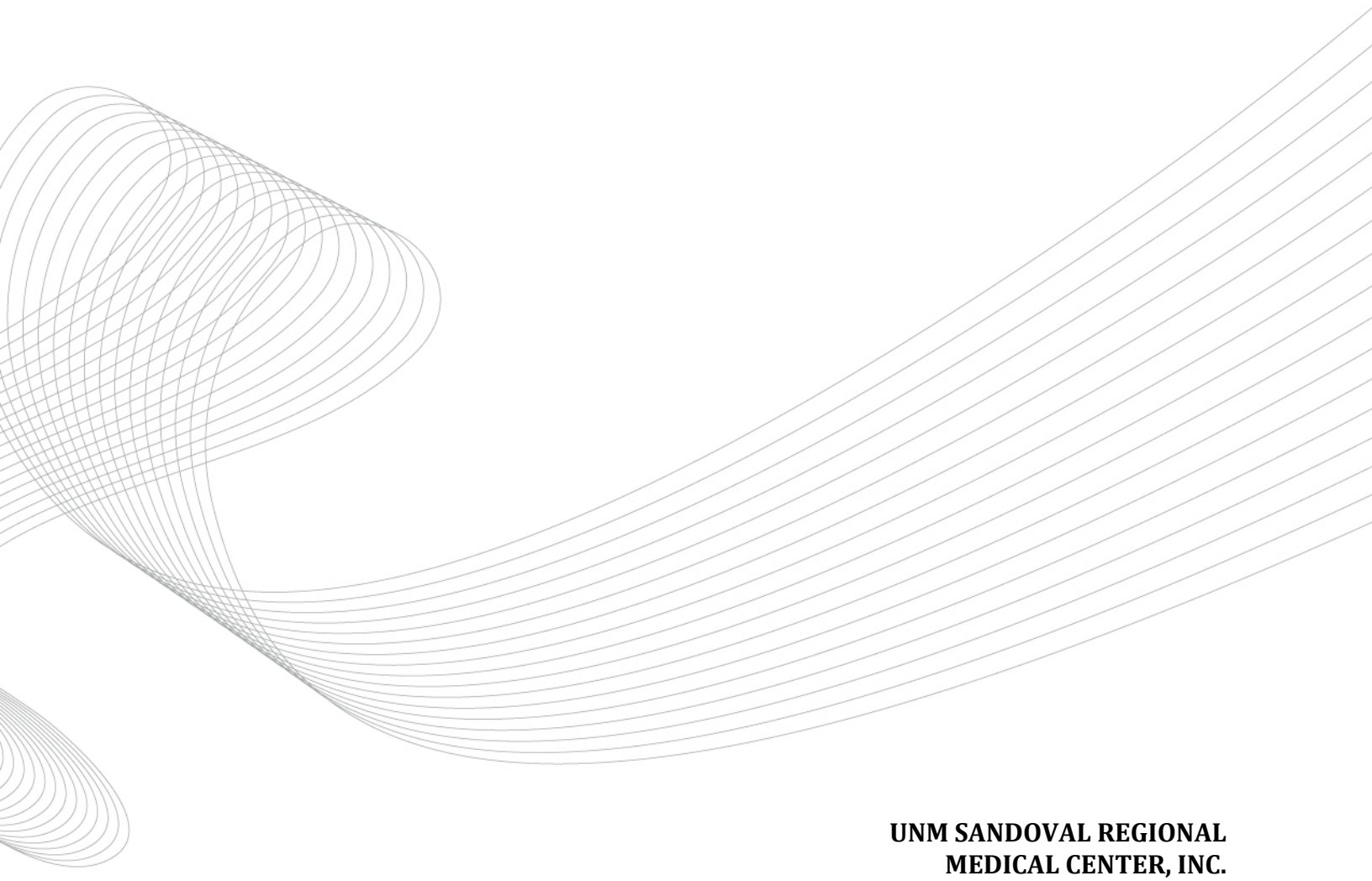

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)

FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)
Official Roster
June 30, 2015

BOARD OF DIRECTORS

Paul Roth, MD Albuquerque, NM	Chairperson (Term expires 6/30/17, Regent appointed)
Brad Cushnyr, MD Albuquerque, NM	Member (Term expires 6/30/18, Regent appointed)
Charlotte Garcia Albuquerque, NM	Member (Term expires 6/30/18, County appointed)
Steve McKernan Albuquerque, NM	Member (Term expires 6/30/16, Regent appointed)
Michael Richards, MD Albuquerque, NM	Member (Term expires 6/30/16, Regent appointed)
Jerry Geist Albuquerque, NM	Member (Term expires 6/30/16, Regent appointed)
Manu RainBird Albuquerque, NM	Member (Term expires 6/30/17, County appointed)
Donnie Leonard Albuquerque, NM	Member (Term expires 6/30/17, County appointed)
Joanna Boothe Albuquerque, NM	Member (Term expires 6/30/18, County appointed)

