



MINERS' COLFAX MEDICAL CENTER
FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
JUNE 30, 2012 and 2011

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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MINERS' COLFAX MEDICAL CENTER

JUNE 30, 2012

BOARD OF TRUSTEES AND PRINCIPAL EMPLOYEES

Board of Trustees

Roy Fernandez	Chairman
Manual Anaya	Vice Chairman
Kathy McQueary	Secretary
Jenny Garcia	Member
Dr. Robert Gordon	Member

Principal Employees

Shawn Lerch	Chief Executive Officer
Tom Poteste	Chief Financial Officer

Report of Independent Auditors

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, 2012 and 2011, as listed in the table of contents. We also have audited the schedule of revenues and expenses - budget and actual for the year ended June 30, 2012, the combining balance sheet as of June 30, 2012, and the combining statement of revenues and expenses and changes in fund net assets for the year ended June 30, 2012, presented as supplementary information. These financial statements and supplementary information are the responsibility of the Medical Center's management. Our responsibility is to express opinions on these financial statements and supplementary information 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2012 and 2011, 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.

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

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, 2012 and 2011, 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 supplementary information referred to above presents fairly, in all material respects, the respective financial position of each enterprise fund of the Medical Center as of June 30, 2012, 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 17, 2012 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 that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 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 audits 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.

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

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 supplementary information. The accompanying schedule of deposit and investment accounts and schedule of pledged collateral are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of deposit and investment accounts and schedule of pledged collateral are fairly stated in all material respects in relation to the financial statements as a whole.

Mess Adams LLP

Albuquerque, New Mexico
December 17, 2012

**MINERS' COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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, 2012, 2011 and 2010 and the results of its operations for the years 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 supplementary information.

CONDENSED COMPARATIVE FINANCIAL INFORMATION

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current assets (primarily cash and AR)	\$ 9,541,024	8,583,710	7,287,617
Assets limited as to use	9,015	8,196	7,451
Restricted investments	1,316,278	1,310,659	1,312,759
Capital assets, net	<u>29,616,066</u>	<u>31,212,146</u>	<u>32,889,423</u>
Total assets	<u>\$ 40,482,383</u>	<u>41,114,711</u>	<u>41,497,250</u>
Current liabilities (primarily accounts payable and accrued expenses)	\$ 2,459,899	2,879,362	2,768,434
Long-term liabilities (compensated absences and bond debt)	<u>11,834,220</u>	<u>12,606,758</u>	<u>13,351,329</u>
Total liabilities	<u>14,294,119</u>	<u>15,486,120</u>	<u>16,119,763</u>

**MINERS' COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

CONDENSED COMPARATIVE FINANCIAL INFORMATION (CONTINUED)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net assets			
Invested in capital assets	\$ 17,048,863	17,902,557	18,862,985
Restricted	1,325,293	1,318,855	1,320,210
Unrestricted	<u>7,814,108</u>	<u>6,407,179</u>	<u>5,194,292</u>
Total net assets	<u>26,188,264</u>	<u>25,628,591</u>	<u>25,377,487</u>
Total liabilities and net assets	<u>\$ 40,482,383</u>	<u>41,114,711</u>	<u>41,497,250</u>

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net patient service revenue	\$ 18,305,432	21,903,730	20,588,477
Miners' Trust Fund income	4,378,043	2,652,683	1,125,783
Grant and other revenue	<u>1,035,809</u>	<u>602,446</u>	<u>516,441</u>
Total operating revenues	23,719,284	25,158,859	22,230,701
Operating expenses for the provision of healthcare services to miners and others	<u>23,175,937</u>	<u>24,914,163</u>	<u>24,325,297</u>
Operating income (loss)	543,347	244,696	(2,094,596)
Net non-operating revenue (expense) (primarily investment income/loss)	<u>16,326</u>	<u>6,408</u>	<u>14,800</u>
Change in net assets	<u>\$ 559,673</u>	<u>251,104</u>	<u>(2,079,796)</u>

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Total assets consist primarily of cash, cash equivalents, investments, patient accounts receivable, trust fund receivables, and property and equipment.

The balance sheet includes loans from the New Mexico Finance Authority. The proceeds from the loans were secured for the construction of the 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 principal by \$742,386 and \$716,849, and \$693,295 during fiscal year 2012, 2011 and 2010, respectively.

**MINERS' COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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

The Medical Center has placed greater emphasis on the revenue cycle process, which includes submitting correct and timely bills; and the effectiveness of the collections process. In 2012, expenditures showed personnel costs decreased by \$1,159,411 due to reduction in force by attrition and not replacing key personnel immediately; supplies decreased by \$486,782 and contracts for purchased services increased by \$59,352. MCMC will continue to focus on cost reductions in the areas of personnel, supplies and purchased services. In 2011, expenditures showed personnel costs increased by \$545,797 due to the hiring of physicians previously under contract; supplies increased by \$84,000 and contracts for purchased services decreased by \$267,201. In 2010, expenditures for personnel costs decreased by \$723,000; supplies decreased by \$360,000 and contracts for purchased services decreased by \$955,000.

In addition, Miners' Trust Fund income as reported in the accompanying Statement of Revenues, Expenses and Changes in Fund Net Assets increased in 2012 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 2010 through 2012. The facility hired and retained an additional general surgeon, which has had a significant impact on services for the facility. MCMC's long term care facility has shown a boost in revenue after increasing the private pay beds from 5 to 10 (non-miner, self pay or Medicaid). The facility has completed a full charge master review to assure all charges for services are captured correctly and billed appropriately. In total, contractual discounts and allowances, charity care, and bad debt expense have decreased significantly.

