

**MINER'S COLFAX MEDICAL CENTER
COMBINED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**MINER'S COLFAX MEDICAL CENTER
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YEARS ENDED JUNE 30, 2016 AND 2015**

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**MINER'S COLFAX MEDICAL CENTER
BOARD OF TRUSTEES AND PRINCIPAL EMPLOYEES
JUNE 30, 2016**

BOARD OF TRUSTEES

Kathy McQuery	President
Kenneth Scott Berry	Vice-President
Raymond Rodarte	Trustee
Dr. Donald Belknap	Trustee
William Jarrell	Trustee

PRINCIPAL EMPLOYEES

Shawn Lerch	Chief Executive Officer
Peggy Martinez	Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

Board of Trustees and Management
Miner's Colfax Medical Center and
Mr. Timothy Keller, New Mexico State Auditor
Raton, New Mexico

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements and the respective budget comparisons of Miner's Colfax Medical Center (the Medical Center), as of and for the years ended June 30, 2016 and 2015, and the related notes to the combined financial statements, which collectively comprise the Medical Center's combined financial statements as listed in the table of contents.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Medical Center's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Miner's Colfax Medical Center as of June 30, 2016 and 2015, and the respective changes in net position and cash flows thereof and the respective budgetary comparisons of Miner's Colfax Medical Center for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the combined financial statements of the Medical Center are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, the aggregate remaining fund information and all respective budgetary comparisons of the State of New Mexico that is attributable to the transactions of the Medical Center. They do not purport to, and do not present fairly the financial position of the entire State of New Mexico as of June 30, 2016 and 2015, and the changes in the financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined 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 combined financial statements, and other knowledge we obtained during our audits of the basic combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the Medical Center's combined financial statements and the budgetary comparisons. The accompanying Combining Statements of Net Position and Combining Statements of Revenues, Expenses, and Changes in Net Position are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. The accompanying Schedule of Deposit and Investment Accounts, Pledged Collateral, and Schedule of Vendor Information for Purchases Exceeding \$60,000, required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic combined financial statements.

Other Matters (Continued)

Other Information (Continued)

The Combining Statements of Net Position and Combining Statements of Revenues, Expenses, and Changes in Net Position are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. The Schedule of Deposit and Investment Accounts, and Schedule of Pledged Collateral, required by 2.2.2 NMAC are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statements of Net Position, Combining Statements of Revenues, Expenses, and Changes in Net Position, Schedule of Deposit and Investment Accounts and Schedule of Pledged Collateral are fairly stated, in all material respects, in relation to the basic combined financial statements as a whole.

The Schedule of Vendor Information for Purchases Exceeding \$60,000 as required by 2.2.2.10(A)(2)(g) of the State Audit Rule has not been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2017 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Broomfield, Colorado
January 10, 2017

**MINER'S COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Introduction

Our discussion and analysis of Miner's Colfax Medical Center's (the Medical Center) financial performance provides an overview of the Medical Center's financial activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the Medical Center's combined financial statements, which begin on page 9.

Using this Annual Report

The Medical Center's combined financial statements consist of combined statements of net position, combined statements of revenues, expenses and changes in net position, and combined statements of cash flows. These combined financial statements and related notes provide information about the activities of the Medical Center including resources held by the Medical Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

Required Financial Statements

The Medical Center's combined financial statements report information of the Medical Center using accounting methods similar to those used by private sector healthcare organizations. These statements offer short and long-term information about its activities. The combined statements of net position includes all of the Medical Center's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Medical Center creditors (liabilities). The combined statements of net position also provide the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

All of the current year's revenues and expenses are accounted for in the combined statements of revenues, expenses, and changes in net position. This statement measures the success of the Medical Center's operations over the past year and can be used to determine whether the Medical Center has successfully recovered all of its costs through its patient and resident service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final required statement is the combined statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, financing and investing activities. It also provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

- The Medical Center's net position was \$21,219,779 at June 30, 2016, a decrease of \$1,814,745 from fiscal year 2015. The Medical Center's net position was \$23,034,524 at June 30, 2015, a decrease of \$104,433 from fiscal year 2014.
- The Medical Center reported an operating loss in fiscal years 2016 and 2015 of \$2,300,711 and \$600,130, respectively.
- Non-operating revenues were reported at \$485,966 and \$495,697 for fiscal years 2016 and 2015, respectively.
- The Medical Center reported a total loss in fiscal years 2016 and 2015 of \$1,814,745 and \$104,433, respectively.

**MINER'S COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

The Medical Center's Combined Net Position

The Medical Center's combined net position is the difference between its assets and liabilities reported in the combined statements of net position on page 9. This is one way to measure the Medical Center's financial health, or financial position. Over time, increases or decreases in the Medical Center's net position is one indicator of whether its financial health is improving or deteriorating. Other non-financial factors should be considered, such as changes in the Medical Center's patient base and measures of the quality of service, it provides to the community, as well as local economic factors to assess the overall health of the Medical Center.

**Table 1
Condensed Combined Statements of Net Position**

	2016	2015
ASSETS		
Cash and Cash Equivalents	\$ 3,371,265	\$ 310,527
Investment in State Treasurer Investment Pool	12,251,469	11,389,736
Patient and Resident Accounts Receivable, Net	2,566,019	3,175,587
Other Current Assets	1,265,266	3,386,770
Capital Assets, Net	27,433,233	28,960,176
Noncurrent Investments	1,000,000	1,219,310
Total Assets	\$ 47,887,252	\$ 48,442,106
LIABILITIES		
Current Liabilities	\$ 15,519,957	\$ 13,442,582
Long-Term Debt	11,147,516	11,965,000
Total Liabilities	26,667,473	25,407,582
NET POSITION		
Net Investment in Capital Assets	15,240,976	15,602,725
Restricted Expendable	1,000,000	1,000,000
Unrestricted	4,978,803	6,431,799
Total Net Position	21,219,779	23,034,524
Total Liabilities and Net Position	\$ 47,887,252	\$ 48,442,106

Total assets decreased by \$554,854 from fiscal year 2015 to fiscal year 2016. Total assets were \$47,887,252 as of June 30, 2016. Total net position decreased by \$1,814,745 to \$21,219,779 in fiscal year 2016. The decrease in net position was a result of increased expenses in the current year that outpaced the growth in patient and resident service revenues. Cash and cash equivalents increase in fiscal year 2016 as a result of improved collections on patient and resident accounts receivable along with changes in timing of payments made on accruals. Other current assets decreased in the current year as a result of the Medicare cost report being estimated as a receivable in fiscal year 2015 compared to a payable in fiscal year 2016.

**MINER'S COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Combined Operating Results and Changes in the Medical Center's Net Position

The first component of the change in the Medical Center's net position is its operating loss. This is the difference between net patient and resident service revenues, other operating revenues and the expenses incurred to perform those services. The Medical Center has reported an operating loss of \$2,300,711 and \$600,130 for fiscal years 2016 and 2015, respectively. As of June 30, 2016, the Medical Center's net position was reported at \$21,219,779 compared to \$23,034,524 as of June 30, 2015, as shown in Table 1.

Table 2

Condensed Combined Statements of Revenues, Expenses and Changes in Net Position

	2016	2015
OPERATING REVENUES		
Net Patient and Resident Service Revenues	\$ 19,893,166	\$ 18,409,161
Other Operating Revenues	7,218,873	7,163,978
Total Operating Revenues	27,112,039	25,573,139
OPERATING EXPENSES		
Salaries, Wages, and Employee Benefits	16,068,570	15,551,433
Purchased Services	4,662,766	3,618,890
Supplies and Other	6,138,837	4,776,094
Interest	337,360	277,395
Depreciation	2,205,217	1,949,457
Total Operating Expenses	29,412,750	26,173,269
OPERATING LOSS	(2,300,711)	(600,130)
NONOPERATING REVENUES		
Interest Income	-	10,223
Noncapital Grants and Contributions	485,966	485,474
Net Nonoperating Revenues	485,966	495,697
DEFICIT OF REVENUES OVER EXPENSES	\$ (1,814,745)	\$ (104,433)

Operations

Operating revenues increased to \$27,112,039 in fiscal year 2016 compared to \$25,573,139 in fiscal year 2015. Although total operating revenues had increased \$1,538,900 from prior year, expenses also increased \$3,239,481. The significant increases in expenses were related to salaries and benefits, physician locum fees, and other costs.

Salaries and benefits and physician locum fees increased due to the recruiting a large number of physicians, nurse practitioners and physician assistants during fiscal year 2016. Until these positions were filled there were increased locum tenens physician costs in order to cover the vacancies.

Other expenses increased during fiscal year 2016 as a result of a \$300,000 grant made to the University of New Mexico Foundation for Black Lung research and an intergovernmental transfer of \$1,317,040 to the State of New Mexico Human Service Department.

**MINER'S COLFAX MEDICAL CENTER
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016 AND 2015**

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of interest income and noncapital grants and contributions. As shown in the table above, the net nonoperating revenue decreased by \$9,731 from 2015 to 2016. The decrease in fiscal year 2016 is primarily a reflection of the decrease in interest income.

Capital Assets, Net

As of June 30, 2016, the Medical Center had \$27,433,233 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the combined financial statements. This is a decrease of \$1,526,943 from fiscal year 2015. The Medical Center capitalized an on-site clinic in July 2015 at a total cost of approximately \$3,261,000. These additions were offset by continued depreciation of the Medical Center's capital assets in fiscal year 2016.

Long-Term Debt

The Medical Center's long-term debt consists of the Series 2013 State Permanent Fund Revenue Improvement and Refunding Bonds and one capital lease obligation that was entered into during fiscal year 2016. During fiscal years 2016 and 2015, the bonds payable were reduced by \$935,000 and \$910,000, respectively, as a result of bond payments made by the Medical Center. Total bonds payable at June 30, 2016 and 2015 was \$11,965,000 and \$12,900,000, respectively.

Economic and Other Factors and Next Year's Budget

The Medical Center's Board of Trustees and management considered many factors when setting the fiscal year 2017 budget. Of primary importance in setting the 2017 budget is the status of the state economy, taking into consideration the declining energy sector, continued regulatory pressures, shift of patients from private sources to Medicare or uninsured.