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)
Official Roster (continued)
June 30, 2015

ADMINISTRATIVE OFFICERS

Robert G. Frank, Ph.D.	President – University of New Mexico
Paul Roth, M.D.	Chancellor – UNM Health Sciences Center Dean, School of Medicine – UNM Health Sciences Center
Ava Lovell	Senior Executive Financial Officer – UNM Health Sciences Center
Steve McKernan	Chief Executive Officer – UNM Hospitals Chief Operating Officer – UNM Health System
Ella Watt	Chief Financial Officer – UNM Hospitals Chief Financial Officer – UNM Health System
Michael Richards, M.D.	Executive Physician-in-Chief
Jamie Silva-Steele	Chief Executive Officer – Sandoval Regional Medical Center
Tony Ogborn, MD	Chief Medical Officer – Sandoval Regional Medical Center
Pamela Demarest	Chief Nursing Officer – Sandoval Regional Medical Center
Darlene Fernandez	Chief Financial Officer – Sandoval Regional Medical Center

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
UNM Sandoval Regional Medical Center, Inc.
and
Mr. Timothy Keller, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of Sandoval Regional Medical Center, Inc. (SRMC or the Medical Center), a component unit of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Medial Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Board of Directors
UNM Sandoval Regional Medical Center, Inc.
and
Mr. Timothy Keller, New Mexico State Auditor

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Medical Center and are not intended to present fairly the financial position of the University of New Mexico as of June 30, 2015 and 2014, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The accompanying vendor schedule of contracts entered into greater than $60,000 on page 42 has not been subjected to the auditing procedures applied in the audit of the basic 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 October 29, 2015 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
October 29, 2015

The following discussion and analysis provides an overview of the financial position and activities of UNM Sandoval Regional Medical Center as of and for the years ended June 30, 2015, 2014, and 2013. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of the Medical Center's management.

Using This Annual Report

This annual report consists of financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended.

The financial statements prescribed by GASB 34, as amended, (the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows) present financial information in a form similar to that used by commercial corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service or goods are received, regardless of when cash is exchanged.

The statements of net position include all assets and liabilities. Over time, increases or decreases in net position (the difference between assets and liabilities) is one indicator of the improvement or erosion of the Medical Center's financial health when considered with nonfinancial facts such as patient statistics and the condition of facilities. This statement includes all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting method used by nongovernmental hospitals and healthcare organizations.

The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The statement of cash flows presents information related to cash inflows and outflows summarized by operating, capital and noncapital financing, and investing activities.

Overview of Entity

In August 2009, Regents of the University of New Mexico (UNM) approved the formation of the Medical Center, a New Mexico nonprofit corporation organization under and pursuant to the New Mexico University Research Park and Economic Development Act. The Medical Center was organized for the development, construction and operation of a licensed general, community teaching Medical Center in Sandoval County and to facilitate and develop the clinical and medical practices of the faculty of the University of New Mexico School of Medicine (UNMSOM).

As of July 2012, the construction of the physical facility of the Medical Center was complete, with the Medical Center receiving a Medical Center license from the New Mexico Department of Health on July 12, 2012. On August 17, 2012, the Medical Center received notice from the Centers for Medicare and Medicaid Services ("CMS") that the facility had met all federal requirements for participation in the Medicare and Medicaid programs. At that time, the Medical Center was assigned a provider number by CMS to begin billing the Medicare program for Medicare beneficiaries.

The following summarizes the healthcare services that are offered by the Medical Center:

Inpatient Care – Acute care provided by practitioners in 48 acute medical-surgical beds, 12 intensive care unit beds and 12 dedicated behavioral health beds. The Medical Center is equipped with an emergency department with 11 exam rooms, two trauma rooms and two triage rooms. Additionally, the Medical Center is equipped with six operating rooms, three minor procedure rooms and one interventional radiology (IR) lab.

Outpatient Care – Comprehensive offering of laboratory, radiology, diagnostic services, rehabilitation services, medical and surgical clinics.