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 2012. This has resulted in a decrease of every expenditure category for the facility. In 2012, the facility realized a total decrease of expenditures of personnel, contracted services and supplies of \$1,586,841 based on cost containment initiatives from the past and current fiscal year.

Rural healthcare has and continues to have challenges in meeting the needs to provide quality healthcare.

**MINERS' COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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

Total margin, defined as operating income divided by total operating revenues, was (9%) in 2010, 1% in 2011 and 2% in 2012. 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 2.6 in 2010, 3.0 in 2011 and 3.9 in 2012. Days cash on hand, defined as the number of days of average cash expenses that the Medical Center maintains in cash and cash equivalents, and the State Treasurer Investment Pool was 47 in 2010, 43 in 2011 and 100 in 2012. 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	\$ 28,759,410	27,843,000	916,410
Budgetary basis expenses	<u>26,247,230</u>	<u>27,843,000</u>	<u>1,595,770</u>
Excess of revenues over expenses	<u>\$ 2,512,180</u>	<u>-</u>	<u>2,512,180</u>

The positive variance in budgeted to actual revenues is primarily due to additional surgery revenues, the additional private beds opened at the nursing home and the designation as a CAH. The positive variance in expenditures is due to cost savings and efficiencies implemented during the prior and current fiscal years.

LONG TERM DEBT ACTIVITY

There was no new debt in 2012. During 2012, 2011 and 2010, the Medical Center paid a total of \$742,386, \$716,849, and \$693,295, respectively, in bond principal and \$567,865, \$593,272, and \$616,833, respectively, 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
June 30, 2012**

CAPITAL ASSET ACTIVITY

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land and land improvements	\$ 293,881	293,881	293,881
Buildings	40,866,456	40,697,989	40,604,676
Equipment	<u>10,350,882</u>	<u>10,252,660</u>	<u>10,351,259</u>
	51,511,219	51,244,530	51,249,816
Less accumulated depreciation	<u>(21,895,153)</u>	<u>(20,032,384)</u>	<u>(18,360,393)</u>
Property and equipment, net	<u>\$ 29,616,066</u>	<u>31,212,146</u>	<u>32,889,423</u>

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 revenue (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.

Gross revenues were lower from the prior year and net revenues decreased. The average inpatient census has decreased for the last four years with an average census of 16 in FY 2008 to an average census of 7 in FY 2012. The decrease in inpatient census is a result of the general economic conditions, the pressures placed on physicians by third-party payers and the reduced number of physicians. Inpatient revenues over the same time period have decreased and expenditures for all categories have decreased significantly from the prior fiscal year. The long term care facility occupancy percentage was 83%, which includes the effect of opening the additional private pay beds. Management and the Board have targeted an increase of no less than 85% occupancy for fiscal year 2013.

The Medical Center changed its Medicare designation to a Critical Access Hospital (CAH) as of November 1, 2010. This has changed 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 will result from the re-designation. The 2012 and 2011 Medicare and Medicaid cost reports have resulted in a settlement reimbursement of approximately \$419,000 and \$1.8 million, respectively. The Medical Center received \$313,000 in 2012 from meaningful-use stage one (electronic Health Record reimbursement). The Medical Center will continue to move forward with stage two meaningful use reimbursement from Medicare and also apply for money under Medicaid within the same program.

**MINERS' COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

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 up to these caps 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2012**

CURRENTLY KNOWN FACTS, DECISIONS AND CONDITIONS (CONTINUED)

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances had not been reconciled at the business unit/fund level since the inception of the Statewide Human Resources, Accounting, and Management Reporting (SHARE) system in July of 2006.

Under the direction of the State Controller/Financial Control Division Director, the Financial Control Division of the New Mexico Department of Finance & Administration (DFA/FCD) is taking aggressive action to resolve this serious problem. DFA/FCD has commenced the Cash Management Remediation Project (Remediation Project) in partnership with the New Mexico State Treasurer's Office, the New Mexico Department of Information Technology, and a contracted third party PeopleSoft Treasury expert.

The Purpose of the Remediation Project is to design and implement the changes necessary to reconcile the General Fund Investment Pool in a manner that is complete, accurate, and timely. The Remediation Project will make changes to the State's current SHARE system configuration, cash accounting policies and procedures, business practices, and banking structure. Management believes that these changes will allow for the completion of a timely and accurate reconciliation on a point-forward basis only. The scheduled implementation date for the changes associated with the Remediation Project is February 1, 2013. An approach and plan to address the population of historical reconciling items will be developed during the Remediation Project but a separate initiative will be undertaken to resolve the historical reconciling items.

The initial phase of the Remediation Project, completed on October 11, 2012, focused on developing a project plan and documenting current statewide business processes. The work product of the initial phase of the Remediation Project is a document entitled Cash Management Plan and Business Processes. The document is available on the Cash Control page of the New Mexico Department of Finance & Administration's website at [http://www.nmdfa.state.nm.us/Cash Control.aspx](http://www.nmdfa.state.nm.us/Cash%20Control.aspx).

MINERS' COLFAX MEDICAL CENTER
BALANCE SHEETS - PROPRIETARY FUNDS
June 30, 2012 and 2011

	2012	2011
ASSETS		
Current Assets		
Cash	\$ 162,672	\$ 104,094
Cash equivalents-Interest in State Treasurer Investment Pool	6,207,749	2,853,344
Short-term investments	90,374	90,296
Patient accounts receivable, net of uncollectible accounts of \$3,005,349 in 2012 and \$3,710,666 in 2011	1,339,621	2,683,897
Trust fund income receivable	516,530	512,975
Estimated third-party receivable	557,796	1,831,329
Inventories	474,981	363,936
Other receivables	191,301	143,839
Total current assets	9,541,024	8,583,710
Assets limited as to use	9,015	8,196
Restricted investments	1,316,278	1,310,659
Capital assets, net	29,616,066	31,212,146
Total assets	\$ 40,482,383	\$ 41,114,711

See Notes to Financial Statements.