- Potential changes to health care reform are expected with pending presidential transition.
- Continued physician shortages.
- Increased expectations for quality at a lower price.
- Increasing cost of pharmaceuticals attributed to an increase in Chemotherapy demand along with treatment protocols continuing to change.
- Increasing cost of information technology.
- Increasing competitive market pressures.

Contacting the Medical Center's Financial Management

This financial report is designed to provide our patients, residents, suppliers, taxpayers and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Miner's Colfax Medical Center at, 203 Hospital Drive, Raton, NM 87740.

**MINER'S COLFAX MEDICAL CENTER
COMBINED STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015**

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,371,265	\$ 310,527
Interest in State Treasurer Investment Pool	12,251,469	11,389,736
Receivables:		
Patient and Resident Accounts Receivable, Net	2,566,019	3,175,587
Estimated Amounts Due from Third-Party Payors	-	2,258,000
Trust Fund Income	549,645	510,917
Other	15	9,481
Inventory	715,606	608,372
Total Current Assets	19,454,019	18,262,620
NONCURRENT INVESTMENTS		
Restricted Funds Held in Escrow	1,000,000	1,000,000
Restricted Deposits	-	219,310
Total Noncurrent Investments	1,000,000	1,219,310
CAPITAL ASSETS, NET		
	27,433,233	28,960,176
Total Assets	\$ 47,887,252	\$ 48,442,106
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current Portion of Bonds Payable	\$ 955,000	\$ 935,000
Current Portion of Capital Lease Obligation	89,741	-
Interest in State Treasurer Investment Pool	10,037,215	10,106,253
Accounts Payable:		
Trade	1,811,538	893,154
Construction	-	457,451
Accrued Payroll and Payroll Taxes	405,314	338,679
Accrued Compensated Absences	627,887	551,606
Accrued Employee Benefits	171,351	133,582
Accrued Interest	24,911	26,857
Estimated Amounts Due to Third-Party Payors	1,397,000	-
Total Current Liabilities	15,519,957	13,442,582
LONG-TERM LIABILITIES		
Bonds Payable, Net of Current Portion	11,010,000	11,965,000
Capital Lease Obligation, Net of Current Portion	137,516	-
Total Long-Term Liabilities	11,147,516	11,965,000
Total Liabilities	26,667,473	25,407,582
NET POSITION		
Net Investment in Capital Assets	15,240,976	15,602,725
Restricted Expendable:		
Expendable for Future Permanent Healthcare Fund	1,000,000	1,000,000
Unrestricted	4,978,803	6,431,799
Total Net Position	21,219,779	23,034,524
Total Liabilities and Net Position	\$ 47,887,252	\$ 48,442,106

See accompanying Notes to Combined Financial Statements.

**MINER'S COLFAX MEDICAL CENTER
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
OPERATING REVENUES		
Net Patient and Resident Service Revenue (Net of Provision for Uncollectible Accounts of Approximately \$365,000 and \$893,000 for 2016 and 2015, Respectively)	\$ 19,893,166	\$ 18,409,161
Miner's Trust Fund Income	6,900,461	6,500,618
Other Revenue	318,412	663,360
Total Operating Revenues	27,112,039	25,573,139
OPERATING EXPENSES		
Salaries and Wages	11,753,415	11,106,740
Employee Benefits	4,315,155	4,444,693
Supplies and Other	6,138,837	4,776,094
Purchased Services	4,662,766	3,618,890
Interest	337,360	277,395
Depreciation	2,205,217	1,949,457
Total Operating Expenses	29,412,750	26,173,269
OPERATING LOSS	(2,300,711)	(600,130)
NONOPERATING REVENUES		
Interest Income	-	10,223
Noncapital Grants and Contributions	485,966	485,474
Total Nonoperating Revenues	485,966	495,697
DEFICIT OF REVENUES OVER EXPENSES	(1,814,745)	(104,433)
Net Position - Beginning of Year	23,034,524	23,138,957
NET POSITION - END OF YEAR	\$ 21,219,779	\$ 23,034,524

See accompanying Notes to Combined Financial Statements.

**MINER'S COLFAX MEDICAL CENTER
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on Behalf of Patients and Residents	\$ 24,157,734	\$ 17,993,944
Payments to Suppliers and Contractors	(10,465,859)	(9,033,227)
Payments to Employees	(15,887,885)	(15,695,675)
Other Receipts, Net	7,189,611	7,160,888
Net Cash Provided by Operating Activities	4,993,601	425,930
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital Grants and Contributions	485,966	485,474
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Paid on Bonds Payable	(935,000)	(910,000)
Principal Payments on Capital Lease Obligations	(49,724)	(17,161)
Purchase of Capital Assets	(722,644)	(2,866,545)
Net Cash Used by Capital and Related Financing Activities	(1,707,368)	(3,793,706)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	-	10,223
Purchase of Investments	(930,771)	(66,598)
Proceeds from Sale of Investments Restricted for Capital Acquisition	219,310	2,721,459
Net Cash Provided (Used) by Investing Activities	(711,461)	2,665,084
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,060,738	(217,218)
Cash and Cash Equivalents - Beginning of Year	310,527	527,745
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 3,371,265	\$ 310,527
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (2,300,711)	\$ (600,130)
Depreciation	2,205,217	1,949,457
Provision for Bad Debts	364,567	892,500
(Increase) Decrease in:		
Patient and Resident Accounts Receivable	245,001	(1,193,717)
Other Receivables	(29,262)	(3,090)
Increase (Decrease) in:		
Inventory	(107,234)	(29,286)
Accounts Payable	782,284	(332,667)
Accrued Expenses and Other Liabilities	178,739	(143,137)
Estimated Amounts Due from Third-Party Payors	3,655,000	(114,000)
Net Cash Provided by Operating Activities	\$ 4,993,601	\$ 425,930
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash Paid During the Year for Interest, Net of Amounts Capitalized of \$0- and \$77,491 for the Fiscal Years Ending June 30, 2016 and 2015, Respectively.	\$ 339,306	\$ 273,283
SUPPLEMENTAL DISCLOSURE OF NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction Payables Related to Construction in Progress	\$ -	\$ 457,451
Fixed Asset Purchases Included in Accounts Payable	\$ 136,100	\$ -
Fixed Assets Purchased through Capital Lease Obligation	\$ 276,981	\$ -

See accompanying Notes to Combined Financial Statements.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization and Reporting Entities

In 1898, the Miners' Trust was established under the constitutional and statutory authority for the purpose of creating a "miners' hospital for disabled miners". The Miner's Hospital opened in 1906 in Raton, New Mexico. The original structure is located on approximately ten 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 of New Mexico (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 Miner's 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 reopened, 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 two hospitals. In December 1986, the Miners' Hospital was merged with NCCH to form Miner's Colfax Medical Center (the 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 through fiscal year 2008.

The 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 Medical Center is a "stand alone" agency, reporting directly to the Governor's Office. The Medical Center has no component units. 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 into the Trust account, to be managed by the board, according to 23-3-4 NMSA 1978.

The operations of the Medical Center are presented in the accompanying combined financial statements as a single proprietary fund of the enterprise type although the Medical Center maintains separate accounts for its Operating Fund and the Miner's Trust Fund. The combining statements of revenues, expenses, and changes in net position show how revenues and expenses are segregated between these two internal funds.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nature of Organization and Reporting Entities (Continued)

The Medical Center operates a 25-bed acute care hospital, a 47-bed extended care facility, on-site clinic, and various other outpatient clinics in Raton, New Mexico. 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 Medical Center 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 services, serves miners exclusively.

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 are 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 Medical Center. The investment income derived from the corpus is available for operations of the Medical Center and has been reported in the combined statements of revenues, expenses, and changes in net position. The corpus is not owned by the Medical Center and is not reported on the combined statements of net position.

Standards of Accounting and Financial Reporting

The accompanying combined financial statements of the Medical Center have been presented in conformity with generally accepted accounting principles in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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 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.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include business checking accounts maintained with local financial institutions, cash on hand and certificates of deposit with an original maturity of three months or less, excluding restricted funds held in escrow and restricted deposits.

Patient and Resident Accounts Receivable, Net

The Medical Center reports patient and resident accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Medical Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to patients and residents, the Medical Center bills third-party payors directly and bills the patients and residents when their liability is determined. Patients and residents are not required to provide collateral for services rendered. Patient and resident accounts receivable are ordinarily due in full when billed. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the patient, resident, or third-party payor. In addition, an allowance is estimated for other accounts based on historical experience of the Medical Center. At June 30, 2016 and 2015, the allowance for uncollectible accounts was approximately \$869,000 and \$4,461,000, respectively. The allowance for uncollectible accounts decreased in fiscal year 2016 as a result of cleaning up older self-pay patient accounts.

Inventory

Supply inventories are stated at the lower of cost, determined using the first-in, first-out basis, or market.

Noncurrent Investments

Noncurrent investments consist of funds set aside by the board designation and restricted bond proceeds to be used for the construction of an on-site clinic. In 1986, the board designated \$1,000,000 of funds to be placed in an escrow account to be invested in income earning securities for the purposes of supporting Colfax County. After a period of twenty years, Colfax County will receive the accumulated income earned in order to establish a permanent health care fund. Any subsequent earnings will be remitted to the Colfax County for any lawful health care purpose, as determined by Colfax County. After seventy five years, the escrow account will be returned to the board of trustees of the Medical Center. The restricted bond proceeds to be used for the construction of the on-site clinic were expended in full during fiscal year 2016.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets, Net

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation, if acquired by gift. The Medical Center capitalizes acquisitions with an initial individual cost of \$5,000 and an estimated useful life in excess of one year. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center:

Land Improvements	5-30 Years
Buildings and Leasehold Improvements	5-40 Years
Equipment	3-10 Years

Compensated Absences Payable

Vacation and sick leave earned and not taken is cumulative; however, upon termination of employment, sick pay for such leave hours accumulated up to 600 hours is forfeited, and vacation pay is limited to payment for 240 hours. Vacation leave up to the maximum of 240 hours is payable upon separation from service at the employee's current hourly rate. Sick leave is payable semiannually to qualified employees for hours accumulated above 600 hours at a rate equal to 50% of their hourly rate, not to exceed 120 hours each semiannual period. Upon retirement, payment for sick leave is limited to 400 hours accumulated in excess of 600 hours at the 50% hourly rate. The compensated absences payable is included in the combined statements of net position.

