

**MINERS' COLFAX
MEDICAL CENTER
FINANCIAL STATEMENTS**

JUNE 30, 2009 and 2008

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MINERS' COLFAX MEDICAL CENTER

JUNE 30, 2009

BOARD OF TRUSTEES AND PRINCIPAL EMPLOYEES

Board of Trustees

Roy Fernandez	Chairman
Randy Rubin	Vice Chairman
Jenny Garcia	Secretary/Treasurer
Mike Colangelo	Member
Dr. Robert Gordan	Member

Principal Employees

Michael Carter	Chief Executive Officer
Albino Martinez	Chief Financial Officer

Independent Auditors' Report

Board of Trustees and Management
Miners' Colfax Medical Center
and
Mr. Hector H. Balderas,
New Mexico State Auditor

We have audited the accompanying financial statements of the business-type activities of Miners' Colfax Medical Center (Medical Center) as of and for the years ended June 30, 2009 and 2008, as listed in the table of contents. We have also audited the schedule of revenues and expenses - budget and actual and combining statement of revenues and expenses and changes in fund net assets for the year ended June 30, 2009 and the combining balance sheet as of June 30, 2009, presented as supplemental information. These financial statements and supplemental schedules are the responsibility of the Medical Center's management. Our responsibility is to express opinions on these financial statements and supplemental schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the basic financial statements of the Medical Center are intended to present the financial position, and changes in financial position and cash flows of the business type activities of the State of New Mexico that are attributable to the transactions of the Medical Center. They do not purport to, and do not present fairly, the financial position of the State of New Mexico as of June 30, 2009 and 2008, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Medical Center as of June 30, 2009 and 2008, and the respective changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the supplemental schedules referred

Board of Trustees and Management
Miners' Colfax Medical Center
and

Mr. Hector H. Balderas,
New Mexico State Auditor

to above present fairly, in all material respects, the respective financial position of each enterprise fund of the Medical Center as of June 30, 2009, the respective changes in their financial position, and the respective budgetary comparison for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2009, on our consideration of the Medical Center'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 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.

Management's Discussion and Analysis on pages 4 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the basic financial statements of the Medical Center, the statement of revenues and expenses – budget and actual and the combining balance sheet and combining statement of revenues and expenses and changes in fund net assets presented as supplemental information. The accompanying other supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Albuquerque, New Mexico
December 14, 2009

**MINERS' COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009**

The management of Miners' Colfax Medical Center (Medical Center) offers readers of the Medical Center's financial statements this narrative overview and analysis of the financial position of the Medical Center as of June 30, 2009, 2008, and 2007 and the results of its operations for the year then ended

BASIC FINANCIAL STATEMENTS

GASB Statement No. 34 requires that the basic financial statements include both government-wide financial statements and fund statements. As discussed more thoroughly in Note 1 to the financial statements, the operations of the Medical Center are accounted for in a single proprietary fund of the enterprise type. As a result, only the financial statements required for a proprietary fund are presented. The basic financial statements include balance sheets, which report the Medical Center's assets, liabilities and net assets, statements of revenues, expenses and changes in net assets and statements of cash flows, which summarize cash receipts and payments.

In addition, the Audit Rule issued by the New Mexico State Auditor requires that comparisons of actual revenues and expenses to the related budgets be presented as supplemental information.

CONDENSED COMPARATIVE FINANCIAL INFORMATION

The Medical Center's assets, liabilities and net assets can be summarized as follows as of June 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current assets (primarily cash and AR)	\$ 7,730,095	8,069,953	15,970,331
Assets limited as to use	6,773	6,158	5,598
Investments	-	3,120,585	3,270,557
Restricted investments	1,311,170	1,472,105	4,847,896
Capital assets, net	<u>34,934,251</u>	<u>36,708,153</u>	<u>28,620,157</u>
Total assets	\$ 43,982,289	49,376,954	52,714,539
Current liabilities (primarily accounts payable and accrued expenses)	\$ 2,459,479	2,340,920	2,498,742
Long-term liabilities (compensated absences and bond debt)	<u>14,065,527</u>	<u>14,758,531</u>	<u>15,422,528</u>
Total liabilities	\$ 16,525,006	17,099,451	17,921,270

**MINERS' COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

CONDENSED COMPARATIVE FINANCIAL INFORMATION (CONTINUED)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net assets			
Invested in capital assets	\$ 20,214,518	21,316,772	12,576,666
Restricted	1,317,941	1,478,263	4,853,484
Unrestricted	<u>5,924,824</u>	<u>9,482,468</u>	<u>17,363,119</u>
Total net assets	<u>27,457,283</u>	<u>32,277,503</u>	<u>34,793,269</u>
Total liabilities and net assets	<u>\$ 43,982,289</u>	<u>49,376,954</u>	<u>52,714,539</u>

The Medical Center's revenues and expenses can be summarized as follows for the years ended June 30:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Net patient service revenue	\$ 20,348,918	19,256,431	16,365,675
Miners' Trust Fund income	1,326,473	2,107,260	2,690,227
Grant and other revenue	<u>389,439</u>	<u>684,599</u>	<u>613,100</u>
Total operating revenues	<u>22,064,830</u>	<u>22,048,290</u>	<u>19,669,002</u>
Operating expenses for the provision of healthcare services to miners and others	<u>26,500,046</u>	<u>24,457,744</u>	<u>19,477,166</u>
Operating (loss) income	(4,435,216)	(2,409,454)	191,836
Net non-operating expense (primarily Investment loss)	<u>(385,004)</u>	<u>(106,312)</u>	<u>104,504</u>
(Loss) Income before release of escrow funds	(4,820,220)	(2,515,766)	296,340
Release of escrow funds	<u>-</u>	<u>-</u>	<u>509</u>
Change in net assets	<u>\$ (4,820,220)</u>	<u>(2,515,766)</u>	<u>296,849</u>

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

The decline in assets from 2009 to 2008 is the result of the liquidation and expenditure of short-term investments and also a full year of depreciation on the new hospital and associated equipment. During 2009 the short-term investments were liquidated to meet the cash needs of the facility. The facility had minimal capital expenditures during the year and full depreciation was recognized after completion of the new hospital. Total assets consist primarily of cash, cash equivalents, patient accounts receivable, other accounts receivable and property and equipment.

**MINERS' COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

**ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS
(CONTINUED)**

The balance sheet includes loans from the New Mexico Finance Authority. The proceeds from the loans were secured for the construction of a proposed new medical facility; all of those proceeds were fully drawn during fiscal year 2007. The Medical Center is paying down the loans and reduced outstanding principle by \$671,698 and \$652,110 during fiscal year 2009 and 2008 respectively.

Revenues increased from the prior year however, expenses increased at a greater proportion rate than revenue. In addition, Miners' Trust Fund income as reported in the accompanying Statement of Revenues, Expenses and Changes in Fund Net Assets decreased from the prior year. This income represents amounts needed from the Miners' Trust Fund to fund operations. Investment earnings generated by the State Permanent Fund remained fairly consistent between 2008 and 2009. The facility recruited and employed a full time surgeon, part time pathologist and four emergency physicians to alleviate the pressure of the local medical staff. Additionally, the on-call contract was negotiated to assure 24/7 coverage for surgery, internal medicine, family practice and OB services. Expenditures associated with state mandated personnel increases and employers' share of group insurance premiums has had significant impact on the facilities expenditures. The facility continues to focus on improving cash collections and has made improvements resulting in reductions of the overall accounts receivable. During the later part of the prior fiscal year the facility implemented electronic billing and contracted out the billing of self-pay accounts, which has increased cash collections and efficiency in the patient accounting department during the current year. Currently, the facility has contracted with a firm to review the revenue cycle from point of admission to discharge. The facility will also be completing a full charge master review to assure all charges for services are collected and billed appropriately. In total, contractual discounts and allowances, charity care, and bad debt expense have remained consistent as a percentage of gross revenue. In 2009, bad debt expense was down from 2008, yet contractual discounts and charity care increase as a percentage of gross revenue.