MINERS' COLFAX MEDICAL CENTER
BALANCE SHEETS - PROPRIETARY FUNDS (CONTINUED)
June 30, 2012 and 2011

	2012	2011
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 906,442	\$ 845,457
Accrued payroll	451,178	936,616
Current portion - compensated absences	332,366	354,903
Current portion - bonds payable	769,913	742,386
	<u>2,459,899</u>	<u>2,879,362</u>
Total current liabilities		
Noncurrent Liabilities		
Compensated absences, net of current portion	36,930	39,555
Bonds payable, net of current portion	11,797,290	12,567,203
	<u>11,834,220</u>	<u>12,606,758</u>
Total noncurrent liabilities		
	<u>14,294,119</u>	<u>15,486,120</u>
Total liabilities		
Contingencies		
Net Assets		
Invested in capital assets, net of related debt	17,048,863	17,902,557
Restricted for		
Purchase of hospital facility	9,015	8,196
Debt service	1,316,278	1,310,659
Unrestricted	7,814,108	6,407,179
	<u>26,188,264</u>	<u>25,628,591</u>
Total net assets		
	<u>\$ 40,482,383</u>	<u>\$ 41,114,711</u>
Total liabilities and net assets		

**MINERS' COLFAX MEDICAL CENTER
 STATEMENTS OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
 Years Ended June 30, 2012 and 2011**

	2012	2011
Operating Revenues		
Net patient service revenue	\$ 18,305,432	\$ 21,903,730
Miners' Trust Fund income	4,378,043	2,652,683
Federal grant revenue	263,829	446,753
Other revenue	771,980	155,693
	<u>23,719,284</u>	<u>25,158,859</u>
Total operating revenues	23,719,284	25,158,859
Operating Expenses		
Salaries, wages, payroll taxes and employee benefits	12,331,516	13,490,927
Supplies and other	4,518,955	5,005,737
Purchased services	3,805,094	3,745,742
Depreciation	1,952,507	2,078,485
Interest Expense	567,865	593,272
	<u>23,175,937</u>	<u>24,914,163</u>
Total operating expenses	23,175,937	24,914,163
Operating income	543,347	244,696
Nonoperating Revenue (Expense)		
Investment income	12,136	10,437
Other non-operating (expense) income, net	4,190	(4,029)
	<u>16,326</u>	<u>6,408</u>
Total nonoperating revenue, net	16,326	6,408
Increase in net assets	559,673	251,104
Total net assets, beginning of year	<u>25,628,591</u>	<u>25,377,487</u>
Total net assets, end of year	\$ 26,188,264	\$ 25,628,591

See Notes to Financial Statements.

MINERS' COLFAX MEDICAL CENTER
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
Years Ended June 30, 2012 and 2011

	2012	2011
Cash Flows From Operating Activities		
Receipts from customers	\$ 26,333,538	\$ 23,155,770
Payments to suppliers	(8,989,436)	(9,020,201)
Payments to employees	(12,842,116)	(13,211,486)
	<u>4,501,986</u>	<u>924,083</u>
Net cash providing by operating activities	4,501,986	924,083
Cash Flows From Capital and Related Financing Activities		
Purchase of property and equipment	(356,427)	(409,441)
Principal payment on debt	(742,386)	(716,849)
Proceeds from the sale of capital assets	-	8,233
	<u>(1,098,813)</u>	<u>(1,118,057)</u>
Net cash used by capital and related financing activities	(1,098,813)	(1,118,057)
Cash Flows From Investing Activities		
Purchases of investments	(78)	(173)
Reinvested interest and dividends	(6,438)	1,355
Realized gains on investments	16,326	6,408
	<u>9,810</u>	<u>7,590</u>
Net cash provided by investing activities	9,810	7,590
Net increase (decrease) in cash	3,412,983	(186,384)
Cash and cash equivalents, beginning of year	<u>2,957,438</u>	<u>3,143,822</u>
Cash and cash equivalents, end of year	\$ 6,370,421	\$ 2,957,438

See Notes to Financial Statements.

MINERS' COLFAX MEDICAL CENTER
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of change in Operating Income to		
Net Cash Used by Operating Activities		
Operating income	\$ 543,347	\$ 244,696
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,952,507	2,078,485
Provision for bad debts	3,660,110	3,531,011
Changes in assets and liabilities		
Patient accounts receivable, net	(2,315,834)	(3,446,222)
Other receivables	(51,017)	(94,598)
Estimates third-party	1,273,533	(2,110,757)
Inventories	(111,045)	151,203
Accounts payable	60,985	290,824
Accrued payroll	(485,438)	302,381
Compensated absences	(25,162)	(22,940)
	<u>\$ 4,501,986</u>	<u>\$ 924,083</u>
Net cash provided by operating activities	\$ 4,501,986	\$ 924,083

See Notes to Financial Statements.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

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 NCCH 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.

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, 2012 AND 2011**

NOTE 1. ORGANIZATION (CONTINUED)

The Medical Center operates a 25-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 and the Miners' Trust 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.

Effective July 1, 2010, the Medical Center adopted GASB Statement No. 62, Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements, which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The adoption of GASB 62 had no impact on the Medical Center's accounting policies, as the Medical Center had previously elected to not apply Financial Accounting Standards Board (FASB) pronouncements

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

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

issued after November 30, 1989, and applicable FASB pronouncements issued on or before November 30, 1989 have now been incorporated into GASB pronouncements.