Surgical Services – Anesthesia, General Surgery, Orthopedic (including hand), Podiatry, Otolaryngology, Urologic, Gynecologic, Urogynecologic, Bariatric, minimally invasive spine surgery and outpatient laparoscopic surgery.

Physician Services – the Medical Center has an "open" medical staff, allowing community physicians in addition to the UNM SOM providers to be members of the active medical staff and to admit and follow their patients at the Medical Center. There are currently 555 physicians credentialed of which 439 are School of Medicine physicians and the remaining 116 are community physicians.

Condensed Summary of Net Position

	As of June 30,		
Assets	**2015**	**2014**	**2013**
Current assets	$ 33,949,976	40,841,685	36,983,806
Capital assets, net	121,779,060	128,091,305	136,485,863
Noncurrent assets	5,404,485	3,480,942	1,677,025
Total assets	161,133,521	172,413,932	175,146,694
Liabilities			
Current liabilities	13,518,464	24,079,883	15,362,628
Noncurrent liabilities	128,500,000	131,880,000	140,765,000
Total liabilities	142,018,464	155,959,883	156,127,628
Net Position			
Net investment in capital assets	(10,100,940)	(15,333,693)	(6,939,137)
Restricted net position, expendable	11,336,578	24,100,300	10,094,941
Unrestricted	17,879,419	7,687,442	15,863,262
Total net position	$ 19,115,057	16,454,049	19,019,066

At June 30, 2015, total Medical Center assets were $161.1 million compared to $172.4 million at June 30, 2014. The Medical Center's most significant assets at June 30, 2015 were net capital assets of $121.8 million, cash and cash equivalents of $19.0 million followed by patient receivables of $10.3 million.

The decrease in assets from June 30, 2014 to June 30, 2015 is primarily due to decreases in cash and cash equivalents and in net capital assets. The decrease in cash and cash equivalents is the result of the expenditure of restricted funds held by trustee for debt service for the purpose of meeting scheduled mandatory bond redemptions. Operating cash increased by $4.3 million during the year ended June 30, 2015 from $8.9 million at June 30, 2014 to $13.2 million at June 30, 2015. This increase reflects the cash held by trustee for operations of $4.3 million at June 30, 2014 being completely drawn down during the year ended June 30, 2015 and transferred into the cash operating account. The decrease in net capital assets is the result of depreciation exceeding capital additions since the facility is still relatively new.

At June 30, 2014, total Medical Center assets were $172.4 million compared to $175.1 million at June 30, 2013. The Medical Center's most significant assets at June 30, 2014 were net capital assets of $128.1 million, cash and cash equivalents of $25.2 million followed by patient receivables of $6.1 million.

The Medical Center's liabilities totaled $142.0 million at June 30, 2015 compared to $156.0 million at June 30, 2014. At June 30, 2015, current and noncurrent bonds payable of $131.9 million was the largest liability, followed by accounts payable of $3.9 million. The decrease in liabilities is due to a decrease in the amount of bonds payable resulting from the payments of the scheduled mandatory bond redemptions of $11.5 million during the year ended June 30, 2015.

The Medical Center's liabilities totaled $156.0 million at June 30, 2014 compared to $156.1 million at June 30, 2013. At June 30, 2014, current and noncurrent bonds payable of $143.4 million was the largest liability, followed by accounts payable of $3.6 million.

At June 30, 2015, 2014 and 2013, the Medical Center's current assets of $33.9 million, $40.8 million and $37.0 million, respectively, were sufficient to cover current liabilities of $13.5 million (current ratio of 2.51), $24.1 million (current ratio of 1.70) and $15.4 million (current ratio of 2.41), respectively.

Total net position as of June 30, 2015 increased by $2.7 million to $19.1 million, which included an operating gain of $1.6 million and net nonoperating revenues of $1.1 million. Unrestricted net position totaled $17.9 million at June 30, 2015. Restricted net position, expendable as of June 30, 2015 decreased by $12.8 million to $11.3 million, which was driven by a $10.4 million reduction in cash held by trustee for debt service that was used to pay scheduled mandatory bond redemptions, a $4.3 million reduction in cash held by trustee for operations that was drawn down during fiscal year 2015, and partially offset by an increase of $1.9 million in cash held by trustee for mortgage reserve fund.

Total net position as of June 30, 2014 decreased by $2.6 million to $16.5 million, which included an operating loss of $5.3 million partially offset by net nonoperating revenues of $2.7 million. Unrestricted net position totaled $7.7 million at June 30, 2014. Restricted net position, expendable as of June 30, 2014 increased by $14.0 million to $24.1 million, which was driven by a $10.7 million increase in cash held by trustee for debt service to be used for scheduled mandatory bond redemptions, a $1.8 million increase in cash held by trustee for mortgage reserve fund and a $1.5 million increase in cash held by trustee for operations.