Employees are entitled to accumulate annual leave at a rate based on appointment date and length of continuous service. A maximum of 240 hours may be carried forward after the pay period beginning in December and ending in January. Employees are entitled to accrue sick leave at the rate of 3.69 hours per pay period. There is no limit to the amount of sick leave which an employee may accumulate.

Net Position

The net position of the Medical Center is classified in three components. *Net investment in capital assets* consist of capital assets net of accumulated depreciation and reduced by any outstanding balances of borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center. Restricted net assets are reduced by any liabilities payable from restricted assets. *Unrestricted net position* is the remaining net position that does not meet the definition of invested in capital assets net of related debt or restricted.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Patient and Resident Service Revenue

Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Medical Center provides care without charge or at amounts less than its established rates to patients who lack financial resources, some of whom meet the requirements to be considered indigent by various state and local government programs. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient and resident service revenue. Charges excluded from net patients and resident service revenue were approximately \$54,000 and \$63,000 for fiscal years 2016 and 2015, 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 and 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 charges to the Trust 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 charges to non-miners and 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 Trust 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 Trust.

Grants and Contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and 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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after deficit of revenues over expenses.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Resources

When the Medical Center has both restricted and unrestricted resources available to finance various programs, it is the Medical Center's policy to use restricted resources before unrestricted resources.

Operating Revenues and Expenses

The Medical Center's combined statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Medical Center's principal activity. Nonexchange revenues including interest income, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

Advertising Costs

The Medical Center expenses advertising costs as incurred.

Deferred Outflows/Inflows of Resources

In addition to assets, the combined statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Medical Center did not have any items that qualified for reporting in this category as of June 30, 2016 and 2015.

In addition to liabilities, the combined statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Medical Center did not have any items that qualified for reporting in this category as of June 30, 2016 and 2015.

Pensions

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27. This Statement improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards governing accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions (Continued)

In January 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Compliant with the requirements of Government Accounting Standards Board Statement No. 68 and No. 71, *Accounting and Financial Reporting for Pensions*, the State of New Mexico implemented the standards for the fiscal year ending June 30, 2015.

Miner's Colfax Medical Center, as an agency of the State of New Mexico, is a contributing employer to a cost-sharing multiemployer defined benefit pension plan administered by the Public Employees Retirement Association (PERA). Disclosure requirements for governmental funds apply to the primary government as a whole, and as such, this information will be presented in the Component Appropriation Funds Annual Financial Report (General Fund) and the Comprehensive Annual Financial Report (CAFR) of the State of New Mexico.

Information concerning the net pension liability, pension expense, and pension-related deferred inflows and outflows of resources of the primary government will be contained in the General Fund and the CAFR and will be available, when issued, from the Office of State Controller, Room 166, Bataan Memorial Building, 407 Galisteo Street, Santa Fe, New Mexico, 87501.

Income Taxes

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

Recent Accounting Pronouncements

For the year ended June 30, 2016, the Medical Center adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which is effective for financial statement periods beginning after June 15, 2015. GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and the valuation techniques. See Note 3 to the combined financial statements for disclosure of fair value measurements.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

To the extent available, the Medical Center's investments are recorded at fair value. GASB Statement No. 72 – Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources.

In contrast, unobservable inputs reflect an entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Medical Center has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

Reclassifications

Certain items in the prior year combined financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the Medical Center's overall net position.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 NET PATIENT AND RESIDENT SERVICE REVENUE

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. These payment arrangements include the following:

Medicare

The Medical Center became designated as a Critical Access Hospital on November 1, 2010. As a Critical Access Hospital, inpatient acute care services rendered to Medicare program beneficiaries are paid on a cost-reimbursed basis and inpatient non-acute services and outpatient services are reimbursed on a cost basis. The Medical Center is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Medical Center and audit thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2014.

Medicaid

The State of New Mexico administers its Medicaid program through contracts with several Managed Care Organizations (MCOs). Medicaid beneficiaries are required to enroll with one of the MCOs. Through the Medical Center's contracts with MCOs, inpatient acute care services and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge and discounted fee schedules. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Other

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations 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.

Uninsured

The Medical Center provides healthcare services to patients who have not purchased commercial healthcare insurance coverage and do not qualify as beneficiaries of the Medicare and Medicaid programs. Based upon financial information obtained, some of these patients qualify for discounts from charges under the Medical Center's charity care policy.

Revenue from Medicare and Medicaid programs accounted for approximately 47% and 23%, respectively, of the Medical Center's patient and resident service revenue for the year ended June 30, 2016 and 48% and 19%, respectively of the Medical Center's patient and resident service revenue for the year ended June 30, 2015, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 3 DEPOSITS AND INVESTMENTS

The carrying values of deposits and investments shown are included in the combined statements of net position as follows as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Carrying Value:		
Cash and Deposits	\$ 15,622,734	\$ 11,919,573
Investments	1,000,000	1,000,000
Total Deposits and Investments	<u>\$ 16,622,734</u>	<u>\$ 12,919,573</u>
Included in the Following Net Position Captions:		
Cash and Cash Equivalents	\$ 3,371,265	\$ 310,527
Interest in State Treasurer Investment Pool	12,251,469	11,389,736
Noncurrent Cash and Deposits:		
Restricted Funds Held in Escrow	1,000,000	1,000,000
Restricted Deposits	-	219,310
Total Deposits and Investments	<u>\$ 16,622,734</u>	<u>\$ 12,919,573</u>

Deposits

The Medical Center's deposits are held in both demand accounts, certificates of deposit, 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 interest in State Treasurer Investment Pool of the Medical Center consists 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 by not in the Medical Center's name. As of June 30, 2016 and 2015, the Medical Center had the following subject to custodial credit risk:

	<u>2016</u>	<u>2015</u>
Insured	<u>\$ 420,843</u>	<u>\$ 439,417</u>
Collateral Held by Pledging Bank's Trust Department Not in the Medical Center's Name	<u>\$ 2,814,790</u>	<u>\$ 1,740,340</u>
Uninsured and Undercollateralized	<u>\$ -</u>	<u>\$ -</u>

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Deposits (Continued)

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 (see Schedule of Pledged Collateral) at each financial institution. The Medical Center was in compliance with this requirement as of June 30, 2016 and 2015.

Investments

Investments consist of funds held in escrow for a future permanent healthcare fund. The fund is invested in a savings account as of June 30, 2016. As of June 30, 2015 the fund was invested in a U.S. Treasury Note, which has an AA+ rating and was called during fiscal year 2016. The Medical Center's U.S. Treasury Note is valued using quoted market prices (level 1 inputs). The Medical Center does not hold any investments which meet the definition of Level 2 or Level 3 inputs.

Concentration of Credit Risk - Investments

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 rate issued by nationally recognized statistical rating organizations; however, the Medical Center had no formal policy on managing credit risk. The Medical Center's investments are authorized by Section 6-10-10, NMSA 1978. As of June 30, 2016 and 2015, the Medical Center's investments consisted of a U.S. Treasury Note. 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 - Investments

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Medical Center does not have a formal investment policy that limits investment maturities as a means on managing its exposure to fair value losses arising from increasing interest rates.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 4 STATE GENERAL FUND INVESTMENT POOL

Compliant with statute 6-10-3 (NMSA 1978), and to optimize state cash management and investment practices, funds of various state agencies are deposited in the State General Fund Investment Pool (SGFIP). This pool is managed by the New Mexico State Treasurer's Office (STO). Claims on the SGFIP are reported as financial assets by the various agencies investing in the SGFIP.

Agency claims against the SGFIP and fiduciary resources held at STO to fulfill those claims were not reconciled from the inception of SHARE (the State's centralized accounting system), in July 2006, through January 2013, which caused uncertainty as to the validity of the claims and the ability of fiduciary resources to fulfill those claims. As a result of business process and systems configuration changes made during the Cash Management Remediation Project Phase I, the Board of Finance and Administration's Financial Control Division (FCD) began reconciling transactional activity reported by the State's fiscal agent bank to the SHARE general ledger on a point-forward basis beginning February 1, 2013. In March 2015, the Financial Control Division implemented a reconciliation process that compares statewide agency claims against the resources held in the SGFIP at STO. This process is known as the claims to resources reconciliation.

The State Controller indicated on August 8, 2016 that calculated difference between resources maintained by STO and the agency claims has remained stable and within a narrow and acceptable range (< \$200k standard deviation) over the last twelve months; resources are sufficient to cover claims and there is no need to adjust any specific business unit claim on the SGFIP and that all claims will be honored at face value.

The Medical Center has established daily and monthly procedures that mitigate the risk of misstatement of the Medical Center's balances within the Pool. In addition, as required by Section 6-5-2.1 (J) NMSA 1978, DFA/FCD is to complete, on a monthly basis, reconciliation with the balances and accounts kept by the state treasurer and adopt and promulgate rules regarding reconciliation for state agencies.

State law (Section 8-6-3 NMSA 1978) requires the Medical Center's cash be managed by the New Mexico State Treasurer's Office. Accordingly, the investments of the Medical Center consist of an interest in the State General Fund Investment Pool managed by the New Mexico State Treasurer's Office.

Medical Center's Interest in State General Fund Investment Pool

At June 30, 2016 and 2015, the Medical Center had the following invested in the State General Fund Investment Pool:

	2016	2015
Per New Mexico State Treasurer		
Agency 662, Fund 102 - Miners' Colfax	\$ (10,037,215)	\$ (10,106,253)
Agency 662, Fund 985 - Miners' Trust Fund	12,251,469	11,389,736
Total per New Mexico State Treasurer	\$ 2,214,254	\$ 1,283,483

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 4 STATE GENERAL FUND INVESTMENT POOL (CONTINUED)

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 a 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 years ended June 30, 2016 and 2015.