Consistent with the healthcare industry nationally, as well as in New Mexico, wages, payroll taxes and employee benefits have seen one of the highest increases of individual expense line items. The healthcare labor market is very competitive and healthcare providers must continually increase their salary and wage scales in order to attract, and then retain, caregivers. The facility has implemented significant cost containment strategies during fiscal year 2009. In the past the facility's pharmacy has dispensed pharmaceuticals to the resident miners at the long-term care facility (LTC). The facility has entered into a memorandum of understanding to dispense the pharmaceuticals and bill the individual miners' insurance with a local pharmacy. This has resulted in an approximate saving of \$400,000. The facility also reduced the utility service at the old hospital. The facility is reviewing all contracts, inventories and staffing patterns to assure the hospital maintains a viable financial operation. The facility has also increased its

MINERS' COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS
(CONTINUED)

vacancies of non-clinical positions in order to contain cost during the year. Rural healthcare has and continues to have challenges in meeting the needs to provide quality healthcare.

Total margin, defined as operating income divided by total operating revenues, was 1% in 2007, (11)% in 2008 and (20)% in 2009. Return on total assets and return on equity have seen comparable variations.

The Medical Center's financial position, however, is much stronger than many other New Mexico hospitals, due in part to the unique aspects of the Miners' Trust Fund, which serves to support the operations of the Medical Center. Current ratio, defined as the number of dollars held in current assets per dollar of current liabilities, was 6.4 in 2007, 3.4 in 2008 and 3.1 in 2009. Days cash on hand, defined as the number of days of average cash expenses that the Medical Center maintains in cash and cash equivalents, was 234 in 2007, 50 in 2008 and 56 in 2009. The Medical Center has a relatively sound financial structure supporting its operations.

BUDGETARY ANALYSIS

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
Budgetary basis revenues	\$ 35,439,123	33,003,600	2,435,523
Budgetary basis expenses	<u>32,759,837</u>	<u>33,003,600</u>	<u>243,763</u>
Excess of revenues over expenses	<u>\$ 2,679,286</u>	<u>-</u>	<u>2,679,286</u>

The positive variance in budgeted to actual revenues is primarily due to additional surgery revenues. The positive variance in expenditures is due to supplies costs budget exceeding actual as referenced to the reduced cost of pharmaceuticals.

LONG TERM DEBT ACTIVITY

There was no new debt in 2009. During 2009, the Medical Center paid a total of \$671,648 in bond principal and \$638,315 in bond interest on the *Miners' Colfax Hospital Improvement Revenue Bonds, Series 2004* and the *Miners' Colfax Hospital Improvement Revenue Bonds, Series 2006*. The bonds were for the construction of the new hospital.

**MINERS' COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2009**

CAPITAL ASSET ACTIVITY

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land and land improvements	\$ 293,881	293,881	291,214
Buildings	40,574,290	40,312,715	13,571,571
Equipment	10,713,474	10,696,388	8,268,449
	<u>51,581,645</u>	<u>51,302,984</u>	<u>22,131,234</u>
Less accumulated depreciation	<u>(16,647,394)</u>	<u>(14,594,831)</u>	<u>(13,370,662)</u>
	34,934,251	36,708,153	8,760,572
Construction in progress	<u>-</u>	<u>-</u>	<u>19,859,585</u>
Property and equipment, net	<u>\$ 34,934,251</u>	<u>36,708,153</u>	<u>28,620,157</u>

The new facility was completed in the early part of fiscal year 2008 and the Medical Center moved operations to the new facility in November of 2007.

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS

General financial market performance affects the investment return on the Miners' Trust Permanent Fund. The gains or losses on the Miners' Trust Fund are included in non-operating income (expense) in the accompanying statements of revenues, expenses and changes in net assets. Such gains or losses affect the funds available for transfer to the Medical Center's Operating Fund.

The facility has also recognized significant increase in purchased services due to recruitment efforts of the facility. Expenditures reflect the physician on call contract, Radiology services and significant increase for nurse staffing.

Revenues continue to increase due primarily to increases in surgeries resulting from the hiring of a surgeon. The average inpatient census has remained constant for the last six years with an average census of 16. Inpatient revenues over the same time period have remained constant and expenditures for all categories continue to increase. This has put a burden on the facilities cash balances.

The Medical Center will be seeking the benefits of changing its Medicare designation to a (CAH) Critical Access Hospital. This will change the Medicare reimbursement methodology from DRG to cost reimbursement. Based on the community's high density of Medicare beneficiaries and current conditions, management anticipates significant additional revenues would result from the re-designation. The facility will need to address any opportunities to generate additional revenues to offset the steady increased cost of healthcare.

**CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS
(CONTINUED)**

Healthcare providers, in the normal course of providing services to patients, are often subject to threatened or actual litigation regarding the quality of care. The Medical Center is insured with the Risk Management Division (Risk Management) of the General Services Department of the State of New Mexico. The Tort Claims Act requires that Risk Management provide coverage for medical malpractice in the amount of \$750,000 per claim and \$1,050,000 for all losses associated with a particular claim. There is no cap on the number of covered claims per year. Risk Management will assume all liability should a claim be assessed against the Medical Center. Claims in excess of these coverage amounts could have a detrimental effect on the Medical Center's operating results.

The healthcare industry is subject to a tremendous amount of regulatory activity related to the provision of services as well as the billing for such services. Many different regulatory agencies establish standards that must be met by the Medical Center in order for it to continue its operations. The costs involved with meeting constantly changing regulations can create a costly burden for the Medical Center. The costs of not meeting such regulations, however, are potentially far greater. Significant penalties are assessed, for example, when fraud and/or abuse, either intentional or unintentional, are noted in billings submitted to Medicare or Medicaid.

There will continue to be significant pressure on net patient service revenues in the future. Changes in the Medicare and Medicaid programs and the possible reduction of funding could have an adverse impact on the Medical Center. Negotiations with other third party payors regarding payment for services provided to these payors' insured members are critical to maintaining the Medical Center's financial position. These third party payors are facing increasing pressures on their own operating results. In addition, the costs of providing care to uninsured patients are very significant due to the high percentage of such patients within New Mexico. Economic conditions in Raton and the surrounding area can have a direct impact on the Medical Center's operating results. Closure of local mines and reductions in mining activity throughout New Mexico can affect the patient loads at the Medical Center as well.

Healthcare expenditures are expected to continue representing a greater and greater percentage of the Gross National Product. The costs related to salaries, wages, payroll taxes and employee benefits will continue to increase due to what is expected to be continued intense competition for caregivers and qualified administrative personnel. Pharmaceutical costs are also expected to continue their exponential increases.

MINERS' COLFAX MEDICAL CENTER
BALANCE SHEET - PROPRIETARY FUNDS
June 30, 2009 and 2008

	2009	2008
ASSETS		
Current Assets		
Cash	\$ 91,266	141,145
Interest in State Treasurer Investment Pool	3,552,630	3,013,898
Short-term investments	90,000	93,656
Patient accounts receivable, net of uncollectible accounts of \$4,661,994 and \$5,506,888	2,655,843	3,497,615
Prepaid expenses	-	1,264
Trust fund income receivable	514,935	519,943
Estimated third-party receivable	283,775	193,581
Inventories	541,646	608,851
	<hr/>	<hr/>
Total current assets	7,730,095	8,069,953
Assets limited as to use		
Investments	6,773	6,158
Restricted investments	-	3,120,585
Capital assets, net	1,311,170	1,472,105
	<hr/>	<hr/>
Total assets	\$ 43,982,289	49,376,954

See Notes to Financial Statements.