Condensed Summary of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	2015	**2014**	**2013**
Total operating revenues	$ 75,270,952	54,091,041	19,198,419
Total operating expenses	(73,687,255)	(59,373,188)	(49,206,822)
Operating gain (loss)	1,583,697	(5,282,147)	(30,008,403)
Nonoperating revenues, expense and other revenues	1,077,311	2,717,130	16,010,583
Total increase (decrease) in net position	2,661,008	(2,565,017)	(13,997,820)
Net position, beginning of year	16,454,049	19,019,066	33,016,886
Net position, end of year	$ 19,115,057	16,454,049	19,019,066

Operating Revenues

The sources of operating revenues for the Medical Center are net patient service and other operating revenues, with the most significant source being net patient service revenues. Operating revenues were $75.3 million, $54.1 million and $19.2 million for the years ended June 30, 2015, 2014 and 2013, respectively.

Net patient service revenue is comprised of gross patient revenue, net of contractual allowances, charity care, provision for doubtful accounts, and any third party cost report settlements. Net patient service revenues were $74.8 million, $52.7 million and $18.3 million for the years ended June 30, 2015, 2014 and 2013 respectively. The increase of $22.1 million is the result of an increase in volumes (see chart below), an improvement in collection rates for certain payer contracts, and the expansion of Medicaid coverage under the Affordable Care Act initiated on January 1, 2014. Revenues for the year ended June 30, 2015 were positively impacted by the tremendous demand for Medicaid coverage under the new regulations, which delayed processing of both applications by the State of New Mexico and claims on the part of Medicaid payers under Centennial Care.

The following table summarizes key operating statistics for the years ended June 30, 2015, 2014 and 2013:

	Year Ended June 30,		
	2015	2014	2013
Inpatient Days	15,348	12,136	6,763
Discharges	3,178	2,682	1,691
Outpatient Visits	31,849	27,498	17,300
Emergency Visits	15,808	14,080	9,238
Surgeries	3,713	3,517	1,731

The average daily census (ADC) for the year ended June 30, 2015 was 42.0 and increased by 8.8 patients per day from an ADC of 33.2 for the year ended June 30, 2014.

Payment to New Hospitals, as defined under C.F.R. §412.300(b), is paid at 85 percent of its allowable Medicare Inpatient hospital capital-related costs through its cost report ending at least 2 years after the hospital accepts its first patient. The Medical Center accepted its first patient on July 17, 2012, thus the first cost report period beginning at least two years after this date would be cost report period July 1, 2015 to June 30, 2016. Beginning July 1, 2016, the Medical Center will be subject to the prospective federal capital rate. Net patient service revenue for the year ended June 30, 2015 includes cost report estimates for the Medicare and Medicaid programs. In 2015, receivables for Medicare and Medicaid were recorded in the amounts of $1,154,000 and $330,261, respectively, and they include an estimate for the capital reimbursement component. Reductions totaling $1,042,000 were made adjusting the estimated 2014 Medicare cost report settlement receivable due to revisions when the amended cost report was filed during 2015. 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. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations. Net patient service revenue for the years ended June 30, 2015 and 2014 included cost report estimates for the Medicare and Medicaid programs in the amounts of $2.0 million and $228,093, respectively.

Through December 31, 2013, the Medical Center saw patients that were enrolled in the New Mexico State Coverage Insurance Medicaid plan (SCI). The Medical Center participated in the reimbursement agreement between UNM Hospitals and the State of New Mexico. Funding was modeled after a capitated payment program. Funds were remitted to UNM Hospitals on a per-member-per-month basis for all state-approved members. UNM Hospitals remitted funds to the Medical Center based on the pro rata share of the adjudicated claims for these patients. Funding under the SCI program for the years ended June 30, 2014, and 2013 was $973,477 and $644,231, respectively, and is included in premium revenue. The SCI program was terminated with the adoption of the Centennial Care program in the State of New Mexico and the Affordable Care Act (ACA) effective January 1, 2014.