NOTE 5 CAPITAL ASSETS, NET

Capital asset activity for the years ended June 30, 2016 and 2015 was as follows:

	Beginning Balance June 30, 2015	Additions	Disposals and Retirements	Transfers	Ending Balance June 30, 2016
Land and Land Improvements	\$ 656,562	\$ -	\$ -	\$ 53,305	\$ 709,867
Buildings and Building Improvements	41,297,719	-	-	3,077,325	44,375,044
Equipment	11,172,633	431,609	-	126,461	11,730,703
Construction in Progress	3,010,426	246,665	-	(3,257,091)	-
	<u>56,137,340</u>	<u>678,274</u>	<u>-</u>	<u>-</u>	<u>56,815,614</u>
Less: Accumulated Depreciation	(27,177,164)	(2,205,217)	-	-	(29,382,381)
Capital Assets, Net	<u>\$ 28,960,176</u>	<u>\$ (1,526,943)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,433,233</u>

	Beginning Balance July 1, 2014	Additions	Disposals and Retirements	Transfers	Ending Balance June 30, 2015
Land and Land Improvements	\$ 656,562	\$ -	\$ -	\$ -	\$ 656,562
Buildings and Building Improvements	41,297,719	-	-	-	41,297,719
Equipment	11,052,382	368,871	(248,620)	-	11,172,633
Construction in Progress	274,607	2,735,819	-	-	3,010,426
	<u>53,281,270</u>	<u>3,104,690</u>	<u>(248,620)</u>	<u>-</u>	<u>56,137,340</u>
Less: Accumulated Depreciation	(25,476,327)	(1,949,457)	248,620	-	(27,177,164)
Capital Assets, Net	<u>\$ 27,804,943</u>	<u>\$ 1,155,233</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,960,176</u>

In July 2015 the Medical Center capitalized an on-site clinic at a total cost of approximately \$3,261,000. The project was funded with the additional proceeds from the Series 2013 Bond issuance. The Medical Center capitalized interest expense related to the project of approximately \$-0- and \$77,000 during fiscal years 2016 and 2015.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 6 LONG-TERM DEBT

The following is a summary of long-term debt transactions for the Medical Center for the years ended June 30, 2016 and 2015:

	Beginning Balance June 30, 2015	Additions	Reductions	Ending Balance June 30, 2016	Amounts Due Within One Year
State Permanent Fund Revenue Improvement and Refunding Bonds, Series 2013	\$ 12,900,000	\$ -	\$ (935,000)	\$ 11,965,000	\$ 955,000
Capital Lease Obligation	-	276,981	(49,724)	227,257	89,741
Total Long-Term Debt	<u>\$ 12,900,000</u>	<u>\$ 276,981</u>	<u>\$ (984,724)</u>	<u>\$ 12,192,257</u>	<u>\$ 1,044,741</u>
	Beginning Balance July 1, 2014	Additions	Reductions	Ending Balance June 30, 2015	Amounts Due Within One Year
State Permanent Fund Revenue Improvement and Refunding Bonds, Series 2013	\$ 13,810,000	\$ -	\$ (910,000)	\$ 12,900,000	\$ 935,000
Capital Lease Obligation	17,161	-	(17,161)	-	-
Total Long-Term Debt	<u>\$ 13,827,161</u>	<u>\$ -</u>	<u>\$ (927,161)</u>	<u>\$ 12,900,000</u>	<u>\$ 935,000</u>

Series 2013 Bonds

On April 11, 2013, the Medical center refinanced the New Mexico Finance Authority Bonds, Series 2004 and Series 2006, with proceeds from the issuance of the Miners' Colfax Medical Center State Permanent Fund Revenue Improvement and Refunding Bonds, Series 2013 with BBVA Compass Bank in the amount of \$14,645,000. The refunding was considered a legal defeasement of the Series 2004 and Series 2006 Bonds. The purpose of the refinancing was to lower the interest rate to 2.54% and finance the construction of an on-site clinic with the additional bond proceeds. The Revenue Bonds outstanding are due in varying annual installments with a maturity date of June 1, 2027.

Under the terms of the refinancing agreement as of June 30, 2013, the Medical Center was required to deposit \$3,000,000 of the bond proceeds received and \$200,000 of the Medical Center's operating capital into a Building and Improvement Project Fund to be used for funding construction activities of the on-site clinic. As of June 30, 2016 and 2015 there was \$-0- and \$219,310, respectively, of restricted funds remaining to be expended on the on-site clinic.

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

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 6 LONG-TERM DEBT (CONTINUED)

Series 2013 Bonds (Continued)

Scheduled principal and interest payments on the bonds are as follows:

<u>Year Ending June 30,</u>	Total to be Paid	Principal	Interest
2017	\$ 1,258,911	\$ 955,000	\$ 303,911
2018	1,259,654	980,000	279,654
2019	1,259,762	1,005,000	254,762
2020	1,259,235	1,030,000	229,235
2021	1,263,073	1,060,000	203,073
2022 - 2026	6,303,297	5,705,000	598,297
2027	1,261,242	1,230,000	31,242
Total	<u>\$ 13,865,174</u>	<u>\$ 11,965,000</u>	<u>\$ 1,900,174</u>

Capital Lease Obligation

In December 2015 the Medical Center entered into a capital lease obligation for the purchase of medical equipment. The lease is payable in monthly installments of \$8,489 and accrues interest at a rate of 6.50%. The term of the lease is thirty-six months and it matures in December 2018. As of June 30, 2016, future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	Amount
2017	\$ 101,870
2018	101,870
2019	42,446
Total Minimum Lease Payments	246,186
Less: Amounts Representing Interest	(18,929)
Present Value of Future Minimum Capitalized	227,257
Less: Current Portion	(89,741)
Capital Lease Obligation, Net of Current Maturities	<u>\$ 137,516</u>

NOTE 7 RESTRICTED NET POSITION

At June 30, 2016 and 2015, the restricted expendable net position was set aside by the board designation. In 1986, the board designated \$1,000,000 of funds to be placed in an escrow account to be invested in income earning securities for the purposes of supporting Colfax County. After a period of twenty years, Colfax County will receive the accumulated income earned in order to establish a permanent health care fund. Any subsequent earnings will be remitted to the Colfax County for any lawful health care purpose, as determined by Colfax County. After seventy five years, the escrow account will be returned to the board of trustees of the Medical Center.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 8 MINERS' TRUST FUND

The Medical Center is an income beneficiary of the State of New Mexico Land Grant Permanent Fund derived from trust lands assigned to the Medical Center by the Ferguson Act in 1898 and by the New Mexico Enabling Act in 1910. The trust principal is managed by the State Investment Council. Because the principal is not controlled by the Medical center, it is not reflected in the accompanying Medical Center's combined financial statements. The fair value of the trust principal approximated \$130.0 and \$134.7 million as of June 30, 2016 and 2015, respectively. Additionally the Medical Center has a 1/7 interest in the Charitable, Penal, and Reform portion of the trust, which trust principal totaled approximately \$16.5 and \$17.1 million as of June 30, 2016 and 2015, 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 \$5.9 million and \$5 million in fiscal years 2016 and 2015, respectively. Charitable, Penal, and Reform monies distributed to the Medical center approximated \$751,000 and \$759,000 in fiscal years 2016 and 2015, respectively. It is the Medical Center's policy to apply unrestricted resources when expenses are incurred for the purposes for which both restricted and unrestricted resources are available.

In addition, the trust fund receives monthly income allocations from the New Mexico State Land Office, which approximated \$226,000 and \$657,000 of income and \$27,000 and \$10,000 of interest in fiscal years 2016 and 2015, respectively.

NOTE 9 PENSION PLAN - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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 multiemployer 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, New Mexico 87504-2123. The report is also available on PERA's website at <http://www.pera.state.nm.us>.

Funding Policy

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 years ended June 30, 2016, 2015, and 2014 were \$1,590,480, \$1,469,853, and \$1,237,431, respectively, equal to the amount of the required contributions for each fiscal year.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN

Plan Description

The Medical Center contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiemployer defined benefit post employment 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 Retiree Health Care 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 post employment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Authority at 4308 Carlisle NE, Suite 104, Albuquerque, NM 87107.

Funding Policy

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

The employer, employee and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

**NOTE 10 POST EMPLOYMENT BENEFITS – STATE RETIREE HEALTH CARE PLAN
(CONTINUED)**

Funding Policy (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. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1; municipal police member coverage plans 3, 4 or 5; municipal fire member coverage plans 3, 4 or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2016 and 2015, the statute required each participating employer to contribute 2.5%, respectively, of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2016 and 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1.0% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Medical Center's contributions to the RHCA for the years ended June 30, 2016, 2015, and 2014 were \$195,501, \$182,078, and \$149,387, respectively, which equal the required contributions for each year.

NOTE 11 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 organization under the lases of the State of New Mexico pursuant to section 11-1-1 through 11-1-7, NMSA 1978). As a client of the 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, included in 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 days written notice to the other party.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 12 COMMITMENTS AND CONTINGENCIES

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) for the General Services Department of the State of New Mexico.

Litigation

In the normal course of business, the Medical Center is, from time to time, subject to allegations that may or do result in litigation. The Medical Center evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected losses, which are not covered by insurance, if any. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Malpractice Claims

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

Operating Leases

The Medical Center leases equipment under agreements that require monthly payments through lease expiration in December 2019. A summary of future minimum operating lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 190,272
2018	142,776
2019	57,668
2020	18,942
Total	<u>\$ 409,658</u>

Rent expense for the fiscal years ended June 30, 2016 and 2015 was approximately \$430,000 and \$504,000, respectively.

Black Lung Research

During fiscal year 2016 the Medical Center made a pledge to the University of New Mexico Foundation for \$1,500,000 for Black Lung research. This pledge is to be paid over five years in equal annual installments of \$300,000. During fiscal year 2016 the Medical Center paid \$300,000 on the pledge and this amount is recorded in supplies and other expenses in the combined statements of revenues, expenses, and changes in net position.