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.

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 \$750,000 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 and 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.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

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

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.

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

Investments. 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.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

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

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.

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 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.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

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

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.

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 \$216,190 and \$360,812 in 2012 and 2011, 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.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

NOTE 3. NET PATIENT SERVICE REVENUE

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

Medicare. Effective November 1, 2010, the Medical Center converted to Critical Access Hospital (CAH) status for Medicare program purposes. As a CAH, the Medical Center may operate no more than 25 beds and the average length of stay for all inpatients cannot exceed 96 hours. As a CAH, the Medical Center will be reimbursed for Medicare inpatient and outpatient services at the cost of providing the service plus 1%. Medicare swing-bed services are also reimbursed at cost for a CAH. The Medical Center is paid at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

From July 1, 2010 to October 31, 2010, the Medical Center was reimbursed for services provided to inpatient acute Medicare program beneficiaries 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 and certain outpatient services were paid based on a cost reimbursement methodology with certain limitations and rate schedules. The Medical Center was paid a prospective rate with final settlement determined, for certain add-on items, after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

Medicaid. Similar to Medicare, inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Medical Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid fiscal intermediary.

Revenue from the Medicare and Medicaid programs accounted for approximately 39% and 19%, respectively, of the Medical Center's patient revenue for the year ended June 30, 2012 and approximately 38% and 22%, respectively, of the Medical Center's patient revenue for the year ended June 30, 2011. 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.

The Medicare and Medicaid cost reports for 2012 have not been finalized. In management's opinion, estimated Medicare and Medicaid settlements accrued for at June 30, 2012 and 2011 are adequate to provide for the settlement of all open cost reports.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

NOTE 3. NET PATIENT SERVICE REVENUE (CONTINUED)

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, 2012 and 2011:

	2012	2011
Gross patient charges	\$ 32,312,293	40,748,914
Third-party contractual allowances	(10,130,561)	(14,953,361)
Provision for bad debts	(3,660,110)	(3,531,011)
Charity care including governmental indigent care programs	<u>(216,190)</u>	<u>(360,812)</u>
Net patient service revenue	<u>\$ 18,305,432</u>	<u>21,903,730</u>

NOTE 4. DEPOSIT AND INVESTMENT RISK DISCLOSURE

Cash and Cash Equivalents

Deposits – The Medical Center deposits are held in both demand accounts and accounts held by the Department of Finance and Administration (DFA) in accordance with state law (Section 8-6-3 NMSA 1978) which requires the Medical Center's operating cash account to be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Department consist of an interest in the General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

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, 2012 and 2011, the Medical Center had \$1,489,997 and \$2,345,119, respectively, in deposits, of which \$1,066,246 and

**MINERS' COLFAX MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 AND 2011**

NOTE 4. DEPOSIT AND INVESTMENT RISK DISCLOSURE (CONTINUED)

\$1,906,984, respectively were exposed to custodial credit risk, as collateral on these deposits were held by the pledging bank's trust department but not in the name of the Medical Center. The following summarizes the custodial credit risk:

	2012	2011
Insured	<u>\$ 423,751</u>	438,135
Uninsured and collateral held by pledging bank's trust department not in the Medical Center's name	<u>\$ 1,302,841</u>	1,084,483
Uninsured and uncollateralized	<u>\$ -</u>	822,501

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, 2012 and 2011 (see Schedule of Pledged Collateral) at each financial institution. The Medical Center was in compliance with these requirements as of June 30, 2012 and 2011.

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

	2012	2011
Per New Mexico State Treasurer		
Agency 662, fund 102 – Miners' Colfax	\$ (2,416,663)	(2,656,591)
Agency 662, fund 985 – Miners' Trust Fund	<u>8,624,412</u>	5,509,935
Total per New Mexico State Treasurer	<u>\$ 6,207,749</u>	2,853,344
Per DFA	<u>\$ 6,207,749</u>	2,853,344

Interest Rate Risk. The New Mexico State Treasurer's Office has an investment policy that limits investment maturities to five years or less on allowable investments. This policy is means of managing exposure to fair value losses arising from increasing interest rates. This policy is reviewed and approved annually by the New Mexico State Board of Finance.

Credit Risk. The New Mexico State Treasurer pools are not rated.

For additional GASB 40 disclosure information regarding cash held by the New Mexico State Treasurer, the reader should see the separate audit report for the New Mexico State Treasurer's Office for the fiscal year ended June 30, 2012.

**MINERS' COLFAX MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 AND 2011**

NOTE 4. DEPOSIT AND INVESTMENT RISK DISCLOSURE (CONTINUED)

Investments

Investments consist of the following:

	2012	2011
Short term Certificate of Deposit	\$ <u>90,374</u>	<u>90,296</u>
Short term U.S. Government Securities Restricted for construction and purchase of new facility	\$ <u>1,325,293</u>	<u>1,318,855</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, 2012 and 2011, the Medical Centers investments consisted of a certificate of deposit and short-term U.S. government securities. 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 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, 2012 AND 2011**

NOTE 5. GENERAL FUND INVESTMENT POOL NOT RECONCILED

In June 2012 an independent expert diagnostic report revealed that the General Fund Investment Pool balances had not been reconciled at the business unit/fund level since the inception of the Statewide Human Resources, Accounting, and Management Reporting (SHARE) system in July of 2006. The diagnostic report is available in the Resources section of the Cash Control page of the New Mexico Department of Finance and Administration's website at:

http://www.nmdfa.state.nm.us/Cash_Control.aspx.

The document title is Current State Diagnostic of Cash Control.