MINERS' COLFAX MEDICAL CENTER
BALANCE SHEET - PROPRIETARY FUNDS (CONTINUED)
June 30, 2009 and 2008

	2009	2008
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 786,599	759,575
Accrued payroll	566,394	549,624
Current portion - compensated absences	361,907	358,984
Estimated third-party payable	50,161	-
Current portion - bonds payable	694,418	672,737
	<hr/>	<hr/>
Total current liabilities	2,459,479	2,340,920
Noncurrent Liabilities		
Compensated absences, net of current portion	40,212	39,887
Bonds payable, net of current portion	14,025,315	14,718,644
	<hr/>	<hr/>
Total noncurrent liabilities	14,065,527	14,758,531
	<hr/>	<hr/>
Total liabilities	16,525,006	17,099,451
Contingencies		
Net Assets		
Invested in capital assets, net of related debt	20,214,518	21,316,772
Restricted for		
Purchase of hospital facility	6,773	6,158
Debt service	-	12,214
Construction	1,311,168	1,459,891
Unrestricted	5,924,824	9,482,468
	<hr/>	<hr/>
Total net assets	27,457,283	32,277,503
	<hr/>	<hr/>
Total liabilities and net assets	\$ 43,982,289	49,376,954

MINERS' COLFAX MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
Years Ended June 30, 2009 and 2008

	2009	2008
Operating Revenues		
Net patient service revenue	\$ 20,348,918	19,256,431
Miners' Trust Fund income	1,326,473	2,107,260
Federal grant revenue	253,767	255,193
Other revenue	135,672	429,406
	<hr/>	<hr/>
Total operating revenues	22,064,830	22,048,290
	<hr/>	<hr/>
Operating Expenses		
Salaries, wages, payroll taxes and employee benefits	13,668,491	12,462,886
Supplies and other	4,955,559	5,402,271
Purchased services	4,967,798	4,413,502
Depreciation	2,269,883	1,805,595
Interest Expense	638,315	373,490
	<hr/>	<hr/>
Total operating expenses	26,500,046	24,457,744
	<hr/>	<hr/>
Operating loss	(4,435,216)	(2,409,454)
	<hr/>	<hr/>
Nonoperating Revenue (Expense)		
Investment loss	(389,607)	(108,137)
Other non-operating income, net	4,603	1,825
	<hr/>	<hr/>
Total nonoperating expense, net	(385,004)	(106,312)
	<hr/>	<hr/>
Decrease in net assets	(4,820,220)	(2,515,766)
	<hr/>	<hr/>
Total net assets, beginning of year	32,277,503	34,793,269
	<hr/>	<hr/>
Total net assets, end of year	\$ 27,457,283	32,277,503
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

MINERS' COLFAX MEDICAL CENTER
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
Years Ended June 30, 2009 and 2008

	2009	2008
Cash Flows From Operating Activities		
Receipts from customers	\$ 22,821,416	21,250,200
Payments to suppliers	(10,416,018)	(10,337,917)
Payments to employees	(13,648,473)	(12,573,683)
	<hr/>	<hr/>
Net cash used by operating activities	(1,243,075)	(1,661,400)
	<hr/>	<hr/>
Cash Flows From Capital and Related Financing Activities		
Purchase of property and equipment	(495,981)	(9,893,591)
Principal payment on debt	(671,648)	(652,110)
	<hr/>	<hr/>
Net cash used by capital and related financing activities	(1,167,629)	(10,545,701)
	<hr/>	<hr/>
Cash Flows From Investing Activities		
Proceeds from sale and maturities of investments	3,392,370	4,991,847
Purchases of investments	(90,000)	(1,618,404)
Reinvested interest and dividends	(17,809)	(220,797)
Realized gains (losses) on investments	(385,004)	172,589
	<hr/>	<hr/>
Net cash provided by investing activities	2,899,557	3,325,235
	<hr/>	<hr/>
Net increase (decrease) in cash	488,853	(8,881,866)
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	3,155,043	12,036,909
	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 3,643,896	3,155,043
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

MINERS' COLFAX MEDICAL CENTER
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2009 and 2008

	2009	2008
Reconciliation of change in Operating Loss to		
Net Cash Used by Operating Activities		
Operating loss	\$ (4,435,216)	(2,409,454)
Adjustments to reconcile increase in operating		
income to net cash provided/(used) by operating		
activities		
Depreciation	2,269,883	1,805,595
Provision for bad debts	3,901,716	6,057,384
Changes in assets and liabilities		
Patient accounts receivable, net	(3,059,944)	(6,991,523)
Other receivables	5,008	167,821
Estimated third-party receivable	(90,194)	(31,772)
Inventories	67,205	(89,042)
Prepays	1,264	(700)
Accounts payable	77,185	(58,912)
Accrued expenses	16,770	(187,596)
Compensated absences	3,248	76,799
	<hr/>	<hr/>
Net cash used by operating activities	\$ (1,243,075)	(1,661,400)

See Notes to Financial Statements.

MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1. ORGANIZATION

In 1898, the Miners' Trust was established under constitutional and statutory authority for the purpose of creating a "miners' hospital for disabled miners." The Miners' Hospital opened in 1906 in Raton, New Mexico. The original structure is located on approximately ten (10) acres of land, which was donated expressly for that purpose. While specifically created for miners, private patients from the area have been admitted since its inception, although their presence is not to interfere with the specific trust purpose.

In 1968, the State attempted to close Miner's Hospital and to redistribute the Trust funds to various state institutions so that miners could be served in distant parts of the State. In response, local miners convinced the U.S. District Attorney to sue the State of New Mexico for breach of trust (*United States of America v. State of New Mexico*, U.S. District Court, #9484 Civil, 1974). As a result, the State of New Mexico was forced to re-open the Miners' Hospital as a general, acute care hospital and to re-pay the Trust all funds that were diverted. The court found that the wording of the Trust was very specific in that it required the hospital to exist in Raton, New Mexico.

Faced with the possibility of not having a hospital for its citizens, Colfax County obtained federal Hill-Burton funds to construct a county hospital in 1970, which was named Northern Colfax County Hospital (NCCH). When Miners' Hospital was re-opened, the community of Raton, with a population of approximately 8,000, had two hospitals. The economics of health care and the sparse population were insufficient to sustain the two hospitals. In December 1986, the Miners' Hospital was merged with the Northern Colfax County Hospital to form Miners' Colfax Medical Center. Although termed a merger, the transaction was more similar to an acquisition in that the State's control of the facility was virtually unchanged. Through fiscal year 2007, the former NCCH building served as the acute care hospital and the original Miners' Hospital building continues to be used as an extended care facility. The Medical Center moved into their new facility in November of 2007. Construction continued on certain components of the building throughout fiscal year 2008. See Note 5 for construction in progress activity during fiscal year 2008.

Miners' Colfax Medical Center (Medical Center) is governed by a five-member Board of Trustees (Board) appointed by the governor of New Mexico with State Senate confirmation. The Board consists of one licensed physician, two miners, and two members of the general public. The organization is a "stand alone" agency, reporting directly to the Governor's Office. The Medical Center operates primarily on Trust funds and patient revenues. The budget is subject to legislative appropriation. It is a "non-reverting" agency, that is, unexpended funds or profits do not revert to the State's general fund, but rather are deposited in the Trust account, to be managed by the Board, according to 23-3-4 NMSA 1978.

MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1. ORGANIZATION (CONTINUED)

The Medical Center operates a 33-bed acute care hospital, a 47 bed extended care facility, and various outpatient clinics in Raton. In addition, an outreach program serves mining communities throughout the state. Non-miners continue to be served, provided that they bear the costs of their care. The facility also bills miners for their care if they have insurance coverage; however, miners without the ability to pay are served regardless. The majority of users of the acute care facility are non-miners. The great majority of extended care facility residents are former miners. The outreach program, which uses a mobile van equipped to do chest x-rays, pulmonary function testing, and audiology testing, serves miners exclusively.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Measurement Focus and Basis of Accounting. The accompanying financial statements are presented using the economic resources measurement focus and the full accrual basis of accounting. Substantially all revenues and expenses are subject to accrual.