The Medical Center offers a financial assistance program called SRMC Care to which all eligible patients are encouraged to apply. This program assigns patients primary care providers and enables them to receive care throughout the Medical Center and at all clinic locations. This program is available to Sandoval County residents who also meet certain income and asset thresholds. Patients applying for coverage under SRMC Care must apply for coverage under Medicaid or the Health Insurance Exchange (HIX), if eligible. Patients may continue to receive SRMC Care until they receive Medicaid eligibility or notification of coverage under the Exchange. Patients certified under Medicaid or the Exchange may continue to qualify for SRMC Care as a secondary coverage for copays and deductibles if they meet the income guidelines. If a patient has access to insurance coverage under the Exchange, or through other coverage options, such as an employer or spouse, the patient would be expected to obtain coverage through that source prior to eligibility for SRMC Care. The Medical Center uses the same sliding income scale as the Affordable Care Act to determine if insurance coverage is considered affordable. If coverage is determined not affordable, patients may be granted a hardship waiver, and would not be required to pursue coverage under HIX. These patients would qualify for SRMC Care.

The Medical Center does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The cost of charity care provided under this program for the years ended June 30, 2015, 2014, and 2013 approximated $1.2 million, $2.4 million, and $875,000, respectively.

The Medical Center provides care to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance. The Medical Center encourages patients to meet with a financial counselor to develop payment arrangements. Although the Medical Center pursues collection of these accounts usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, liens are not placed on property or assets, and judgments are not filed against the patients. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2015, 2014 and 2013 was $2.8 million, $19.6 million, and $9.5 million, respectively. The cost of care provided to patient who are either uninsured or underinsured and who do not meet the criteria for financial assistance for years ended June 30, 2015, 2014 and 2013 was $1.3 million, $9.3 million, and $7.9 million, respectively. The decrease in the cost is associated with an increase in patients who have insurance due to the expansion of Medicaid and the implementation of the HIX.

Operating Expenses

Operating expenses for the Medical Center include items such as employee compensation and benefits, medical services, medical supplies, and equipment.

For the year ended June 30, 2015, total operating expenses were $73.7 million and represent an increase of $14.3 million from the year ended June 30, 2014. The most significant expense was an increase of $7.2 million for employee compensation. The number of employees per year increased from June 30, 2014 to June 30, 2015 as a result of an increase in staffing levels to support heightened clinical volumes. There were also wage increases of 2.7% in November 2014 and 2.0% in May of 2015. Employee benefits increased by $1.4 million as a direct result of the increase in employee compensation. The second largest factor was an increase of $3.1 million in medical and other supplies, which was the result of an increase in patient volumes. This increase was partially driven by the increased number of cases from the opening of the newly completed interventional radiology lab in addition to an increase in joint replacement surgeries driving up the cost of orthopedic implants.

Nonoperating Revenues and Expenses

For the years ended June 30, 2015, 2014, and 2013, net nonoperating revenues net of nonoperating expenses were $1.1 million $2.7 million and $16.0 million, respectively.

The most significant nonoperating revenue at June 30, 2015 and 2014 was the Sandoval County mill levy (the "mill levy") tax subsidy totaling $6.1 million and $8.0 million, respectively. The decrease in 2015 was a result of the Medical Center's share of the tax proceeds decreasing from 60% in 2014 to 45% in 2015. This tax subsidy is provided for the general operations of the Medical Center. The Medical Center received this tax subsidy by voter endorsement for the services the Medical Center provides. Pursuant to a Health Facility Agreement with the Board of County Commissioners of Sandoval County, New Mexico, after opening, the Medical Center was entitled to receive the proceeds of a mill

levy adopted by the Board of County Commissioners of Sandoval County and approved by the voters of Sandoval County. The Medical Center recognizes Mill Levy Funds based on the fiscal year that the levy is collected by the County, and records the funds received as nonoperating revenues. During fiscal year 2013, the Medical Center recognized as revenue the Sandoval County proceeds of the Mill Levy accumulated prior to the opening of the Medical Center in July 2012 in the amount of $13.8 million.

The next largest source of nonoperating revenue in the years ended June 30, 2015, 2014 and 2013 was the Federal Bond Subsidy in the amount of $2.0 million, $2.2 million and $2.2 million, respectively. The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs. The Medical Center is eligible to receive cash subsidy payments from the United States Department of Treasury equal to 35% of the interest payable on the Build America Bonds (Series 2010A), and 45% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B). Pursuant to the Budget Control Act of 2011, as postponed by the American Taxpayer Relief Act of 2012, the budget sequestration impact was a reduction of 7.2%, effective July 1, 2013. This had the effect of changing the subsidy payment from the United States Department of Treasury equal to 32.48% of the interest payable on the Build America Bonds (Series 2010A), and 41.76% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B). For Federal fiscal year 2015, beginning October 1, 2014, the sequestration percentage changed slightly to 7.3%.