The General Fund Investment Pool is the State of New Mexico's main operating account. State revenues such as income taxes, sales taxes, rents and royalties, and other recurring revenues are credited to the General Fund Investment Pool. The fund also comprises numerous State agency accounts whose assets, by statute (Section 8-6-3 NMSA 1978), must be held at the State Treasury.

As of June 30, 2012, the General Fund Investment Pool has not been reconciled at the business unit/fund level. Essentially, independent third-party verification/confirmation of the Medical Center's balances at the business unit/fund level is not possible.

Pursuant to Section 6-5-2.1(J) NMSA 1978, the Department of Finance and Administration is responsible for the reconciliation of the General Fund Investment Pool on a monthly basis, and thus is not a responsibility of the Medical Center. The Medical Center verifies that all cash deposits and financial transactions are accurately recorded and posted to the SHARE system. This monthly internal reconciliation of cash receipts and disbursements flowing through Medical Center's share of the General Fund Investment Pool provides management assurance that the balance reflected in State General Fund Investment Pool account is accurate as of the end of the reporting period. In addition, the Medical Center reconciles other asset and liability accounts on the Balance Sheet by each fund type. This process also provides additional assurance that transactions affecting the Medical Center's share in the State General Fund Investment Pool account are accurate.

At June 30, 2012 the Medical Center had the following invested in the General Fund Investment Pool (see Note 4):

General Fund Investment Pool	<u>\$ 6,207,749</u>
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**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

NOTE 6. CAPITAL ASSETS

Property and equipment consists of the following at June 30, 2012:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and land improvements	\$ 293,881	-	-	<u>293,881</u>
Total capital assets not being depreciated	<u>293,881</u>	-	-	<u>293,881</u>
Other capital assets				
Buildings	40,697,989	168,467	-	40,866,456
Equipment	<u>10,252,660</u>	<u>187,960</u>	<u>(89,738)</u>	<u>10,350,882</u>
	<u>50,950,649</u>	<u>356,427</u>	<u>(89,738)</u>	<u>51,217,338</u>
Accumulated depreciation				
Buildings	(11,858,727)	(748,982)	-	(12,607,709)
Equipment	<u>(8,173,657)</u>	<u>(1,203,525)</u>	<u>89,738</u>	<u>(9,287,444)</u>
Total accumulated depreciation	<u>(20,032,384)</u>	<u>(1,952,507)</u>	<u>89,738</u>	<u>(21,895,153)</u>
Other capital assets, net	<u>30,918,265</u>	<u>(1,596,080)</u>	-	<u>29,322,185</u>
Total capital assets, net	<u>\$ 31,212,146</u>	<u>(1,596,080)</u>	-	<u>29,616,066</u>

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

NOTE 6. CAPITAL ASSETS (CONTINUED)

Property and equipment consists of the following at June 30, 2011:

	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	40,604,676	93,313	-	40,697,989
Equipment	10,351,259	316,128	(414,727)	10,252,660
	<u>50,955,935</u>	<u>409,441</u>	<u>(414,727)</u>	<u>50,950,649</u>
Accumulated depreciation				
Buildings	(10,460,209)	(1,398,518)	-	(11,858,727)
Equipment	(7,900,184)	(679,967)	406,494	(8,173,657)
Total accumulated depreciation	<u>(18,360,393)</u>	<u>(2,078,485)</u>	<u>406,494</u>	<u>(20,032,384)</u>
Other capital assets, net	<u>32,595,542</u>	<u>(1,669,044)</u>	<u>-</u>	<u>30,918,265</u>
Total capital assets, net	<u>\$ 32,889,423</u>	<u>(1,669,044)</u>	<u>-</u>	<u>31,212,146</u>

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

NOTE 7. LONG-TERM OBLIGATIONS

Long term debt obligations consist of the following at June 30, 2012:

	Beginning Balance	Additions	Deletions	Ending Balance	Due in One Year
Bonds	\$ 13,309,589	-	(742,386)	12,567,203	769,913
Compensated absences	<u>394,458</u>	<u>295,201</u>	<u>(320,362)</u>	<u>369,296</u>	<u>332,366</u>
Total	<u>\$ 13,704,047</u>	<u>295,201</u>	<u>(1,062,748)</u>	<u>12,936,499</u>	<u>1,102,279</u>

Long term debt obligations consist of the following at June 30, 2011:

	Beginning Balance	Additions	Deletions	Ending Balance	Due in One Year
Bonds	\$ 14,026,438	-	(716,849)	13,309,589	742,386
Compensated absences	<u>417,398</u>	<u>342,627</u>	<u>(365,567)</u>	<u>394,458</u>	<u>354,903</u>
Total	<u>\$ 14,443,836</u>	<u>342,627</u>	<u>(1,082,416)</u>	<u>13,704,047</u>	<u>1,097,289</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, 2012 AND 2011**

NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

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

Fiscal Year Ended June 30	Principal	Interest
2013	\$ 495,107	308,114
2014	514,067	290,440
2015	534,269	271,572
2016	555,908	251,324
Thereafter	<u>5,406,173</u>	<u>1,109,410</u>
	<u>\$ 7,505,524</u>	<u>2,230,860</u>

In addition to the principal and interest on the bonds, the Medical Center will pay \$129,750 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
2013	\$ 274,806	200,876
2014	285,385	191,010
2015	296,628	180,508
2016	308,523	169,384
Thereafter	<u>3,896,337</u>	<u>932,958</u>
	<u>\$ 5,061,679</u>	<u>1,674,736</u>

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

NOTE 7. LONG-TERM OBLIGATIONS (CONTINUED)

In addition to the principal and interest on the bonds, the Medical Center will pay \$102,190 in management fees to the New Mexico Finance Authority for fiscal services for the bonds.