**MINER'S COLFAX MEDICAL CENTER
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 12 COMMITMENTS AND CONTINGENCIES (CONTINUED)

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously, billed and collected revenues from patient services. The Medical Center operates a Compliance Committee which reviews the operations of the Medical Center. The Medical Center records allowances where the government has shown a pattern of adjusting periodic reports submitted by the Medical Center, including Medicare cost reports, or where internal reviews indicate the possibility of future adjustments. Management believes that the Medical Center is in substantial compliance with current laws and regulations.

Other

In the normal course of business, there could be various outstanding contingent liabilities such as, but not limited to, the following:

- Lawsuits alleging negligence of care
- Environmental pollution
- Violation of a regulatory body's rules and regulations
- Violation of federal and/or state laws

No other contingent liabilities such as, but not limited to those described above, are reflected in the accompanying combined financial statements. No such liabilities have been asserted and, therefore, no estimate of loss, if any, is determinable.

MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF REVENUES AND EXPENSES – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)

	Original Budget	Revised Budget	Actual	Variance Over (Under)
Meals	\$ 30,000	\$ 30,000	\$ 62,109	\$ 32,109
Payment for Care, Government	3,700,000	3,700,000	3,267,436	(432,564)
Payment for Care, Individuals	13,867,700	15,567,700	16,625,730	1,058,030
Federal Grants	474,600	474,600	485,966	11,366
Miscellaneous	-	-	256,303	256,303
Fund Balance	2,226,900	2,226,900	-	(2,226,900)
Other Financing Sources	6,000,000	7,500,000	6,000,000	(1,500,000)
Miner's Trust Fund	6,000,000	6,000,000	6,900,461	900,461
Total Budgetary Basis Revenues	<u>\$ 32,299,200</u>	<u>\$ 35,499,200</u>	33,598,005	<u>\$ (1,901,195)</u>
Transfers from Miner's Trust Fund for Operations			<u>(6,000,000)</u>	
Total GAAP Basis Operating and Non-Operating Revenues			<u>\$ 27,598,005</u>	
	Original Budget	Revised Budget	Actual	Variance Over (Under)
Personnel Services	\$ 16,073,900	\$ 16,073,900	\$ 16,068,570	\$ (5,330)
Contract Services	4,222,000	5,322,000	4,662,766	(659,234)
Other Costs	6,003,300	8,103,300	6,476,197	(1,627,103)
Miners' Trust Fund	6,000,000	6,000,000	6,000,000	-
Total Budgetary Basis Expenses	<u>\$ 32,299,200</u>	<u>\$ 35,499,200</u>	33,207,533	<u>\$ (2,291,667)</u>
Depreciation			2,205,217	
Transfers from Miner's Trust Fund for Operations			<u>(6,000,000)</u>	
Total GAAP Basis Expenses			<u>\$ 29,412,750</u>	

MINER'S COLFAX MEDICAL CENTER
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)

	Operating Program	Miners' Trust Fund Program	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 3,371,265	\$ -	\$ 3,371,265
Interest in State Treasurer Investment Pool	-	12,251,469	12,251,469
Receivables:			
Patient and Resident Accounts Receivable, Net	2,566,019	-	2,566,019
Trust Fund Income	-	549,645	549,645
Other	15	-	15
Inventory	715,606	-	715,606
Total Current Assets	6,652,905	12,801,114	19,454,019
NONCURRENT INVESTMENTS			
Restricted Funds Held in Escrow	1,000,000	-	1,000,000
CAPITAL ASSETS, NET	27,433,233	-	27,433,233
Total Assets	\$ 35,086,138	\$ 12,801,114	\$ 47,887,252
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Current Portion of Bonds Payable	\$ 955,000	\$ -	\$ 955,000
Current Portion of Capital Lease Obligation	89,741	-	89,741
Interest in State Treasurer Investment Pool	10,037,215	-	10,037,215
Accounts Payable	1,811,538	-	1,811,538
Accrued Payroll and Payroll Taxes	405,314	-	405,314
Accrued Compensated Absences	627,887	-	627,887
Accrued Employee Benefits	171,351	-	171,351
Accrued Interest	24,911	-	24,911
Estimated Amounts Due to Third-Party Payors	1,397,000	-	1,397,000
Total Current Liabilities	15,519,957	-	15,519,957
LONG-TERM LIABILITIES			
Bonds Payable, Net of Current Portion	11,010,000	-	11,010,000
Capital Lease Obligation, Net of Current Portion	137,516	-	137,516
Total Long-Term Liabilities	11,147,516	-	11,147,516
Total Liabilities	26,667,473	-	26,667,473
NET POSITION			
Net Investment in Capital Assets	15,240,976	-	15,240,976
Restricted Expendable:			
Expendable for Permanent Healthcare Fund	1,000,000	-	1,000,000
Unrestricted	(7,822,311)	12,801,114	4,978,803
Total Net Position	8,418,665	12,801,114	21,219,779
Total Liabilities and Net Position	\$ 35,086,138	\$ 12,801,114	\$ 47,887,252

MINER'S COLFAX MEDICAL CENTER
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2015
(SEE INDEPENDENT AUDITORS' REPORT)

	Operating Program	Miners' Trust Fund Program	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 310,527	\$ -	\$ 310,527
Interest in State Treasurer Investment Pool	-	11,389,736	11,389,736
Receivables:			
Patient and Resident Accounts Receivable, Net	3,175,587	-	3,175,587
Estimated Amounts Due from Third-Party Payors	2,258,000	-	2,258,000
Trust Fund Income	-	510,917	510,917
Other	9,481	-	9,481
Inventory	608,372	-	608,372
Total Current Assets	6,361,967	11,900,653	18,262,620
NONCURRENT INVESTMENTS			
Restricted Funds Held in Escrow	1,000,000	-	1,000,000
Restricted Deposits	219,310	-	219,310
Total Noncurrent Investments	1,219,310	-	1,219,310
CAPITAL ASSETS, NET			
	28,960,176	-	28,960,176
Total Assets	\$ 36,541,453	\$ 11,900,653	\$ 48,442,106
LIABILITIES AND NET POSITION			
CURRENT LIABILITIES			
Current Portion of Bonds Payable	\$ 935,000	\$ -	\$ 935,000
Interest in State Treasurer Investment Pool	10,106,253	-	10,106,253
Accounts Payable:			
Trade	893,154	-	893,154
Construction	457,451	-	457,451
Accrued Payroll and Payroll Taxes	338,679	-	338,679
Accrued Compensated Absences	551,606	-	551,606
Accrued Employee Benefits	133,582	-	133,582
Accrued Interest	26,857	-	26,857
Total Current Liabilities	13,442,582	-	13,442,582
LONG-TERM LIABILITIES			
Bonds Payable, Net of Current Portion	11,965,000	-	11,965,000
Total Liabilities	25,407,582	-	25,407,582
NET POSITION			
Net Investment in Capital Assets	15,602,725	-	15,602,725
Restricted Expendable:			
Expendable for Permanent Healthcare Fund	1,000,000	-	1,000,000
Unrestricted	(5,468,854)	11,900,653	6,431,799
Total Net Position	11,133,871	11,900,653	23,034,524
Total Liabilities and Net Position	\$ 36,541,453	\$ 11,900,653	\$ 48,442,106

MINER'S COLFAX MEDICAL CENTER
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)

	Operating Program	Miners' Trust Fund Program	Total
OPERATING REVENUES			
Net Patient and Resident Service Revenue	\$ 19,893,166	\$ -	\$ 19,893,166
Miners' Trust Fund Income	-	6,900,461	6,900,461
Other Revenue	318,412	-	318,412
Total Operating Revenues	<u>20,211,578</u>	<u>6,900,461</u>	<u>27,112,039</u>
OPERATING EXPENSES			
Salaries and Wages	11,753,415	-	11,753,415
Employee Benefits	4,315,155	-	4,315,155
Supplies and Other	6,138,837	-	6,138,837
Purchased Services	4,662,766	-	4,662,766
Interest	337,360	-	337,360
Depreciation	2,205,217	-	2,205,217
Total Operating Expenses	<u>29,412,750</u>	<u>-</u>	<u>29,412,750</u>
OPERATING GAIN (LOSS)	(9,201,172)	6,900,461	(2,300,711)
NONOPERATING REVENUES			
Noncapital Grants and Contributions	485,966	-	485,966
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(8,715,206)	6,900,461	(1,814,745)
Transfers	6,000,000	(6,000,000)	-
CHANGE IN NET POSITION	(2,715,206)	900,461	(1,814,745)
Net Position - Beginning of Year	11,133,871	11,900,653	23,034,524
NET POSITION - END OF YEAR	<u>\$ 8,418,665</u>	<u>\$ 12,801,114</u>	<u>\$ 21,219,779</u>

MINER'S COLFAX MEDICAL CENTER
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2015
(SEE INDEPENDENT AUDITORS' REPORT)

	Operating Program	Miners' Trust Fund Program	Total
OPERATING REVENUES			
Net Patient and Resident Service Revenue	\$ 18,409,161	\$ -	\$ 18,409,161
Miners' Trust Fund Income	-	6,500,618	6,500,618
Other Revenue	663,360	-	663,360
Total Operating Revenues	19,072,521	6,500,618	25,573,139
OPERATING EXPENSES			
Salaries and Wages	11,106,740	-	11,106,740
Employee Benefits	4,444,693	-	4,444,693
Supplies and Other	4,775,859	235	4,776,094
Purchased Services	3,618,890	-	3,618,890
Interest	277,395	-	277,395
Depreciation	1,949,457	-	1,949,457
Total Operating Expenses	26,173,034	235	26,173,269
OPERATING GAIN (LOSS)	(7,100,513)	6,500,383	(600,130)
NONOPERATING REVENUES			
Interest Income	10,223	-	10,223
Noncapital Grants and Contributions	485,474	-	485,474
Total Nonoperating Revenues	495,697	-	495,697
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES	(6,604,816)	6,500,383	(104,433)
Transfers	5,776,089	(5,776,089)	-
CHANGE IN NET POSITION	(828,727)	724,294	(104,433)
Net Position - Beginning of Year	11,962,598	11,176,359	23,138,957
NET POSITION - END OF YEAR	\$ 11,133,871	\$ 11,900,653	\$ 23,034,524