The most significant nonoperating expense recorded for the years ended June 30, 2015, 2014, and 2013 was bond interest expense in the amount of $6.0 million, $6.5 million, and $6.5 million, respectively.

Capital Assets

At June 30, 2015, the Medical Center had $121.8 million invested in capital assets, net of accumulated depreciation of $26.7 million. Depreciation charges for the year ended June 30, 2015, 2014 and 2013 totaled $9.6 million, $9.1 million and $8.0 million, respectively.

	Year Ended June 30,		
	2015	**2014**	**2013**
Land, building and improvements	$ 105,130,301	104,937,400	105,435,945
Building service equipment	3,505,706	2,690,802	2,651,112
Fixed equipment	3,484,347	2,382,124	2,395,668
Major moveable equipment	36,145,365	34,749,109	33,961,464
Construction in progress	200,675	397,709	-
	148,466,394	145,157,144	144,444,189
Less accumulated depreciation	(26,687,334)	(17,065,839)	(7,958,326)
Net property and equipment	$ 121,779,060	128,091,305	136,485,863

During 2015 the largest capital increases were within major moveable equipment; $1.7 million purchased an Allura Xper biplane system for interventional cardiovascular procedures that provides exceptional three-dimensional visualization of cardiac anatomy in examinations, while requiring lower levels of contrast media and X-ray dose. Fixed equipment increased by $1.1 million primarily as the result of improvements in the operating room to configure and support adjustable lighting, power sources, med-gas outlets and integrated accessories. The increase in building service equipment of $815,000 reflects the renovations in the cardiac catheterization lab to accommodate the new biplane system, the installation of an MRI chiller for back-up cooling capacity, and a steam generator for redundant capacity for back-up purposes to support operating room sterilization and humidification.

Debt Activity

The Medical Center's current and noncurrent bonds payable totaled $131.9 million, $143.4 million and $143.4 million at June 30, 2015, 2014 and 2013, respectively. The current portion of this debt was $3.4 million, $11.5 million and $4.7 million at June 30, 2015, 2014, and 2013, respectively. This debt is related to the Government National Mortgage Association (GNMA) Collateralized Series 2010A and 2010B bonds.

Final endorsement on the mortgage loan occurred on June 18, 2014. At final endorsement, cost certifications were completed to declare that the construction of the project is complete and that all advances were made to the mortgagor in accordance with the Certificate of Insurance on the dates and in the amounts set forth. Shortly after final endorsement, the excess of the sale of the original bonds over the costs of construction were transferred to the held by trustee for debt service account and on July 15, 2014, were used to make special mandatory redemptions of $3.48 million on the Series 2010A bonds and $260,000 on the Series 2010B bonds. On July 21, 2014, the mortgage payments made by the Medical Center for the time period August 2012 through July 2014 totaling $6.17 million were used to redeem $6.17 million of the Series 2010A bonds.

On July 20, 2015 the scheduled mandatory bond redemption payment was made by the Medical Center. A principal payment of $1.67 million and an interest payment of $2.75 million were made on the Series 2010A bonds. No principal payment was due on the Series 2010B bonds, but an interest payment of $243,500 was made on this date.

There is a loan guarantee that is considered federal assistance subject to the requirements of Office of Management and Budget (OMB) Circular A-133 and the Single Audit Act. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2015, 2014, and 2013 Single Audit.

Change in Net Position

Total net position as of June 30, 2015 increased by $2.7 million to $19.1 million, which included an operating gain of $1.6 million and net nonoperating revenues in excess of nonoperating expenses of $1.1 million. Unrestricted net position totaled $17.9 million with a net deficiency in capital assets of $10.1 million at June 30, 2015. Total net position as of June 30, 2014 decreased by $2.6 million to $16.5 million, which included an operating loss of $5.3 million partially offset by net nonoperating revenues of $2.7 million. Unrestricted net position totaled $7.7 million with a net deficiency in capital assets of $15.3 million at June 30, 2014. Total net position (assets minus liabilities) is classified by the Medical Center's ability to use these assets to meet operating needs. Unrestricted net position may be used to meet all operating needs of the Medical Center. A portion of the Medical Center's net position is restricted by the trust indenture and debt agreement.

Factors Impacting Future Periods

In August 2015, the State communicated during a Medicaid Advisory Committee meeting that the State had a $45 million shortfall in the Medicaid budget. The State indicated that they will be meeting with the Managed Medicaid payers and the Medical Center to discuss strategies on how to balance the budget.