NOTE 8. OPERATING LEASES

The Medical Center leases various equipment under non-cancelable operating leases with expiration dates ranging from 2013 through 2016. Rent expense under these operating leases was \$357,376 and \$337,635 for the years ended 2012 and 2011, respectively.

Future minimum lease payments at June 30, 2012 are as follows:

2013	\$ 181,895
2014	146,831
2015	114,840
2016	<u>12,726</u>
	<u>\$ 456,292</u>

NOTE 9. 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 \$106.3 million and \$108.8 million as of June 30, 2012 and 2011, 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 \$13.5 and \$13.8 million at June 30, 2012 and 2011, 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 \$5.6 million in 2012 and 2011. Charitable, Penal and Reform monies distributed to the Medical Center approximated \$702,000 and \$691,000 in 2012 and 2011, respectively. It is the Medical Center's policy to first apply unrestricted resources when an expense is incurred for the purposes for which both restricted and unrestricted resources are available.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

NOTE 9. 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 \$41,000, \$1,846,000, and \$10,000, respectively, in 2012, and \$82,000, \$449,000 and \$9,000, respectively, in 2011.

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 years 2012 and 2011, the Medical Center expended \$0 of the Miners' Trust Fund for capital purposes.

NOTE 10. 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 benefits, 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 for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, NM 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 10.67% (ranges from 3.83% to 16.65% depending upon the plan - i.e., state general, state hazardous duty, state police and adult correctional officers, municipal general, municipal police, municipal fire, municipal detention officer) of their gross salary. The Medical Center is required to contribute 13.41% (ranges from 7.0% to 25.72% depending upon the plan) of the gross covered salary. The contribution requirements of plan members and the Medical Center are established in State statute 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 fiscal years ending June 30, 2012, 2011 and 2010 were \$896,185, \$1,110,552 and \$1,152,769, respectively, which equal the amount of the required contributions for each fiscal year.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

NOTE 11. POST-EMPLOYMENT BENEFITS

Plan Description. The Medical Center 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 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.

**MINERS' COLFAX MEDICAL CENTER
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2012 AND 2011**

NOTE 11. POST-EMPLOYMENT BENEFITS (CONTINUED)

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. During the fiscal year ended June 30, 2012, the statute required each participating employer to contribute 1.834% of each participating employee's annual salary; each participating employee was required to contribute .917% of their salary. In the fiscal year ending June 30, 2013 the contribution rates for employees and employers will rise as follows:

(1) For employees who are not members of an enhanced retirement plan the contribution rates will be:

<u>Fiscal Year</u>	<u>Employer Contribution Rate</u>	<u>Employee Contribution Rate</u>
FY13	2.000%	1.000%

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, 2012, 2011 and 2010 the Medical Center's contributions to the RHCA were \$120,193, \$121,070 and \$96,929, respectively, which equal the required contributions for each year.

NOTE 12. 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 NCCCH acquired in the merger. The escrow balance was \$9,015 and \$8,196 at June 30, 2012 and 2011, 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 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, as such amounts are held in restricted debt service accounts.

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

NOTE 13. 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 years 2012 and 2011 were less than \$5,000.

NOTE 14. 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, 2012 and 2011 was as follows:

	2012	2011
Medicare	17%	19%
Medicaid	9	15
Self-pay	46	27
Commercial and other	28	39
	<u>100%</u>	<u>100%</u>

**MINERS' COLFAX MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
June 30, 2012 AND 2011**

NOTE 15. 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, 2012**

	Original Budget	Revised Budget	Actual	Variance Over (Under)
Meals	\$ 32,000	\$ 32,000	\$ 37,856	\$ 5,856
Payment for care, government	230,400	230,400	3,005,233	2,774,833
Payment for care, individuals	17,055,500	17,055,500	15,300,199	(1,755,301)
Federal grants	321,800	321,800	263,829	(57,971)
Miscellaneous	155,700	155,700	750,450	594,750
Other financing sources	5,023,800	5,023,800	5,023,800	-
Miners' Trust Fund	<u>5,023,800</u>	<u>5,023,800</u>	<u>4,378,043</u>	<u>(645,757)</u>
Total budgetary basis revenues	<u>\$ 27,843,000</u>	<u>\$ 27,843,000</u>	<u>\$ 28,759,410</u>	<u>\$ 916,410</u>
Transfers from Miners' Trust Fund for operations			<u>(5,023,800)</u>	
Total GAAP basis operating and nonoperating revenues			<u>\$ 23,735,610</u>	

**MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL (CONTINUED)
Year Ended June 30, 2012**

	Original Budget	Revised Budget	Actual	Variance Positive
Personal services	\$ 12,770,300	\$ 12,620,300	12,331,516	\$ 288,784
Contract services	3,908,800	3,987,800	3,805,094	182,706
Other costs	6,140,100	6,211,100	5,829,206	381,894
Miners' Trust Fund	<u>5,023,800</u>	<u>5,023,800</u>	<u>5,023,800</u>	<u>-</u>
Total budgetary basis expenses	<u>\$ 27,843,000</u>	<u>\$ 27,843,000</u>	<u>\$ 26,989,616</u>	<u>\$ 853,384</u>
Depreciation			1,952,507	
Transfers from Miners' Trust Fund for operations			(5,023,800)	
Budgeted principal payments on debt			<u>(742,386)</u>	
Total GAAP basis expenses			<u>\$ 23,175,937</u>	