Accounting Standards. The operations of the Medical Center are presented in the accompanying basic financial statements as a single proprietary fund of the enterprise type although the Medical Center maintains separate accounts for its Operating Fund, the Miners' Trust Fund and the Capital Projects Fund. The Medical Center has no component units. The Miners' Trust Fund is discussed in more detail below. The combining schedule of revenues and expenses shows how revenues and expenses are segregated between these two internal funds.

The Medical Center has elected to not apply the provisions of all Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Miners' Trust Fund. 23-3-1, NMSA 1978 establishes the Miners' Trust Fund (Trust). The economic foundation of the Trust is land. The land is managed by the State Land Office and is held in trust for the Medical Center. Earnings derived from royalties from mineral, oil and gas production, along with receipts from the sale of surface rights, are placed in the State's permanent fund. The permanent fund is the Trust's corpus, which is invested by the State's Investment Council. The corpus cannot be used for operations of the hospital. The investment income derived from the corpus is available for operations of the Medical Center and has been reported in the statement of revenues, expenses and changes in net assets. The corpus is not owned by the Medical Center and is not reported on the balance sheets. A budget is not prepared for the Trust Fund.

Risk Management. The Medical Center 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 Medical Center is insured with the Risk Management Division (Risk Management) of the General Services Department of the State of New Mexico. The Tort Claims Act requires that Risk Management provide coverage for medical malpractice in the amount of \$1,050,000 per claim. There is no cap on the number of covered claims during a given year. Risk Management will assume all liability should a claim be assessed against the Medical Center.

Budgetary Data. The Medical Center prepares budgets that are submitted to the Legislative Finance Committee and the Department of Finance and Administration (DFA). Budgets are controlled at the "category" level, and amendments affecting a category must be approved by the DFA. Authority to make expenditures lapses at the end of each fiscal year. The budgets are prepared and presented using the modified accrual basis of accounting, except for accounts payable accrued at the end of the fiscal year that do not get paid by the statutory deadline in accordance with Section 6-10-4 NMSA 1978.

Cash and Cash Equivalents. Cash and cash equivalents include business checking accounts maintained with local financial institutions, the New Mexico State Treasurer, cash on hand, and investments in highly-liquid debt instruments with an original maturity of three months or less, excluding amounts whose use is limited by the Board's designation or other arrangements under bond indenture agreements.

The total balance in any single financial institution may at times exceed the \$250,000 in FDIC coverage available to individual depositors. In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Medical Center is required to collateralize an amount equal to one-half of the public money in excess of \$250,000 at each financial institution.

MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

The Medical Center does not have any deposits denominated in foreign currency.

Inventories. Inventories consist of pharmaceutical, medical, and maintenance supplies valued at cost using the first-in, first-out method.

Investments. The Medical Center participates in an investment pool managed by the State of New Mexico Investment Council. The investment pool consists of an equity pool and a fixed income pool. The equity pool is designed to provide long-term growth and is invested primarily in corporate stocks. The fixed income pool is designed to provide competitive returns in the fixed income market and is invested primarily in U.S. government and U.S. government agency debt securities. All Medical Center investments are carried at fair value. Interest, dividends, and gains and losses, both realized and unrealized, are included in non-operating income. The Medical Center does not have any investments denominated in foreign currency.

Capital Assets. Acquisitions of property and equipment, software, improvements and replacements of buildings or equipment with an initial individual cost of \$5,000 and an estimated useful life in excess of one year are capitalized at cost. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of operations. Depreciation is provided using the straight-line method over the estimated useful lives of the assets which range from a high of 40 years for buildings and improvements to a low of 3 years for certain types of equipment. Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project related borrowings.

Contributions. From time to time, the Medical Center receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Amounts restricted to capital acquisitions are reported as non-operating revenues and expenses.

Donated Services and Goods. A substantial number of volunteers have donated hours to the Medical Center's program services and fund-raising campaigns during the year; however, these donated services are not reflected in the financial statements since the services do not require specialized skills. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Restricted Resources. When the Medical Center has both restricted and unrestricted resources available to finance a particular program, it is the Medical Center's policy to use restricted resources before unrestricted resources.

Operating Revenues and Expenses. The Medical Center's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Medical Center's principal activity. Non-exchange revenues, including contributions received for purposes related to capital asset acquisitions, and additional sole community provider income, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Vacation and Sick Leave. Medical Center employees accrue vacation as a function of service. In the event of termination or retirement, an employee is reimbursed for accumulated vacation up to 240 hours. Employees with accumulated sick leave in excess of 600 hours may elect to be paid for 50% of such excess on an annual basis up to 120 hours (net 60 hours can be paid).

Net Patient Service Revenue. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Net patient service revenue also includes estimated retroactive adjustments under reimbursement agreements with third-party payors.

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Retroactive adjustments are accrued on an estimated basis in the period the services are rendered and adjusted in future periods as final settlements are determined. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. Estimated third-party payor settlement amounts included in the accompanying balance sheets approximate fair value.

Grant Revenue. Grant revenue consists of reimbursement-based grants. Such grants are considered voluntary nonexchange transactions in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB 33). GASB 33 requires that grants with eligibility requirements are not recognized until such time that all eligibility requirements have been met. Current grants are reimbursement-based grants, and accordingly, grant revenue is not recognized until the Medical Center has incurred an allowable expenditure under the terms of the grant agreement.

MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Charity Care. Although the Medical Center has no formal policies, it provides care to patients who lack financial resources, some of whom meet the requirements to be considered indigent by various state and local government programs. Such programs pay amounts that are less than the cost of the services provided to the recipients. Total uncompensated care, including charity care and governmental indigent care programs, totaled \$877,087 and \$475,240 in 2009 and 2008, respectively.

Treatment of Non-Miners. Pursuant to Federal District Court orders in prior years, the Medical Center maintains a general hospital, a nursing home, and an area for disabled miners requiring boarding or sheltered care. The Medical Center developed the following approach for determining eligible costs for the care and treatment of miners and non-miners and for determining eligible income from those sources:

Maximum charged to the Fund for miners – all fixed costs, which would be necessary if non-miners were accepted, plus a portion of variable costs (ratio of patient days for miners to total patients).

Minimum charged to non-miners or third-party payors – portion of variable costs (ratio of patient days for non-miners to total patients).

The above approach determining which monies from the Fund will not be used for the care and treatment of non-miners has been accepted by the court. To the extent that the Medical Center receives amounts from non-miners or third-party payors in excess of the minimum described above for the care and treatment of non-miners, some fixed costs are not charged against the Fund.

Income Taxes. The Medical Center is a state agency; therefore, it is exempt from federal and state income taxes.

NOTE 3. NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payors is as follows:

Medicare and Medicaid. Payment for services provided to inpatient acute Medicare program beneficiaries is based on a combination of prospectively determined rates per discharge and reimbursement for certain capital and medical education costs, as defined. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Medicare inpatient non-acute services, certain outpatient services, and services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology with certain limitations and rate schedules. The

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

NOTE 3. NET PATIENT SERVICE REVENUE (CONTINUED)

Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by fiscal intermediaries. Final settlements are estimated and recorded in the financial statements in the year in which they occur. The estimated settlements recorded at June 30, 2009 could differ from actual settlements based on the results of cost report audits.

During the year ended June 30, 2009, the Medical Center received accrued final settlement liabilities of \$33,717 for 2005 to 2008 Medicaid cost reports and a receivable for the 2008 Medicare cost report of \$1,818. There were no other changes in estimated final settlements during 2009 which affected net patient service revenue. Future changes in the Medicare and Medicaid programs and the possible reduction of funding could have an adverse impact on the Medical Center. In the opinion of management, adequate reserves for estimated final settlements have been provided as of June 30, 2009.