**MINER'S COLFAX MEDICAL CENTER
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF DEPOSIT AND INVESTMENT ACCOUNTS
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)**

Depository	Account Names	Type	Depository Balance	Reconciled Balance
State Treasurer's Office	Warrant Account	External Investment Pool	\$ 12,251,469	\$ 12,251,469
First National Bank of NM	Operating	Checking	3,199,863	3,199,822
Wells Fargo	Donation Fund	Checking	16,724	16,724
Wells Fargo	Resident Fund	Checking	8,295	8,295
Wells Fargo	Certificate of Deposit	CD	55,151	55,151
Intl Bank of Raton	Certificate of Deposit	CD	90,673	90,673
Cash and Cash Equivalents			<u>15,622,175</u>	<u>15,622,134</u>
Petty Cash	Petty Cash	Petty Cash	<u>600</u>	<u>600</u>
Total Cash and Cash Equivalents, Non-Agency Funds			15,622,775	15,622,734
International State Bank	Escrow Account	Escrow	<u>1,000,000</u>	<u>1,000,000</u>
Total Deposit and Investment Accounts			<u>\$ 16,622,775</u>	<u>\$ 16,622,734</u>

**MINER'S COLFAX MEDICAL CENTER
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF PLEDGED COLLATERAL
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)**

	<u>First National Bank of NM</u>	<u>Int'l Bank of Raton</u>	<u>Wells Fargo Donation Fund</u>	<u>Wells Fargo Resident Fund</u>	<u>Wells Fargo CD</u>
Deposits at June 30, 2016	\$ 3,199,863	\$ 90,673	\$ 16,724	\$ 8,295	\$ 55,151
Less: FDIC Coverage	(250,000)	(90,673)	(16,724)	(8,295)	(55,151)
Uninsured Public Funds	2,949,863	-	-	-	-
Pledged Collateral Held by the Pledging Bank's Trust Department or Agent, but not in the Medical Center's Name	2,814,790	-	-	-	-
Uninsured and Uncollateralized	<u>\$ 135,073</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
50% of Uninsured Pledge Collateral Requirement per Statute	\$ 1,474,932	\$ -	\$ -	\$ -	\$ -
Total Pledged Collateral	<u>2,814,790</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Pledged Collateral (Over) Under the Requirement	<u>\$ (1,339,859)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Pledged Collateral at June 30, 2016 Consists
of the Following:

<u>Security</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Amount</u>
Belen NM Consol SCD #2	077581PP5	8/1/2021	\$ 266,399
San Juan cnty NM JNR CLG DIST	798360FP3	8/15/2027	104,685
FHLMC - Pool# G18575	3128MMT94	11/1/2030	585,791
Dulce NM INDPT SCH DIST NO 21	264430HJ1	3/1/2018	106,172
Catron & Cibola CNTYS NM ISD	149321CN9	8/1/2019	219,104
FNMA - Pool #Ma0667	31417YW52	3/1/2031	460,974
Roswell NM INDPT SCH DIST	778550GP2	8/1/2017	103,640
Dulce NM INDPT SCH DIST NO 21	264430HJ1	3/1/2018	106,172
SBA - Pool# 522264	83165AWZ3	8/25/2024	861,853
			<u>\$ 2,814,790</u>

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

**MINER'S COLFAX MEDICAL CENTER
OTHER SUPPLEMENTARY INFORMATION
SCHEDULE OF VENDOR INFORMATION FOR PURCHASES
EXCEEDING \$60,000 (EXCLUDING GRT) (UNAUDITED)
YEAR ENDED JUNE 30, 2016
(SEE INDEPENDENT AUDITORS' REPORT)**

RFB#/ RFP#	Type of Procurement	Vendor Name	Did Vendor Win Contract?	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Physical Address of Vendor (City, State)	Did the Vendor Provide Documentation of Eligibility for In-State Preference?	Did the Vendor Provide Documentation of Eligibility for Veteran's Preference?	Brief Description of the Scope of Work
	Request for Bid	Rocky Mountain Physical Therapy	Winner	\$ 75,965	\$ -	PO Box 608 , Raton, NM 87740	Y	N/A	Rehabilitation Therapy



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees and Management
Miner's Colfax Medical Center and
Mr. Timothy Keller, New Mexico State Auditor
Raton, New Mexico

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements and budgetary comparisons of Miner's Colfax Medical Center (Medical Center), as of and for the year ended June 30, 2016, and the related notes to the combined financial statements, which collectively comprise the Medical Center's combined financial statements, and have issued our report thereon dated January 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Medical Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Medical Center's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the following deficiencies, 2016-001 through 2016-007, described in the accompanying schedule of findings and responses to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-008 through 2016-012.

Medical Center's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Broomfield, Colorado
January 10, 2017

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016**

SECTION II - FINANCIAL STATEMENT FINDINGS

2016-001 (ORIGINAL FINDING 2015-001): CONTROL OVER FINANCIAL STATEMENT REPORTING PROCESS (MATERIAL WEAKNESS)

Condition

The board of trustees and management share the ultimate responsibility for the Medical Center's internal control system. While it is acceptable to outsource various accounting functions, the responsibility for internal control cannot be outsourced.

The Medical Center engages CLA to assist in preparing its combined financial statements and accompanying disclosures. However, as independent auditors, CLA cannot be considered part of the Medical Center's internal control system. As part of its internal control over preparation of its combined financial statements, including disclosures, the Medical Center has implemented a comprehensive review procedure to ensure that the combined financial statements, including disclosures, are complete and accurate. Such review procedures should be performed by an individual possessing a thorough understanding of accounting principles generally accepted in the United States of America and knowledge of the Medical Center's activities and operations.

The Medical Center personnel have not monitored recent accounting developments to the extent necessary to enable them to prepare the Medical Center's combined financial statements and related disclosures, to provide a high level of assurance that potential omissions or other errors that are material would be identified and corrected on a timely basis.

Management's Progress for Repeat Findings

The Medical Center filled the chief financial officer position during fiscal year 2016 and that individual is responsible for implementing internal controls to remedy the findings. The Medical Center has also hired an independent financial consultant to assist with strengthening the financial systems, including the patient management system for revenue, and State of New Mexico SHARE system for expenses. The two systems are not interfaced and create numerous barriers in providing detailed financial statements. Currently, the agency manually creates financial reports to monitor operations.

Criteria

It is the responsibility of management to assure financial statements including all required footnote disclosures are presented in accordance with U.S. generally accepted accounting principles.

Cause

While performing audit procedures, it was noted that management does not have internal controls in place to provide reasonable assurance that the combined financial statements are prepared in accordance with U.S. generally accepted accounting principles.

Effect

Material misstatements related to combined financial statement presentation and disclosures could be present.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

**2016-001 (ORIGINAL FINDING 2015-001): CONTROL OVER FINANCIAL STATEMENT
REPORTING PROCESS (MATERIAL WEAKNESS) (CONTINUED)**

Recommendation

We recommend that management implement an effective financial statement review process which would ensure compliance with accounting standards and all required footnote disclosures.

Response and Action Plan of Management

The Medical Center continues to work on implementing internal controls to ensure that monthly financials are complete and accurate. The Medical Center is working to ensure that potential omissions or other errors that are material would be identified and corrected on a timely basis.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: The Medical Center continues to work on implementing internal controls to ensure that monthly financials are complete and accurate. Throughout fiscal year 2017 the Medical Center will be working to ensure that potential omissions or other errors that are material would be identified and corrected on a timely basis. The goal is to have the processes and procedures fully implemented in time for the June 30, 2017 financial statement audit.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

**2016-002 (ORIGINAL FINDING 2015-002): MATERIAL AUDIT ADJUSTMENTS (MATERIAL
WEAKNESS)**

Condition

During the course of the audit, we proposed material audit adjustments to the Medical Center's account balances.

Management's Progress for Repeat Findings

Management continues to develop and implement procedures to improve internal controls designed to ensure account balances are properly stated throughout the year for year-end close. This is a high priority for the CFO who started with the Medical Center subsequent to June 30, 2015.

Criteria

Management should have an internal control system in place designed to include procedures to ensure account balances are properly stated throughout the year and at year-end.

Cause

Internal controls in place were not sufficient to detect misstatements to various accounts.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

2016-002 (ORIGINAL FINDING 2015-002): MATERIAL AUDIT ADJUSTMENTS (MATERIAL WEAKNESS) (CONTINUED)

Effect

The Medical Center's combined financial statements were materially misstated which could have an impact on the decision making of governance and management.

Recommendation

We recommend that management implement an effective internal control system to ensure that adjustments are supported and recorded timely in the financial statements throughout the year.

Response and Action Plan of Management

Management continues to work on developing procedures to implement internal controls designed to ensure account balances are properly stated throughout the year.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: Management continues to work on developing procedures to implement internal controls designed to ensure account balances are properly stated throughout the year. Management's goal is to continue to develop procedures to ensure the financial statements are complete and accurate throughout fiscal year 2017 and to minimize the chance of any year-end audit adjustments during the June 30, 2017 financial statement audit.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

2016-003 (ORIGINAL FINDING 2015-003): JOURNAL ENTRY PROCESS (MATERIAL WEAKNESS)

Condition

During the course of the audit, we noted numerous journal entries for which supporting documentation was not retained. As a result, we were not able to determine that the journal entries had the appropriate review and approval.

Management's Progress for Repeat Findings

Management continues to develop and implement procedures to improve internal controls designed to ensure account balances are properly stated throughout the year for year-end close. This is a high priority for the CFO who started with the Medical Center subsequent to June 30, 2015.

Criteria

Management should have a process of internal controls in place to reconcile and adjust general ledger accounts and the supporting documentation should be retained for those reconciliations and the related adjusting journal entries.

Cause

Internal controls in place were not in place to ensure the combined financial statements had supporting reconciliations and that the adjustments were made timely.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

**2016-003 (ORIGINAL FINDING 2015-003): JOURNAL ENTRY PROCESS (MATERIAL WEAKNESS)
(CONTINUED)**

Effect

Fictitious or erroneous journal entries could be made to the Medical Center's combined financial statements.