MINERS' COLFAX MEDICAL CENTER
COMBINING BALANCE SHEET - PROPRIETARY FUNDS
June 30, 2012

	Operating Fund	Miners' Trust Fund	Total
ASSETS			
Current Assets			
Cash	\$ 162,672	\$ -	\$ 162,672
Interest in State Treasurer Investment Pool	(2,416,663)	8,624,412	6,207,749
Short-term investments	90,374	-	90,374
Patient accounts receivable, net of estimated uncollectible accounts of \$3,005,349	1,339,621	-	1,339,621
Trust fund income receivable	(160)	516,690	516,530
Estimated third-party receivable	557,796	-	557,796
Inventories	474,981	-	474,981
Other receivables	191,301	-	191,301
Total current assets	399,922	9,141,102	9,541,024
Noncurrent Assets			
Assets limited as to use	9,015	-	9,015
Restricted investments	1,316,278	-	1,316,278
Capital assets, net	29,199,615	416,451	29,616,066
Total noncurrent assets	30,524,908	416,451	30,941,359
Total assets	\$ 30,924,830	\$ 9,557,553	\$ 40,482,383
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 746,071	\$ 160,371	\$ 906,442
Accrued payroll	451,178	-	451,178
Current portion - compensated absences	332,366	-	332,366
Current portion - bonds payable	769,913	-	769,913
Total current liabilities	2,299,528	160,371	2,459,899
Noncurrent Liabilities			
Compensated absences, net of current portion	36,930	-	36,930
Bonds payable, net of current portion	11,797,290	-	11,797,290
Total noncurrent liabilities	11,834,220	-	11,834,220
Total liabilities	14,133,748	160,371	14,294,119
Net Assets			
Invested in capital assets, net of related debt	17,048,863	-	17,048,863
Restricted for			
Purchase of hospital facility	9,015	-	9,015
Debt service	1,316,278	-	1,316,278
Unrestricted	(1,583,074)	9,397,182	7,814,108
Total net assets	16,791,082	9,397,182	26,188,264
Total liabilities and net assets	\$ 30,924,830	\$ 9,557,553	\$ 40,482,383

MINERS' COLFAX MEDICAL CENTER
COMBINING STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
Year Ended June 30, 2012

	Operating Program	Miners' Trust Fund Program	Total
Operating Revenues			
Net patient service revenue	\$ 14,529,968	3,775,464	\$ 18,305,432
Miners' Trust Fund income	-	4,378,043	4,378,043
Federal grant revenue	263,829	-	263,829
Other revenue	771,980	-	771,980
	<hr/>	<hr/>	<hr/>
Total operating revenues	15,565,777	8,153,507	23,719,284
Operating Expenses			
Salaries, wages, payroll taxes and employee benefits	12,331,516	-	12,331,516
Supplies and other	4,514,907	4,048	4,518,955
Purchased services	3,805,094	-	3,805,094
Depreciation	1,952,507	-	1,952,507
Interest expense	567,865	-	567,865
	<hr/>	<hr/>	<hr/>
Total operating expenses	23,171,889	4,048	23,175,937
Operating income (loss)	(7,606,112)	8,149,459	543,347
Nonoperating Revenue			
Investment loss, net	12,136	-	12,136
Other non-operating expense, net	4,190	-	4,190
	<hr/>	<hr/>	<hr/>
Total nonoperating revenue, net	16,326	-	16,326
Income (loss) before release of escrow funds	(7,589,786)	8,149,459	559,673
Transfers:			
From Miners' Trust Program to Operating Program	5,023,800	(5,023,800)	-
	<hr/>	<hr/>	<hr/>
Increase (decrease) in net assets	(2,565,986)	3,125,659	559,673
Total net assets, beginning of year	19,357,068	6,271,523	25,628,591
	<hr/>	<hr/>	<hr/>
Total net assets, end of year	\$ 16,791,082	\$ 9,397,182	\$ 26,188,264

**MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
June 30, 2012**

<u>Depository</u>	<u>Account Name</u>	<u>Type</u>	<u>Depository Balance</u>	<u>Reconciled Balance</u>
State Treasurers Office	Warrant account	Checking	\$ 6,207,749	\$ 6,207,749
First National Bank	Operations	Checking	1,316,246	78,715
Wells Fargo	Donation fund	Checking	16,339	16,339
Wells Fargo	Resident Fund Account	Checking	1,989	1,969
Wells Fargo	Certificate of Deposit	CD	65,049	65,049
Cash and cash equivalents			<u>7,607,372</u>	<u>6,369,821</u>
Petty cash	Petty cash		-	600
Total cash and cash equivalents - non-agency funds			<u>7,607,372</u>	<u>6,370,421</u>
Bank of Albuquerque	Debt service reserve account	Investment	1,325,293	1,325,293
Int'l Bank of Raton	Certificate of Deposit	CD	90,374	90,374
			<u>1,415,667</u>	<u>1,415,667</u>
Total deposit and investment accounts			<u>\$ 9,023,039</u>	<u>\$ 7,786,088</u>

**MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF PLEDGED COLLATERAL
June 30, 2012**

	First National	Int'l Bank of Raton	Wells Fargo Donation Fund	Wells Fargo Resident Fund	Wells Fargo CD
Deposits at June 30, 2012	\$ 1,316,246	90,374	\$ 16,339	\$ 1,989	\$ 65,049
Less: FDIC coverage	250,000	90,374	16,339	1,989	65,049
Uninsured public funds	1,066,246	-	-	-	-
Pledged collateral held by the pledging bank's trust department or agent but not in the Medical Center's name	1,302,841	-	-	-	-
Uninsured and uncollateralized	-	-	-	-	-
50% pledged collateral requirement per statute	\$ 533,123	\$ -	\$ -	\$ -	\$ -
Total pledged collateral	1,302,841	-	-	-	-
Pledged collateral (over) under the requirement	\$ (769,718)	\$ -	\$ -	\$ -	\$ -