Other Programs. The Medical Center has patient service agreements with certain commercial insurance carriers, HMOs, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The following summarizes gross charges, contractual allowances, and unsponsored charges as of June 30, 2009 and 2008:

	2009	2008
Gross patient charges	\$38,755,121	37,454,848
Third-party contractual allowances	(13,627,400)	(11,665,793)
Provision for bad debts	(3,901,716)	(6,057,384)
Charity care including governmental indigent care programs	<u>(877,087)</u>	<u>(475,240)</u>
Net patient service revenue	<u>\$20,348,918</u>	<u>19,256,431</u>

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

NOTE 4. DEPOSIT AND INVESTMENT RISK DISCLOSURE

Deposits

Custodial Credit Risk - Deposits. Custodial credit risk is, in the event of the failure of a depository financial institution, the Medical Center will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Medical Center does not have a deposit policy for custodial credit risk. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Medical Center's name. As of June 30, 2009, the Medical Center had \$3,935,783 in deposits, \$3,514,036 of which was exposed to custodial credit risk as follows:

	2009	2008
Insured	<u>\$ 421,747</u>	<u>277,263</u>
Uninsured and collateral held by pledging bank's trust department not in the Medical Center's name	<u>\$ 2,409,641</u>	<u>1,239,866</u>
Uninsured and uncollateralized	<u>\$ 1,104,395</u>	<u>101,239</u>

In accordance with Section 6-10-17, NMSA, 1978 Compilation, the Medical Center is required to collateralize an amount equal to one-half of the public money in excess of \$250,000 at June 30, 2009 (see Schedule of Pledged Collateral) and \$100,000 at June 30, 2008 at each financial institution.

Credit Risk. The Medical Center has no formal policy on managing credit risk. State law limits investments to United States Government obligations, commercial paper with A-1 or better ratings, corporate bonds with a BBB+ or better rating, asset backed obligations with an AAA or better rating, or repurchase agreements.

A reconciliation of cash on deposit with the New Mexico State Treasurer to cash per DFA is as follows:

	2009	2008
Per New Mexico State Treasurer		
Agency 662, fund 102 – Miners' Colfax	\$ (1,284,336)	(1,283,406)
Agency 662, fund 986 – Miners' Hospital Construction	-	7,360
Agency 662, fund 985 – Miners' Trust Fund	<u>4,836,966</u>	<u>6,488,802</u>
Total per New Mexico State Treasurer	<u>3,552,630</u>	<u>5,212,756</u>
Per DFA	<u>\$ 3,552,630</u>	<u>5,212,756</u>

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

NOTE 4. DEPOSIT AND INVESTMENT RISK DISCLOSURE (CONTINUED)

Investments

Investments consist of the following:

	2009	2008
Short term Certificate of Deposit (greater than 90 days)	<u>\$ 90,000</u>	93,656
Short term (less than 1 year) U.S. Government Securities		
Restricted for construction of new facility	<u>\$ 1,311,170</u>	1,472,105
Pooled investments with State Investment Council		
Equity Pool	-	1,373,482
Fixed Income Pool	-	1,747,103
Total investments with State Investment Council	<u>\$ -</u>	<u>3,120,585</u>

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributable to the magnitude of the Medical Center's investment in a single issuer. The Medical Center has no formal policy limiting the amount of investments or deposits at any single institution or with any single issuer.

Credit Risk – Investments. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations; however, the Medical Center had no formal policy on managing credit risk. The Medical Centers investments are authorized by §6-10-10, NMSA 1978. As of June 30, 2009 and 2008, the Medical Centers investments consisted of short-term U.S. government securities, and pooled investments with the State Investment Council. Information on the rating of the New Mexico State Investment Council's equity and fixed income pools was not available. State statute limits the Investment Council's investments to a rating of BB or B or the national association of insurance commissioners' equivalent by a national rating service.

Custodial Credit Risk - Investments. Custodial credit risk is, in the event of the failure of a counterparty, the Medical Center will not be able to recover the value of its investments or will not be able to recover collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured and held by either (1) the counterparty or (2) the counterparty's trust department or agent but not in the Medical Center's name. The Medical Center's investments in the external investment pools are not issued in securities form. The Medical Center has no policy on custodial credit risk.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All of the Medical Center's investments in fixed income securities are managed by the New Mexico State Treasurer and the New Mexico State Investment Council. Interest rate risk in these funds is governed by the statutes of the State of New Mexico.

MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 5. CAPITAL ASSETS

Property and equipment consists of the following at June 30, 2009:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and land improvements	\$ 293,881	-	-	293,881
Total capital assets not being depreciated	<u>293,881</u>	<u>-</u>	<u>-</u>	<u>293,881</u>
Other capital assets				
Buildings	40,312,715	261,575	-	40,574,290
Equipment	10,696,388	236,072	(218,986)	10,713,474
	<u>51,009,103</u>	<u>497,647</u>	<u>(218,986)</u>	<u>51,287,764</u>
Accumulated depreciation for				
Buildings	(7,581,302)	(1,475,332)	-	(9,056,634)
Equipment	(7,013,529)	(794,551)	217,320	(7,590,760)
Total accumulated depreciation	<u>(14,594,831)</u>	<u>(2,269,883)</u>	<u>217,320</u>	<u>(16,647,394)</u>
Other capital assets, net	<u>36,414,272</u>	<u>(1,772,236)</u>	<u>(1,666)</u>	<u>34,640,370</u>
Total capital assets, net	<u>\$ 36,708,153</u>	<u>(1,772,236)</u>	<u>(1,666)</u>	<u>34,934,251</u>

MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 5. CAPITAL ASSETS (CONTINUED)

Property and equipment consists of the following at June 30, 2008:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and land improvements	\$ 291,214	2,667	-	293,881
Construction in progress	19,859,585	9,683,533	(29,543,118)	-
Total capital assets not being depreciated	<u>20,150,799</u>	<u>9,686,200</u>	<u>(29,543,118)</u>	<u>293,881</u>
Other capital assets				
Buildings	13,571,571	26,741,144	-	40,312,715
Equipment	8,268,449	3,009,519	(581,580)	10,696,388
	<u>21,840,020</u>	<u>29,750,663</u>	<u>(581,580)</u>	<u>51,009,103</u>
Accumulated depreciation for				
Buildings	(6,503,465)	(1,077,837)	-	(7,581,302)
Equipment	(6,867,197)	(727,758)	581,426	(7,013,529)
Total accumulated depreciation	<u>(13,370,662)</u>	<u>(1,805,595)</u>	<u>581,426</u>	<u>(14,594,831)</u>
Other capital assets, net	<u>8,469,358</u>	<u>27,945,068</u>	<u>(154)</u>	<u>36,414,272</u>
Total capital assets, net	<u>\$ 28,620,157</u>	<u>37,631,268</u>	<u>(29,543,272)</u>	<u>36,708,153</u>

The Medical Center capitalized interest expense of \$186,725 into construction in progress for the year ended June 30, 2008, respectively. All construction in progress was placed into service in November 2008, at the time construction of the new hospital was substantially complete.

MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 6. LONG-TERM OBLIGATIONS

Long term debt obligations consist of the following at June 30, 2009:

	Beginning Balance	Additions	Deletions	Ending Balance	Due in One Year
Bonds	\$ 15,391,381	-	(671,648)	14,719,733	694,418
Compensated absences	398,871	354,618	(351,370)	402,119	361,907
Total	<u>\$ 15,790,252</u>	<u>354,618</u>	<u>(1,023,018)</u>	<u>15,121,852</u>	<u>1,056,325</u>

Long term debt obligations consist of the following at June 30, 2008:

	Beginning Balance	Additions	Deletions	Ending Balance	Due in One Year
Bonds	\$ 16,043,491	-	(652,110)	15,391,381	672,737
Compensated absences	322,072	347,600	(270,801)	398,871	358,984
Total	<u>\$ 16,365,563</u>	<u>347,600</u>	<u>(922,911)</u>	<u>15,790,252</u>	<u>1,031,721</u>

Miners' Colfax Hospital Improvement Revenue Bonds, Series 2004. On August 21, 2004, the Medical Center adopted a resolution, amended on September 31, 2004, authorizing the sale of bonds in the principal amount of \$10,822,812 with an annual interest rate of 4.238% for the purpose of financing the renovation and improvement of the acute care facility, including the expansion of outpatient care facilities. The bonds were issued pursuant to Sections 6-13-1 through 6-13-26, NMSA 1978, as amended, particularly Section 6-13-4, NMSA 1978, as amended. The Medical Center sold the bonds to the New Mexico Finance Authority.