On July 31, 2015, CMS released the fiscal year 2016 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates will increase by a market basket increase of 2.4%, less a 0.5% productivity reduction mandated under the ACA, less a 0.8% documentation and coding reduction mandated by the American Taxpayer Relief Act of 2012, and less a 0.2% reduction to offset projected increases associated with new admission and medical review criteria for inpatient services. The net impact of these factors on the Medical Center's Medicare reimbursement is estimated at $730,000 for FY2016.

Hospitals not submitting either quality data or not meaningful use users of electronic health records (EHRs) in fiscal 2014 are subject to a three-quarter reduction in the initial market basket increase of 2.4%. If a hospital is subject to both reductions, they will start with a market basket rate of 0.6 percent, and will receive an update of negative 0.9 percent. The Medical Center has submitted quality measures and under the final CMS rule released October 6, 2015, will have the opportunity to meet Stage 2 meaningful user

requirements for a 90 day period between October 1, 2015 and December 31, 2015. If all meaningful use requirements are not met, the estimated reimbursement impact associated with the federal fiscal year 2016 IPPS final rule will be a reduction of $235,000.

CMS has proposed adding nine comprehensive ambulatory payment classifications (APCs), which package related items and services into a single payment for the comprehensive primary service. Included is a new comprehensive observation services APC for nonsurgical encounters with a high level visit and eight or more hours of observation. CMS also proposes comprehensive APCs for ear, nose and throat procedures, intraocular procedures, gynecologic procedures, laparoscopy, musculoskeletal procedures, urology and related procedures and for ancillary outpatient procedures when a patient expires.

Also in the proposed OPPS rule, CMS proposes a mandatory bundled payment program that would bundle payment to acute care hospitals for hip and knee replacement surgery Medical Severity Diagnosis Related Group (MS-DRG) 469 and 470. This Comprehensive Care for Joint Replacement (CCJR) payment model would hold the hospital in which the joint replacement takes place financially responsible for the entire episode of care, from the date of surgery through 90 days post-discharge. The episode of care would include the surgical procedure and inpatient stay and related services within 90 days of discharge, including inpatient and outpatient, readmission, inpatient rehabilitation, skilled-nursing and home health services. The proposal would require IPPS hospitals in 75 metropolitan statistical areas (MSAs) to participate in the model. Approximately 800 hospitals, including the Medical Center, are within these 75 MSAs. The hospitals would be the episode initiators and would bear the financial risk. CMS proposes to test the CCJR model for five years beginning January 1, 2016 and ending December 31, 2020. Under the model, all providers would continue to receive payment under Medicare fee-for-service. After the completion of the performance year, services in that year's episodes would be grouped into episodes and aggregated. CMS would compare the participating hospital's total episode payment to their "target price". The "target price" would reflect a hospital's hospital-specific and regional blended historical payments, less 2.0%. If the total episode payments were below the target price, Medicare would pay the hospital the difference in the form of a "reconciliation payment." If spending was in excess of the target price, the hospital would pay Medicare the difference.

No hospital would be penalized in year one of the program. In year two, hospitals would be at risk for any payments over 1% of the target price. In subsequent years, hospital would be at risk for any payments over the target price. CMS proposes that only hospitals meeting or exceeding performance thresholds on three quality measures would be eligible for a "reconciliation payment." These quality measures, already reported in the Hospital Inpatient Quality Reporting program, include the 30 day hospital readmissions for total hip and total knee replacement, complications within 90 days of hospitalization for elective total hip and total knee replacement and the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) survey.

On October 1, 2013, CMS adopted the Two-Midnight rule that established Medicare payment policy regarding the benchmark criteria that should be used when determining whether a patient admission is reasonable and payable under Medicare Part A. In general, the Two-Midnight rule states that inpatient admissions are payable under Part A if the admitting practitioner expected the patient to require a hospital stay that crossed two midnights, and the medical record supports that expectation, and that Medicare Part A payment is generally not appropriate for hospital stays not expected to span at least two midnights. In the calendar year 2016 OPPS proposed rule, CMS proposed to change the standard by which inpatient admission generally qualify for Part A payment to reiterate and emphasize the role of physician judgment. CMS also proposes that Quality Improvement Organizations (QIOs) oversee the majority of patient status audits, with Recovery Audit Contractors (RACs) focusing on only those hospitals with consistently high denial rates. CMS is also changing the recovery audit "look-back period" for patient status reviews to six months from the date of services, where a hospital submits the claim within three months of the date that it provides services, to allow for timely re-billing of the claim for Medicare Part B payment. Currently, a partial enforcement delay of the Two-Midnight rule expires September 30, 2015. The proposed changes would not take effect until January 1, 2016.