Recommendation

We recommend that management that management keep support for all adjusting journal entries made to the Medical Center's combined financial statements.

Response and Action Plan of Management

Management continues to implement Internal controls in place to ensure the combined financial statements have supporting reconciliations and that the adjustments are made timely.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: Management continues to implement Internal controls in place to ensure the combined financial statements have supporting reconciliations and that the adjustments are made timely. Since the new chief financial officer was hired there has been a focused effort on ensuring records are retained to support all the journal entries made and it is the expectation of management that all the supporting records will be in place throughout fiscal year 2017.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

**2016-004 (ORIGINAL FINDING 2016-004): DEVELOP MONTHLY AND YEAR-END CLOSING
SCHEDULES (MATERIAL WEAKNESS)**

Condition

The year-end audit process was delayed due to account reconciliations not being performed on a monthly basis throughout fiscal year 2016. As a result, there was significant time needed by management to prepare the June 30, 2016 account reconciliations in order to prepare for the audit.

Management's Progress for Repeat Findings

Management continues to work on developing procedures to implement internal controls designed to ensure account balances are properly stated throughout the year. Also, management is implementing a process of maintaining appropriate records that will support the entries processed through the State of New Mexico SHARE system.

Criteria

Management should have a reconciliation process in place where all general ledger accounts are reconciled on a monthly basis and there is supporting documentation for the balances.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

2016-004 (ORIGINAL FINDING 2015-004): DEVELOP MONTHLY AND YEAR-END CLOSING SCHEDULES (MATERIAL WEAKNESS) (CONTINUED)

Cause

The Medical Center was not performing the reconciliations on a monthly basis. There was turnover in the finance department which resulted in delays in the reconciliations.

Effect

The combined financials statement could be materially misstated as a result of reconciliations not being prepared. Not reconciling accounts on a monthly basis also makes the Medical Center more susceptible to its assets being misappropriated.

Recommendation

We recommend that management implement a process where monthly reconciliations are performed for each general ledger account to ensure that the financial statements are reported accurately.

Response and Action Plan of Management

Management continues to work on developing procedures to implement internal controls designed to ensure account balances are properly stated throughout the year.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: Management continues to work on developing procedures to implement internal controls designed to ensure account balances are properly stated throughout the year. Management's goal is to continue to develop procedures to ensure the financial statements are complete and accurate throughout fiscal year 2017 and to supporting schedules in place for the June 30, 2017 financial statement audit.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

2016-005 (ORIGINAL FINDING 2015-005): ESTIMATING THIRD-PARTY COST REPORT SETTLEMENTS (MATERIAL WEAKNESS)

Condition

Third-party cost report settlements are subject to significant changes based on historical experience or changes in regulations that may be subject to different interpretations. The Medical Center currently does not have a methodology in place for estimating current year cost report settlements throughout the year.

Management's Progress for Repeat Findings

The Medical Center has contracted a consultant that has expertise in estimating third-party payor settlements so the accounting records can accurately reflect the year over year changes.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

2016-005 (ORIGINAL FINDING 2015-005): ESTIMATING THIRD-PARTY COST REPORT SETTLEMENTS (MATERIAL WEAKNESS) (CONTINUED)

Criteria

Management should have a process to estimate its current year cost report settlements throughout the year as these estimates can have a significant impact on the combined financial statements.

Cause

Management currently does not have a process in place to estimate its cost report settlements.

Effect

The combined financials statement could be materially misstated as a result of third-party estimates not being prepared throughout the year.

Recommendation

We recommend that management implement a process to estimate its current year cost report settlements so that the combined financial statements are accurately stated throughout the year.

Response and Action Plan of Management

The Medical Center has contracted a consultant that has expertise in estimating third-party payor settlements so that the accounting records can accurately reflect the year over year changes.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: The Medical Center has contracted a consultant that has expertise in estimating third-party payor settlements so that the accounting records can accurately reflect the year over year changes. During fiscal year 2017 the plan is to prepare a mid-year cost report estimate to incorporate into the financial statements.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

2016-006 (ORIGINAL FINDING 2015-006): PATIENT REVENUE CYCLE INTERNAL CONTROLS (MATERIAL WEAKNESS)

Condition

As part of our review of the patient revenue cycle, we noted that access rights within the patient billing system are not able to be limited to specific areas of need. This creates a segregation of duties issue as anyone with access rights to the patient billing system has access to the whole system. As a result, there is a possibility that an individual with access to the system could write-off patient balances without formal approval. For example, a patient accounts biller would have access to the billing system, but as a result of not being able to limit access rights to only the billing module that individual would also have the ability to post adjustments to patient accounts.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

**2016-006 (ORIGINAL FINDING 2015-006): PATIENT REVENUE CYCLE INTERNAL CONTROLS
(MATERIAL WEAKNESS) (CONTINUED)**

Management's Progress for Repeat Findings

The Medical Center has contracted a consultant that has expertise in estimating third-party payor settlements so the accounting records can accurately reflect the year over year changes.

Criteria

Management should have adequate internal controls to properly segregate duties within the patient revenue cycle.

Cause

There are limitations within the patient billing system that do not allow for the appropriate segregation of duties to be implemented.

Effect

The Medical Center's assets could be misappropriated as a result of not being able to adequately segregate duties.

Recommendation

We recommend the Medical Center work with the patient billing software company to see if there is a way to appropriately segregate duties. If not, we recommend the Medical Center implement compensating controls to offset the risk of not being able to appropriately segregate duties. An example of a compensating control would be having an individual without access to the patient billing software review all administrative adjustments over a certain dollar threshold for reasonableness. Also, implementing a monthly cash reconciliation process and reconciling the payments deposited in the bank account to the payments posted in the patient accounting system would be another compensating control to ensure that all deposits are accounted for.

Response and Action Plan of Management

The Medical Center's management will review patient information over a certain threshold for reasonableness. Monthly cash reconciliations will be implemented to ensure patient receipts within the patient billing software and bank deposits match and are accounted for.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: The Medical Center's management will review patient information over a certain threshold for reasonableness. Monthly cash reconciliations will be implemented to ensure patient receipts within the patient billing software and bank deposits match and are accounted for. Management's plan is to implement the review of patient information and monthly cash reconciliations in fiscal year 2017.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive Officer, chief financial officer, and board of trustees.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

2016-007 (ORIGINAL FINDING 2015-007): ANALYZE LEASES PRIOR TO COMMENCEMENT TO DETERMINE WHETHER THEY ARE CAPITAL OR OPERATING LEASES FOR PROPER ACCOUNTING TREATMENT (MATERIAL WEAKNESS)

Condition

As part of the audit, it was noted that the Medical Center had entered into numerous lease agreements that were recorded as operating leases that require being reported as capital leases.

Management's Progress for Repeat Findings

The Medical Center will review and analyze all lease terms in order to determine required accounting treatment. This will avoid potentially significant unexpected year-end adjustments to combined financial statements. The CFO will also improve efficiencies with properly accounting for these transactions as they are entered into.

Criteria

Management should review the terms of the lease agreements when they enter into the lease agreements to determine whether the lease should be recorded as an operating lease or capital lease.

Cause

There were not the appropriate internal controls in place to analyze whether or not a lease should be recorded as an operating or capital lease when the lease agreement is entered into.

Effect

The combined financial statements were not accurately presented to reflect the capital lease obligation on the combined statements of net position. As a result, there was a passed adjustments recorded as of June 30, 2016 and 2015.

Recommendation

We recommend that management implement a process to review all lease agreements entered into to determine if they should be recorded as an operating or capital lease.

Response and Action Plan of Management

The Medical Center will review and analyze all lease terms in order to determine required accounting treatment. This will avoid potentially significant unexpected year-end adjustments to combined financial statements. It will also improve efficiencies with properly accounting for these transactions as they are entered into.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: In fiscal year 2017 the Medical Center will implement a process to review and analyze all lease terms in order to determine required accounting treatment. This will avoid potentially significant unexpected year-end adjustments to combined financial statements. It will also improve efficiencies with properly accounting for these transactions as they are entered into.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

2016-008 (ORIGINAL FINDING 2015-008): CASH RECEIPTS (COMPLIANCE AND OTHER MATTERS)

Condition

Supporting records for cash receipts were not always available throughout fiscal year 2016 to perform internal control testing on due to cash reconciliations not being performed on a monthly basis throughout fiscal year 2016.

Management's Progress for Repeat Findings

The Medical Center will implement a system where supporting documentation is retained in support of the cash receipts entered into the SHARE financial system. This will avoid potentially significant unexpected year-end adjustments to combined financial statements. The CFO will also improve efficiencies with properly accounting for these transactions as they are entered into.

Criteria

Management should reconcile the bank accounts on a monthly basis and have supporting records for each individual transaction.

Cause

The Medical Center was not performing the reconciliations on a monthly basis. There was also turnover in the finance department, which resulted in delays in the reconciliations.

Effect

The combined financials statement could be materially misstated as a result of reconciliations not being prepared. Also, if monthly reconciliations are not being performed it creates a great risk of the Medical Center's assets being misappropriated.

Recommendation

We recommend that management implement a process where cash is reconciled monthly and all cash receipts have appropriate documentations to ensure that cash is accurately reported.

Response and Action Plan of Management

The Medical Center is actively working on hiring appropriate staff to ensure that monthly reconciliations are performed on cash and receipts to avoid any misstatements and to reduce the risk of the Medical Center's assets being misappropriated.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: The Medical Center is actively working on hiring appropriate staff to ensure that monthly reconciliations are performed on cash and receipts to avoid any misstatements and to reduce the risk of the Medical Center's assets being misappropriated. Since the new chief financial officer was hired there has been a focused effort on ensuring records are retained to support all the cash receipts recorded and it is the expectation of management that all the supporting records will be in place throughout fiscal year 2017.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

2016-009 (ORIGINAL FINDING 2015-009): LATE SUBMISSION OF AUDIT REPORT (COMPLIANCE AND OTHER MATTERS)

Condition

The Medical Center's audit report for the year ended June 30, 2016 was not submitted as of the due date of December 1, 2016 due to delays in reconciling balances as of June 30, 2016.

