaranteed in case of the financial institution’s failure.

Recommendation: It is the responsibility of management to insure that adequate safekeeping of the Hospital’s assets is maintained. As part of its fiscal responsibility, management should work closely with the financial institutions to establish and closely monitor types and amounts of collateral to meet the state requirements.

Management Response: Management discussed the lack of pledged collateral with the Board of Trustees and the financial institutions and made the required arrangements to ensure proper collateralization of the public monies and compliance with the requirement of Section 6-10-16 NMSA 1978.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Schedule of Findings and Responses
For the Year Ended June 30, 2014

Section I — Financial Statement Findings — continued

2014-002 — Capital Assets Controls — Findings that do not rise to the level of a significant deficiency

Condition: During the audit, it was determined that the presence of capital assets that were in the Hospital's custody and use were not physically verified. The existence of the assets was inquired with departments and records were updated based on the information received. In addition, it was determined that the Hospital does not tag the capital assets in its custody as required by 2.20.1 NMAC.

Criteria or Specific Requirement: In accordance with 2.20.1 NMAC, an entity shall establish controls over its capital assets for the primary purposes of safeguarding them and establishing accountability for their custody and use. Capital assets are any property or equipment that has an initial value of more than \$5,000. Among other controls this includes conducting a physical inventory of the entity's capital assets and tagging the assets the entity's custody.

In accordance with the rule, the annual physical inventory is a process of verifying that fixed assets owned by the entity are present in their assigned custody and location, and evaluating their condition. The physical inventory checks against losses not previously revealed and brings to light errors in records of accountability, but more importantly, a systematic physical inventory of fixed assets provides an opportunity for surveying their physical condition.

Also in accordance with the rule, all fixed assets shall be marked with tags that identify the entity owning the asset followed by a unique sequential fixed asset number so that each item may be positively identified. Tag means any label or marking that is permanently affixed to a fixed asset, including indelible ink or dyes, numbers physically stamped into the fixed asset, adhesive labels or barcodes, and metal tags. Newly received fixed assets shall be tagged at the time they are received.

Cause: The Hospital performed the annual physical inventory, however, was not aware of the complete requirements of the procedures described in administrative code 2.20.1 NMAC.

Effect: Assets listed on the Hospital's capital asset listing may not exist or their actual conditions may not be accurately reflected.

Auditor's Recommendations: The Hospital should properly implement procedures in accordance with requirements of the administrative code 2.20.1 NMAC aimed at establishing standards for the accounting for and the controlling of capital assets. The Hospital should verify the existence and condition of the assets in its custody and tag the existing and future capital assets in accordance with the rule.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Schedule of Findings and Responses
For the Year Ended June 30, 2014

Section I — Financial Statement Findings — continued

2014-002 — Capital Assets Controls — Findings that do not rise to the level of a significant deficiency — continued

Management's Response: We agree that a system should be in place to safeguard capital assets and to report them properly in the financial statements. We propose that a process be implemented whereby; the Hospital annually physically inspects a sampling of fixed assets, emphasizing those assets with high dollar value and elevated risk of loss. Such inspections would be done by a designated staff person not directly connected with the operation of the departments holding the assets to be inspected. Exceptions would be documented, reported to the CFO, and would be used to support needed adjustments to the accounting records. Fixed assets could be marked in some permanent fashion, using the system-assigned asset number.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Schedule of Findings and Responses
For the Year Ended June 30, 2014

Section I — Financial Statement Findings — continued

2014-003 — Late Submittal of IPA Recommendation Form for FY2014 Audit and Audit Contract to State Auditor — Findings that do not rise to the level of a significant deficiency

Condition: Records of the Office of State Auditor indicate that the IPA Recommendation Form and audit contract were not timely submitted to the State Auditor by the Hospital.

Criteria or Specific Requirement: According to Paragraph (6) of Subsection G of 2.2.2.8 NMAC, the auditor must include a finding of noncompliance if a completed Independent Public Accountants (IPA) Recommendation Form and audit contract are not delivered to the State Auditor by the deadline, which is May 1st for the Hospital.

Cause: The Hospital is a component unit of Cibola County. The County completed a common IPA Recommendation Form and audit contract for fiscal year 2014 audits. The IPA Recommendation Form and audit contract was not completed and submitted by Cibola County to the New Mexico Office of State Auditor prior to the required May 1, 2014 deadline.

Effect: The Hospital is out of compliance with statutory requirements to timely submit the IPA Recommendation Form and audit contract to the State Auditor.

Auditors' Recommendations: We recommend that management establish controls to ensure that the required forms are submitted to the State Auditor in a timely manner.

Management's Response: Cibola County signed the audit contract with REDW, not Cibola General Hospital Corporation. Therefore, Cibola County is responsible for timely filing of the IPA Recommendation form and audit contract. Cibola General Hospital Corporation only provided input to the County for selection of the auditor and the County made the final decision and replied to the State Auditor's Office.

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Current Status Schedule of 2013 Audit Findings
For the Year Ended June 30, 2014

Prior-Year Number	Description	Current Status
FS 2013-1	Improper Revenue Recognition	Corrected
FS 2013-2	Payroll Process	Corrected

Cibola General Hospital Corporation
(A Component Unit of Cibola County)
Other Disclosures
June 30, 2014

Exit Conference and Board of Trustees Presentation

A closed meeting exit conference was held with the Hospital on November 3, 2014, in Grants, New Mexico with the following attending:

Cibola General Hospital Corporation

Ron Ortiz	Chairperson
Bob Tenequer	Vice-Chairperson
Nestor Griego	Secretary
Karl Gutierrez, MD	Chief of Medical Staff
Paul Milan	Treasurer
Carlos Tapia	Member
Donna Deming, MD	Member
Chase Elkins	Member
Lloyd Felipe	Member
Donald Weidemann, MHS, MA	Chief Executive Officer (CEO)
J.F. Rimel	Assistant Administrator and CFO
Janice Shipley	Chief Medical Officer
Glenna Losito	Co- Chief Nursing Officer
Maria Atencio	Co- Chief Nursing Officer

REDW_{LLC}

Tom Friend, CPA	Principal
Alan Demir, CPA	Manager

Financial Statement Preparation

The Hospital's independent public accountants prepared the accompanying basic financial statements; however, the Hospital is responsible for the basic financial statement and disclosure content. The Hospital's management has reviewed and approved the financial statements and related notes and they believe that their records adequately support the financial statements.