Pursuant to Sections 6-13-9 and 6-13-12, NMSA 1978, as amended, the Board of Trustees pledged each year's income distributed to the Medical Center from the permanent funds of the Medical Center by the Treasurer of the State of New Mexico to secure the payment of the principal and interest of the bonds.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

NOTE 6. LONG-TERM OBLIGATIONS (CONTINUED)

The schedule of payments of principal and interest are as follows:

Fiscal Year Ended June 30	Principal	Interest
2010	\$ 447,699	353,948
2011	462,510	340,294
2012	478,738	325,262
2013	496,352	308,890
2014	515,360	291,170
Thereafter	<u>6,490,327</u>	<u>1,636,414</u>
	<u>\$ 8,890,986</u>	<u>3,255,978</u>

In addition to the principal and interest on the bonds, the Medical Center will pay \$193,046 in management fees to the New Mexico Finance Authority for fiscal services for the bonds.

Miners' Colfax Hospital Improvement Revenue Bonds, Series 2006. On December 3, 2005, the Medical Center adopted a resolution authorizing the sale of bonds in the principal amount of \$6,487,649 with an annual interest 4.2% for the purpose of financing the renovation and improvement of the acute care facility. The bonds were issued pursuant to Sections 6-13-1 through 6-13-26, NMSA 1978, as amended, particularly Section 6-13-4, NMSA 1978, as amended. The Medical Center sold the bonds to the New Mexico Finance Authority.

Pursuant to Sections 6-13-9 and 6-13-12, NMSA 1978, as amended, the Board of Trustees pledged each year's income distributed to the Medical Center from the permanent funds of the Medical Center by the Treasurer of the State of New Mexico to secure the payment of the principal and interest of the bonds.

The schedule of payments of principal and interest are as follows:

Fiscal Year Ended June 30	Principal	Interest
2010	\$ 246,719	226,974
2011	255,500	218,832
2012	264,849	210,146
2013	274,806	200,876
2014	285,385	191,010
Thereafter	<u>4,501,488</u>	<u>1,280,850</u>
	<u>\$ 5,828,747</u>	<u>2,328,688</u>

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

NOTE 6. LONG-TERM OBLIGATIONS (CONTINUED)

In addition to the principal and interest on the bonds, the Medical Center will pay \$144,033 in management fees to the New Mexico Finance Authority for fiscal services for the bonds.

NOTE 7. OPERATING LEASES

The Medical Center leases various equipment under non-cancelable operating leases with expiration dates ranging from 2010 through 2012. Rent expense under these operating leases was \$165,628 and \$134,511 for the years ended 2009 and 2008, respectively.

Future minimum lease payments at June 30, 2009 are as follows:

2010	144,718
2011	94,619
2012	78,849
	<u>\$ 318,186</u>

NOTE 8. MINERS' TRUST FUND

The Medical Center is an income beneficiary of the State of New Mexico Land Grant Permanent Fund derived from trust lands assigned to the Medical Center by the Ferguson Act in 1898 and by the New Mexico Enabling Act in 1910. The trust principal is managed by the State Investment Council. Because the principal is not controlled by the Medical Center, it is not reflected in the accompanying Medical Center's financial statements. The fair value of the trust principal approximated \$83 million and \$110 million as of June 30, 2009 and 2008, respectively.

Additionally, the Medical Center has a 1/7 interest in the State Land Office permanent fund for Charitable, Penal, and Reform beneficiaries, which trust principal totaled \$10.3 million at June 30, 2009 and 2008, respectively.

The principal of these trust monies cannot be used. Interest from the trusts is required to be used for the treatment and care of miners at the Medical Center. Land Grant Permanent Fund income distributed to the Medical Center approximated \$5.5 million in 2009 and \$5.1 million in 2008. Charitable, Penal and Reform monies distributed to the Medical center approximated \$683,000 and \$614,000 in 2009 and 2008, respectively. It is the Medical Center's policy to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
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NOTE 8. MINERS' TRUST FUND (CONTINUED)

In addition, the Medical Center receives income allocations from the New Mexico State Treasurer, New Mexico State Land Office and the Office of the Controller. These amounts approximated \$76,000, \$230,000, and \$48,000, respectively, in 2009, and \$371,000, \$598,000 and \$58,000, respectively, in 2008.

In 2008, the New Mexico Legislature authorized the expenditure of \$600,000 of the Miners' Trust Fund for various capital improvements and projects between fiscal years 2008 and 2012. During fiscal year 2009, the Medical Center expended \$222,683 of the Miners' Trust Fund for capital purposes and has no current plans to spend the remaining amounts authorized by the Legislature. In the 2009 Combining Statement of Revenues and Expenses and Changes of Fund Net Assets the \$222,683 is reflected as a transfer from the Miners' Trust Fund to the Capital Projects Fund, and a subsequent transfer from the Capital Projects Fund to the Operating Fund.

NOTE 9. PERA PENSION PLAN

Plan Description. Substantially all of the Medical Center's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11 NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement, disability benefits, survivor benefits and cost-of-living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERA, PO Box 2123, Santa Fe, New Mexico 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 7.42% of their gross salary. The Medical Center is required to contribute 16.59%. Plan member and Medical Center contribution requirements are established under Chapter 10, Article 11 NMSA 1978. The requirements may be amended by acts of the legislature. The Medical Center's contributions to PERA for the year ended June 30, 2009, 2008 and 2007 were \$1,271,708, \$1,168,178 and \$1,103,308 respectively, equal to the amount of the required contributions for each year.

NOTE 10. POST-EMPLOYMENT BENEFITS

Plan Description. The Department contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Authority (RHCA). The RHCA

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

NOTE 10. POST-EMPLOYMENT BENEFITS (CONTINUED)

provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

Eligible retirees are: 1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; 2) retirees defined by the Act who retired prior to July 1, 1990; 3) former legislators who served at least two years; and 4) former governing authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing authority member. Former legislators and governing authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at www.nmrhca.state.nm.us.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory authority that establishes the required contributions of participating employers and their employees. The statute requires each participating employer to contribute 1.3% of each participating employee's annual salary; each participating employee is required to contribute .65% of their salary. Employers joining the program after January 1, 1998 are also required to make a surplus-amount contribution to the RHCA based on one of two formulas at agreed-upon intervals.

MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 10. POST-EMPLOYMENT BENEFITS (CONTINUED)

The RHCA plan is financed on a pay-as-you-go basis. The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the contributions can be changed by the New Mexico State Legislature.

For the fiscal years ended June 30, 2009, 2008 and 2007 the Medical Center's contributions to the RHCA were \$97,290, \$89,466 and \$84,788 respectively, which equal the required contributions for each year.

NOTE 11. ASSETS LIMITED AS TO USE AND RESTRICTED NET ASSETS

In connection with the merger in 1986 as discussed in Note 1, the Medical Center placed \$1,000,000 into escrow until December 1, 2061, at which time the \$1,000,000 will be refunded back to the Medical Center. The investment income earnings belong to Colfax County to be used for health care purposes, including indigent care. The \$1,000,000 placed into escrow was allocated to applicable assets of NCCH acquired in the merger. The escrow balance was \$6,773 and \$6,158 at June 30, 2009 and 2008, respectively, representing the present value of \$1,000,000 discounted at 10%.