Management's Progress for Repeat Findings

The Medical Center hired a CFO subsequent to June 30, 2015, which will be helpful in overcoming the current circumstances including internal control issues and monthly reconciliations not being performed. The CFO and independent financial consultant will work together to enhance the internal controls and work to enhance the accounting processes and procedures.

Criteria

Audit reports not received on or before the due date are considered to be in non-compliance with the requirements of Section 2.2.2.9.A of the State Audit Rule.

Cause

Account reconciliations as of June 30, 2016 were not prepared timely.

Effect

The result was the late submission of the Medical Center's audit report for the year ended June 30, 2016. The users of the combined financial statements did not receive the information in a timely manner.

Recommendation

We recommend that management be more proactive with respect to preparation of all necessary information and schedules related to its year-end close.

Response and Action Plan of Management

The Medical Center hired a CFO subsequent to June 30, 2015 which will be helpful in overcoming the current circumstances including internal control issues and monthly reconciliations not being performed. The CFO and independent financial consultant will work together to enhance the internal controls and work to enhance the accounting processes and procedures.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: The Medical Center hired a CFO subsequent to June 30, 2015 which will be helpful in overcoming the current circumstances including internal control issues and monthly reconciliations not being performed. The CFO and independent financial consultant will work together to enhance the internal controls and work to enhance the accounting processes and procedures. Management's goal is that the development and improvement of internal controls and monthly reconciliation procedures will result in the audit submission deadline being met in fiscal year 2017.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

2016-010 (ORIGINAL FINDING 2015-011): TRAVEL AND PER DIEM - \$1,500 LIMIT (COMPLIANCE AND OTHER MATTERS)

Condition

Our test work associated with the travel and per diem expenditures revealed instances in which an employee exceeded the \$1,500 threshold for annual travel expenditures and a letter to the appropriate department head/supervisor was not included in the file.

Management's Progress for Repeat Findings

The Medical Center hired a CFO subsequent to June 30, 2015, which will be helpful in overcoming the current circumstances including internal control issues and monthly reconciliations not being performed. The CFO and accounting staff will work together to enhance the internal controls and work to enhance the accounting processes and procedures.

Criteria

Management should implement a process for tracking employee travel expenses to ensure those who are getting close to the \$1,500 travel expenditure threshold are identified and approval for the expenditure that causes the employee to exceed the threshold is made prior to the travel occurring.

Cause

Approval was not retained in the employee file to support the travel expenditures in excess of the \$1,500 requirement.

Effect

Employee travel in excess of the travel and per diem requirement may not be properly approved and as a result the employee may have excessive travel reimbursement.

Recommendation

We recommend management implement a process to track employee travel and per diem expenditures to ensure that the proper approval is in place for employees that exceed the \$1,500 requirement.

Response and Action Plan of Management

Miners' Colfax Medical Center has hired a chief financial officer and accounting staff who will be responsible for internal controls and implementing a process of monitoring the employees travel to ensure proper procedures are followed and requirements for the travel are met.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: The chief financial officer and accounting staff will be responsible for internal controls and implementing a process of monitoring the employees travel to ensure proper procedures are followed and requirements for the travel are met. Management's goal is to implement these processes and procedures in fiscal year 2017.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

2016-011 (ORIGINAL FINDING 2015-012): FUEL CARDS (COMPLIANCE AND OTHER MATTERS)

Condition

Our test work associated with the fuel card testing resulted in the identification of thirty-six charges that were inappropriate in the context of the NMAC (specifically mid-grade gasoline).

Management's Progress for Repeat Findings

The Medical Center hired a CFO subsequent to June 30, 2015, which will be helpful in overcoming the current circumstances including internal control issues and monthly reconciliations not being performed. The CFO and accounting staff will work together to enhance the internal controls and work to enhance the accounting processes and procedures.

Criteria

Per 1.5.3.19 NMAC, each agency will evaluate fuel card purchase exception reports provided by the fuel credit card company on a monthly basis.

Cause

There was lack of management oversight and effective internal controls surrounding the fuel cards.

Effect

The thirty-six transactions identified were not in compliance with applicable laws and department policy.

Recommendation

We recommend management establish effective controls and procedures to ensure gas cards are in compliance with applicable laws and department policy.

Response and Action Plan of Management

Internal controls will be put in place through the Warehouse Supervisor to ensure that monthly statements are reviewed for accuracy and the requirements will be communicated to employees to ensure proper use of the fuel cards. Discrepancies will be communicated to management. Appropriate training and monitoring will ensure that fuel cards are used in accordance to NMAC.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: Internal controls will be put in place through the Warehouse Supervisor to ensure that monthly statements are reviewed for accuracy and the requirements will be communicated to employees to ensure proper use of the fuel cards. Discrepancies will be communicated to management. Appropriate training and monitoring will ensure that fuel cards are used in accordance to NMAC. Management's goal is to implement these processes and procedures in fiscal year 2017.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

**MINER'S COLFAX MEDICAL CENTER
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2016**

2016-012: PHYSICAL INVENTORY OF CAPITAL ASSETS (COMPLIANCE AND OTHER MATTERS)

Condition

Our test work associated with capital assets noted that a physical inventory count of capital assets did not occur at the end of fiscal year 2016 with the exception of motor vehicles.

Criteria

Per 2.2.2.12 NMAC, each agency will conduct an annual physical inventory of moveable chattels and equipment at the end of each fiscal year.

Cause

There was lack of management oversight and effective internal controls surrounding the physical inventory count.

Effect

The Medical Center was not in compliance with the physical inventory count requirements.

Recommendation

We recommend the Medical Center implement internal controls to ensure that an annual physical count of fixed assets occurs at the end of the fiscal year.

Response and Action Plan of Management

The Medical Center's CFO will appoint the appropriate staff to perform the annual inventory. A process will be implemented where quarterly updates will be made to fixed assets. The annual inventory will be done in conjunction with the annual supply inventory due June 30 of every year.

Corrective Account Plan (CAP)

Actions Planned in Response to Finding: The Medical Center's CFO will appoint the appropriate staff to perform the annual inventory. A process will be implemented where quarterly updates will be made to fixed assets. The annual inventory will be done in conjunction with the annual supply inventory due June 30 of every year.

Explanation of Disagreement: We concur with the finding.

Official Responsible for Ensuring Corrective Action: Chief executive officer, chief financial officer, and board of trustees.

**MINER'S COLFAX MEDICAL CENTER
CURRENT YEAR STATUS OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016**

2015-001: CONTROL OVER FINANCIAL STATEMENT REPORTING PROCESS (MATERIAL WEAKNESS)

Current Year Status

Unresolved – see current year comment 2016-001.

2015-002: MATERIAL AUDIT ADJUSTMENTS (MATERIAL WEAKNESS)

Current Year Status

Unresolved – see current year comment 2016-002.

2015-003: JOURNAL ENTRY PROCESS (MATERIAL WEAKNESS)

Current Year Status

Unresolved – see current year comment 2016-003.

2015-004: DEVELOP MONTHLY AND YEAR-END CLOSING SCHEDULES (MATERIAL WEAKNESS)

Current Year Status

Unresolved – see current year comment 2016-004.

2015-005: ESTIMATING THIRD-PARTY PAYOR COST REPORT SETTLEMENTS (MATERIAL WEAKNESS)

Current Year Status

Unresolved – see current year comment 2016-005.

2015-006: PATIENT REVENUE CYCLE INTERNAL CONTROLS (MATERIAL WEAKNESS)

Current Year Status

Unresolved – see current year comment 2016-006.

2015-007: ANALYZE LEASES PRIOR TO COMMENCEMENT TO DETERMINE WHETHER THEY ARE CAPITAL OR OPERATING LEASES FOR PROPER ACCOUNTING TREATMENT (MATERIAL WEAKNESS)

Current Year Status

Unresolved – see current year comment 2016-007.

**MINER'S COLFAX MEDICAL CENTER
CURRENT YEAR STATUS OF PRIOR YEAR AUDIT FINDINGS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

2015-008: CASH RECEIPTS (COMPLIANCE AND OTHER MATTERS)

Current Year Status

Unresolved – see current year comment 2016-008.

2015-009: LATE SUBMISSION OF AUDIT REPORT (COMPLIANCE AND OTHER MATTERS)

Current Year Status

Unresolved – see current year comment 2016-009.

2015-010: BUDGET ADJUSTMENT REQUESTS (COMPLIANCE AND OTHER MATTERS)

Current Year Status

Resolved. The Medical Center retained the Budget Adjustment Requests in fiscal year 2016.

2015-011: TRAVEL AND PER DIEM - \$1,500 LIMIT (COMPLIANCE AND OTHER MATTERS)

Current Year Status

Unresolved – see current year comment 2016-010.

2015-012: FUEL CARDS (COMPLIANCE AND OTHER MATTERS)

Current Year Status

Unresolved – see current year comment 2016-011.

**2015-013: VENDOR/EMPLOYEE POINT OF CONTACT WITH THE NEW MEXICO DEPARTMENT
OF FINANCE AND ADMINISTRATIONS (COMPLIANCE AND OTHER MATTERS)**

Current Year Status

Resolved. The Medical Center assigned the appropriate points of contact.

**MINER'S COLFAX MEDICAL CENTER
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2016**

An exit conference was held with the Medical Center on January 10, 2017. The conference was held in a closed meeting to preserve the confidentiality of the audit information prior to the official release of the combined financial statements by the state auditor. In attendance were:

MINER'S COLFAX MEDICAL CENTER

Shawn Lerch, CEO
Peggy Martinez, CFO
Kathy McQuery, Board President
Kenneth Scott Berry, Board Vice-President

CLIFTONLARSONALLEN LLP

Daniel Frein, CPA, Principal
James Mann, CPA, Principal

PREPARATION OF COMBINED FINANCIAL STATEMENTS

The combined financial statements presented in this report have been prepared by the independent auditor, and reviewed and approved by the management of Miner's Colfax Medical Center. The responsibility of the combined financial statements lies with management, as addressed in the Independent Auditors' Report