Pledged collateral at June 30, 2012 consists of the following:

Security	CUSIP	Maturity	Amount
FHLB Fixed Rate Note	736151cz2	2/2/2016	\$ 52,901
FHLB Fixed Rate Note	84378eG9	8/1/2020	227,017
FHLB Fixed Rate Note	3114413F7	9/1/2012	50,744
FHLB Fixed Rate Note	01146FK5	8/1/2014	105,792
FHLB Fixed Rate Note	264430H01	3/1/2018	222,545
FHLB Fixed Rate Note	077581MY9	8/1/2018	109,361
FHLB Fixed Rate Note	780040AY7	10/1/2012	15,287
FHLB Fixed Rate Note	780040AZ4	10/1/2013	15,757
FHLB Fixed Rate Note	3133EADH8	2/14/2020	503,437
			<u>1,302,841</u>

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

**Report of Independent Auditors 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 financial statements of the business-type activities of Miners' Colfax Medical Center (Medical Center) as of and for the year ended June 30, 2012 and the schedule of revenues and expenses - budget and actual for the year ended June 30, 2012, the combining balance sheet as of June 30, 2012, and the combining statement of revenues and expenses and changes in fund net assets for the year ended June 30, 2012, presented as supplementary information, as listed in the table of contents, and have issued our report thereon dated December 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Medical Center is responsible for establishing and maintaining effective 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 opinion on the financial statements, 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.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

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 10-02 and 12-01. 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 responses and, accordingly, we express no opinion on them.

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.

Mess Adams LLP

Albuquerque, New Mexico
December 17, 2012

**MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012**

10-02 – Long Term Care Facility Resident Funds

CONDITION

During testing of internal controls over resident personal funds at the long term care facility, we noted receipts were not issued consistently for funds received, receipts were not issued or signatures obtained for withdrawal of resident funds, and funds in excess of \$50 were kept at the facility.

CRITERIA

According to CMS regulation section 483.10(c)(3), the facility must deposit funds in excess of \$50 in an interest bearing account (or accounts) that is separate from any of the facility's operating accounts, and that credits all interest earned on resident's funds to that account. A properly designed system of internal controls requires proper segregation of duties and reconciliations.

CAUSE

The Long Term Care Facility lacks appropriate processes addressing the receipt, withdrawal, and safekeeping of resident funds.

EFFECT

There is a risk of loss or misappropriation of resident funds. Further, the noncompliance with the CMS regulation can impact the facility's status with CMS.

RECOMMENDATION

Management should ensure policies and procedures are designed and implemented to ensure the safe handling of resident funds, including receipts, withdrawals, and investment of such funds. Funds in excess of \$50 should be deposited in an interest bearing checking account that is separate from any of the facility's operating accounts.

MANAGEMENT RESPONSE

Policies and procedures have been implemented in accordance of CMS regulation section 483.10(c)(3) and an interest bearing checking account has been set up to handle funds in excess of \$50.00, separate from all other accounts. A general ledger account has been set up to handle all transactions with subsidiary accounts for all residents that meet the requirements.

**MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2012**

12-01 – Information Technology

CONDITION

During our testing over Information Technology (IT) we noted if a person is terminated, the IT staff will receive a call to deactivate the user. However, there is no procedure to fill out the Request for Information System Access Form. If there is no call or no form the person who was terminated could still be an active user.

Also, we noted the Healthland Financial system contains no minimum password configuration settings and is not configured to lock out a user after a pre-determined number of failed log-in attempts.

CRITERIA

The State Auditor Rule 2.2.2.10.I (1) (b), and Section 12-6-5, NMSA 1978 requires any violation of law or good accounting practices to be included in the annual report. A properly designed system of internal controls includes maintenance of restrictions on user access to key systems.

CAUSE

The two IT Staff will receive a call from administration to deactivate the user's account that was terminated. In the event no call is received, there is a lack of procedures to ensure user access is timely removed.

Further, the Medical Center has not implemented minimum password configuration settings, or configured the system to lock out the user after a predetermined number of failed log-in attempts.

EFFECT

By not having a procedure to deactivate an account when a person is terminated there is a possibility of employees or the former employee gaining improper access to the systems using the terminated individual's access privileges. Further, the lack of minimum password and failed log-in configuration settings exposed the Medical Center to the risk that passwords are compromised and individuals obtain inappropriate access to the system.

**MINERS' COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
Year Ended June 30, 2012**

12-01 – Information Technology (continued)

MANAGEMENT RESPONSE

Management is in the process of revising its policy. Each employee is assigned a log-in password upon hire to the organization. A request form will be used upon request from the manager of the department to initiate a password. The IT department will create and issue the log-in and password. The master list of all logins and passwords will be kept confidential and locked in the IT dept. All employees will be required to memorize their password and not keep it written down on or near their PC. Upon termination of employment at MCMC the employee's manager will fill out the deactivation request form and turn it into Human Resources dept., which will then make a copy for their records and give a copy to IT to proceed with the deactivation of the terminated employee from the system.

MINERS' COLFAX MEDICAL CENTER
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2012

10-02 – Long Term Care Facility Resident Funds	Repeated
11-01 – Management Override of Controls	Resolved
11-02 – Information Technology	Resolved
11-03 – Late Audit Report	Resolved

**MINERS' COLFAX MEDICAL CENTER
EXIT CONFERENCE
Year Ended June 30, 2012**

An exit conference was held on December 17, 2012. The following individuals were in attendance:

Representing Miners' Colfax Medical Center:

Tom Poteste
Manual Anaya

Interim Chief Financial Officer
Board Member

Representing Moss Adams LLP:

Brandon Fryar
Purvi Mody

Partner
Senior Manager

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