The Medical Center issued bonds in the years ending June 30, 2005 and 2006 for the purpose of constructing a new facility. The proceeds of the bonds are restricted for construction, and have been invested. The bond resolution required a debt service and debt service reserve account to be established. All of the money related to the debt is on the balance sheet as restricted investments.

NOTE 12. JOINT POWERS AGREEMENT

In fiscal year 1998, the Medical Center entered into a joint powers agreement with the New Mexico State Investment Council (SIC) (a joint power authority duly organized under the laws of the State of New Mexico pursuant to section 11-1-1 through 11-1-7, NMSA 1978). As a client of said authority, the Medical Center, with other members, entered into an agreement with SIC whereas SIC is authorized to offer investment advisory or management services, including the Pooled Investment Funds, to the client pursuant to Section 6-8-7 G NMSA 1978. In addition, SIC is responsible for providing annual fiscal year-end audit reports of the Pooled Investment Funds to each participant. This agreement does not have a specified termination date but may be terminated by either party upon thirty (30) days written notice to the other party.

As compensation for providing these services, SIC charges an annual management fee of one dollar for each thousand dollars of market value under management. Total management fees in fiscal year 2009 and 2008 were less than \$5,000.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2009**

NOTE 13. CONCENTRATION OF CREDIT RISK

The Medical Center grants credit without collateral to its patients, most of who 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 mix of receivables from patients and third-party payors at June 30, 2009 and 2008 was as follows:

	2009	2008
Medicare	27%	24%
Medicaid	15	11
Self-pay	24	27
Commercial and other	34	38
	<u>100%</u>	<u>100%</u>

NOTE 14. CONTINGENCIES

Grants. Grant awards from governmental entities are subject to audits. Such audits could result in claims against the Medical Center for disallowed costs or noncompliance with grantor restrictions. The amount, if any, of expenditures that may be disallowed by grantors cannot be determined at this time. However, the Medical Center expects any such amounts to be immaterial.

Risk Management. The Medical Center 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. As described in Note 2, the Medical Center is insured with the Risk Management Division (Risk Management) of the General Services Department of the State of New Mexico. Management does not expect any claims to exceed its covered insurance levels, and accordingly, has not accrued for any such claims.

**MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
Year Ended June 30, 2009**

	Original Budget	Revised Budget	Actual	Variance Over (Under)
Meals	\$ 35,000	35,000	31,988	(3,012)
Payment for care, government	450,000	450,000	164,346	(285,654)
Payment for care, individuals	16,038,900	16,038,900	20,184,572	4,145,672
Other institutional sales	400,000	400,000	-	(400,000)
Federal grants	257,000	257,000	253,767	(3,233)
Miscellaneous	60,000	60,000	149,928	89,928
Other financing sources	5,658,000	7,904,700	7,858,026	(46,674)
Miners' Trust Fund	5,420,000	7,620,000	6,573,839	(1,046,161)
MCMC renovation fund	238,000	238,000	222,657	(15,343)
Total budgetary basis revenues	\$ 28,556,900	33,003,600	35,439,123	2,435,523
Unrealized gains (losses) on investments			(431,222)	
Transfers from Miners' Trust Fund for operations			(7,858,026)	
Transfers from Miners' Trust Fund for renovations			(222,657)	
Charges to Miners' Trust Fund			<u>(5,247,392)</u>	
Total GAAP basis operating and nonoperating revenues			\$ 21,679,826	

MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2009

	Original Budget	Revised Budget	Actual	Variance Positive (Negative)
Personal services	\$ 12,694,600	13,591,300	13,668,491	(77,191)
Contract services	3,780,400	5,130,400	4,967,798	162,602
Other costs	6,423,900	6,423,900	6,265,522	158,378
Miners' Trust Fund	5,658,000	7,858,000	7,858,000	-
MCMC Renovation Fund	-	-	-	-
Total budgetary basis expenses	<u>\$ 28,556,900</u>	<u>33,003,600</u>	32,759,811	<u>243,789</u>
Depreciation			2,269,883	
Transfers from Miners' Trust Fund for operations			(7,858,000)	
Budgeted principal payments on debt			<u>(671,648)</u>	
Total GAAP basis expenses			<u>\$ 26,500,046</u>	

MINERS' COLFAX MEDICAL CENTER
 COMBINING BALANCE SHEET - PROPRIETARY FUNDS
 June 30, 2009

	Operating Fund	Miners' Trust Fund	Capital Projects Funds	Total
ASSETS				
Current Assets				
Cash	\$ 91,266	-	-	91,266
Interest in State Treasurer Investment Pool	(1,284,336)	4,836,966	-	3,552,630
Short-term investments	90,000	-	-	90,000
Patient accounts receivable, net of estimated uncollectible accounts of \$4,661,994	2,655,843	-	-	2,655,843
Trust fund income receivable	(64)	514,999	-	514,935
Estimated third-party receivable	283,775	-	-	283,775
Inventories	541,646	-	-	541,646
Total current assets	2,378,130	5,351,965	-	7,730,095
Noncurrent Assets				
Assets limited as to use	6,773	-	-	6,773
Restricted investments	1,311,170	-	-	1,311,170
Capital assets, net	34,934,251	-	-	34,934,251
Total assets	\$ 38,630,324	5,351,965	-	43,982,289
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	\$ 786,599	-	-	786,599
Accrued payroll	566,394	-	-	566,394
Current portion - compensated absences	361,907	-	-	361,907
Estimated third-party payable	50,161	-	-	50,161
Current portion - bonds payable	694,418	-	-	694,418
Total current liabilities	2,459,479	-	-	2,459,479
Noncurrent Liabilities				
Compensated absences, net of current portion	40,212	-	-	40,212
Bonds payable, net of current portion	14,025,315	-	-	14,025,315
Total noncurrent liabilities	14,065,527	-	-	14,065,527
Total liabilities	16,525,006	-	-	16,525,006
Net Assets				
Invested in capital assets, net of related debt	20,214,518	-	-	20,214,518
Restricted for				
Purchase of hospital facility	6,773	-	-	6,773
Construction	1,311,168	-	-	1,311,168
Unrestricted	572,859	5,351,965	-	5,924,824
Total net assets	22,105,318	5,351,965	-	27,457,283
Total liabilities and net assets	\$ 38,630,324	5,351,965	-	43,982,289

MINERS' COLFAX MEDICAL CENTER
COMBINING STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
Year Ended June 30, 2009

	Operating Program	Miners' Trust Fund Program	Capital Projects Program	Total
Operating Revenues				
Net patient service revenue	\$ 15,101,552	5,247,366	-	20,348,918
Miners' Trust Fund income	-	1,326,473	-	1,326,473
Federal grant revenue	253,767	-	-	253,767
Other revenue	135,672	-	-	135,672
Total operating revenues	15,490,991	6,573,839	-	22,064,830
Operating Expenses				
Salaries, wages, payroll taxes and employee benefits	13,668,491	-	-	13,668,491
Supplies and other	4,955,559	-	-	4,955,559
Purchased services	4,967,798	-	-	4,967,798
Depreciation	2,269,883	-	-	2,269,883
Interest expense	638,315	-	-	638,315
Total operating expenses	26,500,046	-	-	26,500,046
Operating income (loss)	(11,009,055)	6,573,839	-	(4,435,216)
Nonoperating Revenue (Expense)				
Investment loss, net	(389,607)	-	-	(389,607)
Other non-operating income, net	4,603	-	-	4,603
Total nonoperating revenue (expense)	(385,004)	-	-	(385,004)
Income (loss) before release of escrow funds	(11,394,059)	6,573,839	-	(4,820,220)
Transfers:				
From Miners' Trust Program to Operating Program	7,858,000	(7,858,000)	-	-
From Miners' Trust Program to Capital Projects Program	-	(222,683)	222,683	-
From Capital Projects Program to the Operating Program	230,043	-	(230,043)	-
Increase (decrease) in net assets	(3,306,016)	(1,506,844)	(7,360)	(4,820,220)
Total net assets, beginning of year	25,411,334	6,858,809	7,360	32,277,503
Total net assets, end of year	\$ 22,105,318	5,351,965	-	27,457,283

MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2009

Depository	Account Name	Type	Depository Balance	Reconciled Balance
State Treasurers Office	Warrant account	Checking	\$ 3,552,630	3,552,630
First National Bank	Operations	Checking	3,764,036	8,919
Wells Fargo	Donation fund	Checking	4,591	4,591
Wells Fargo	Certificate of Deposit	CD	77,156	77,156
Cash and cash equivalents			7,398,413	3,643,296
Petty cash	Petty cash		-	600
Total cash and cash equivalents - non-agency funds			7,398,413	3,643,896
Bank of Albuquerque	Debt service reserve account	Investment	1,311,170	1,311,170
Int'l Bank of Raton	Certificate of Deposit	CD	90,000	90,000
			1,401,170	1,401,170
Total deposit and investment accounts			\$ 8,799,583	5,045,066

**MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2009**

Deposits at June 30, 2009	First National	Wells Fargo Checking	International Bank of Raton CD	Wells Fargo CD
Less: FDIC coverage	\$ 3,764,036	4,591	90,000	77,156
Uninsured public funds	250,000	4,591	90,000	77,156
	3,514,036	-	-	-
Pledged collateral held by the pledging bank's trust department or agent but not in the Medical Center's name	2,409,641	-	-	-
Uninsured and uncollateralized	\$ 1,104,395	-	-	-
50% pledged collateral requirement per statute	\$ 1,757,018	-	-	-
Total pledged collateral	2,409,641	-	-	-
Pledged collateral (over) under the requirement	\$ (652,623)	-	-	-

Pledged collateral at June 30, 2009 consists of the following:

Security	CUSIP	Maturity	Market Value
FHLB Fixed Rate Note	31371MEG8	7/1/2015	\$ 120,239
FHLB Fixed Rate Note	550340GF8	8/1/2009	101,773
FHLB Fixed Rate Note	3128E4CH3	5/1/2027	146,301
FHLB Fixed Rate Note	3128QHVP2	9/1/2036	136,773
FHLB Fixed Rate Note	1626348H1	8/1/2013	102,589
FHLB Fixed Rate Note	736151C22	2/1/2016	51,112
FHLB Fixed Rate Note	843789EG9	8/1/2020	197,290
FHLB Fixed Rate Note	311441JF7	9/1/2012	50,302
FHLB Fixed Rate Note	31331GSF7	9/21/2016	500,797
FHLB Fixed Rate Note	31331GPT0	3/11/2019	592,602
FHLB Fixed Rate Note	011464FK5	8/1/2014	101,822
FHLB Fixed Rate Note	264430HJ1	3/1/2018	197,072
FHLB Fixed Rate Note	077581MY9	8/1/2014	110,969
			\$ 2,409,641

The custodian of the pledged securities for First National bank is the Federal Home Loan Bank of Dallas in Dallas, Texas.

**Independent Auditors' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees and Management
Miners' Colfax Medical Center
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the basic financial statements of the business-type activities of Miners' Colfax Medical Center (Medical Center) as of and for the year ended June 30, 2009, as listed in the table of contents, and have issued our report thereon dated December 14, 2009. We have also audited the schedule of revenue and expenses - budget to actual and the combining balance sheet and combining statement of revenues and expenses and changes in fund net assets, presented as supplementary information, as of and for the year ended June 30, 2009, as listed in the table of contents. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a

Board of Trustees and Management
Miners' Colfax Medical Center
and
Mr. Hector H. Balderas
New Mexico State Auditor

misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

However, we noted certain matters that are required to be reported under *Government Auditing Standards* Paragraphs 5.14 and 5.16, and Section 12-6-5, NMSA 1978, which are described in the accompanying schedule of findings and responses as items 07-06 and 09-01.

The Medical Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Medical Center's response and, accordingly, we express no opinion on it.

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Board of Trustees and Management
Miners' Colfax Medical Center
and
Mr. Hector H. Balderas
New Mexico State Auditor

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

Moss Adams LLP

Albuquerque, New Mexico
December 14, 2009

**MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009**

07-06 -- Budget Overage

CONDITION

Actual personnel expenses exceeded budget by \$77,191.

CRITERIA

According to section 6-3-7, NMSA 1978, state agencies must obtain budget approval prior to spending public funds.

CAUSE

Management expected to obtain approval for the over-expenditure through a budget adjustment request; however, this was not obtained at the time of audit.

EFFECT

The Medical Center is out of compliance with statutory requirements.

RECOMMENDATION

Management should ensure processes are in place to help ensure that budget adjustment requests are properly submitted to DFA.

MANAGEMENT RESPONSE

Management is aware of section 6-3-7, NMSA 1978. However, the facility is the only State owned Acute Care hospital. MCMC as well as all urban and rural hospitals nationally have experienced a shortage of Physicians, Nurses and Healthcare professionals. The facility is continuously recruiting to meet the needs of its patients and is unable to anticipate when healthcare professionals are recruited. The facility was successful in recruiting a surgeon, part time pathologist, and four emergency physicians to alleviate the pressure on local medical staff. The facility was unable to meet the BAR deadline to be compliant with Section 6-3-7 to obtain budget approval to spend public funds.

MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2009

09-01 – Cash Receipts

CONDITION

An employee was able to embezzle approximately \$5,000 of patient payments.

CRITERIA

The embezzlement constitutes a third-degree felony that has been perpetrated on the Medical Center. An effective system of internal controls should provide reasonable assurance that errors or irregularities are prevented and/or timely detected.

CAUSE

Processes did not include a procedure for accounting for all sequentially issued receipt numbers, and the employee had inappropriate physical access to the cashier desk as well as to certain employees' system logins.

EFFECT

The Medical Center was subsequently reimbursed for the embezzlement, less the insurance deductible of \$1,000. The Hospital continues to pursue collection from the employee so that the insurance deductible can be recovered.

RECOMMENDATION

Management should ensure processes and procedures are modified to ensure all sequentially issued receipt numbers are accounted for, and physical access to the cashier's desk and system access to employee logins are appropriately restricted.

MANAGEMENT RESPONSE

The Medical Center's business office manager retired in 2008 and the facility is currently recruiting its third business office manager. This has hindered the facility in its ability to provide continuous review of internal controls. The facility has reviewed the entire cash collection process for the facility. A new policy and forms were implemented to assure the appropriate internal controls and segregation of duties to limit the risk of potential embezzlement in the future. The facility is undergoing a financial assessment of its business practices and the patient billing system by an independent firm to assure the facility captures charges and collects all revenue for all services provided by the facility and a review of all policies and procedures. The business office personnel and related departments were involved to assure all processes are seamless and the appropriate internal controls are applied.

MINERS' COLFAX MEDICAL CENTER
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2009

07-01	Accounts Receivable – Allowance for Doubtful Accounts	Resolved
07-02	Business Office	Resolved
07-06	Budget Overage	Repeated
07-07	Reconciliation of Interest in the State Treasurer's Office Account	Resolved
08-01	Revenue Cycle Internal Controls	Resolved
08-02	Access to Warehouse	Resolved
08-03	Accounting for Construction in Progress and Capitalized Interest	Resolved
08-04	Bonds - Arbitrage Rebate Liability	Resolved
08-05	Travel and Per Diem	Resolved

**MINERS' COLFAX MEDICAL CENTER
EXIT CONFERENCE
Year Ended June 30, 2009**

An exit conference was held on December 14, 2009. The following individuals were in attendance:

Representing Miners' Colfax Medical Center:

Michael Carter	Chief Executive Officer
Albino Martinez	Chief Financial Officer
Jenny Garcia	Secretary/Treasurer

Representing Moss Adams LLP:

Brandon Fryar	Partner
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The financial statements were prepared with the assistance of Moss Adams LLP.