On July 31, 2015, Centers for Medicare & Medicaid Services (CMS) released the fiscal year 2016 Inpatient Psychiatric Facilities (IPF) Prospective Payment System (PPS) Final Rule. The IPF PPS rates will increase by a market basket increase of 2.4%, less a 0.5% productivity reduction and an additional market basket reduction of 0.2% as mandated under the ACA, and a decrease of 0.2% resulting from an updated outlier threshold.

For Medicare wage index, CMS uses the IPPS wage index for the labor market area in which an IPF is located. In fiscal year 2015, CMS used the most recent labor market delineations for determining area wage index as issued by the OMB on February 28, 2013 that included an updated list of core-based statistical areas (CBSAs). CMS bases the IPF PPS wage index on the inpatient PPS wage index from the prior year. As such, the fiscal year 2015 IPF PPS wage indices did not reflect the new OMB labor markets. These labor market changes have been adopted for the fiscal year 2016 IPF PPS wage index. For IPFs experiencing a decrease in wage index exclusively due to the new labor market delineations, CMS will use a blended wage index for fiscal year 2015 that is 50% of the fiscal year 2015 CBSA value and 50% of the fiscal year 2014 CBSA value. The net market basket and wage index updates are not expected to have a material impact on total program reimbursement.

The Recovery Audit Contract (RAC) program was created through the Medicare Modernization Act of 2003 (MMA) to recover inappropriate payments made to providers for fee-for-service Medicare. The RAC program encompassing New Mexico became effective in March 2009, with Connolly Consulting Associates, Inc. as the contractor. CMS is currently in the procurement process for the next round of RAC contractors. The RAC regions 1, 2 and 4 remain under pre-award protest. Region 2 encompasses New Mexico. On August 4, 2014, due to delays in awarding RAC contracts, CMS initiated contract modifications to

current RAC contracts to allow a restart of some reviews. CMS stated that most reviews will be on an automated basis, with a limited number of complex reviews of topics selected by CMS. During the extension of the current contracts, RACs will not review claims to determine if the care was delivered in the appropriate setting. As of June 30, 2015, the new RAC contracts had not been awarded; however, effective June 4, 2015, CMS withdrew the Request for Quotes for the next round of Recovery Auditor contracts and announced its intent to update the Statement of Work and release new Requests for Proposals shortly after. It permitted the Recovery Auditors to continue active recovery auditing through at least December 31, 2015. During August 2015, the Medical Center received RAC requests for 3 records with payments of $2,000 for MS-DRG and drug quantity validation. If the MS-DRG is found to be incorrect, the Medical Center will refund the money that was paid and bill CMS for the amount due under the revised MS-DRG.

In January 2009, the Department of Health and Human Services (HHS) published final rules on the adoption of International Classification of Diseases, 10th Revision, Clinical Modification (ICD-10) as the Health Insurance Portability and Accountability Act of 1996 (HIPAA) standard code set to replace ICD-9. The effective date for implementation of the ICD-10 standard has been delayed multiple times; however, on July 31, 2014, HHS issued a final rule establishing October 1, 2015 as the compliance date for ICD-10. The Medical Center upgraded its patient financial billing system in August 2015 in order to prepare for ICD-10. The Medical Center is also implementing computer assisted coding software in preparation for ICD-10.

The Sandoval County mill levy the Medical Center receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially decrease as a result of reduced property values and slowdowns in the building construction industry. The Medical Center receives mill levy proceeds pursuant to the Sandoval County Health Facilities Agreement between the Board of County Commissioners of the County of Sandoval and the Medical Center. Through June 30, 2014, Mill levy proceeds were distributed to the Medical Center and Presbyterian Hospital under the "Fixed Distribution Period". The Medical Center received 20% of the proceeds for operation of its inpatient behavioral health services and 50% of the remaining proceeds. The Medical Center has negotiated with Sandoval County and Presbyterian Hospital to modify the distribution of mill levy funds. The agreement amendment was approved by the Sandoval County Commission to distribute the mill levy proceeds 45% to the Medical Center and 55% to Presbyterian Hospital effective July 1, 2014. The amendment states that the 20% paid to the Medical Center in consideration for operating the behavioral health services is included in its 45% distribution. The impact of changing the SRMC distribution to 45% was a decrease in mill levy proceeds received from $8.0 million for the year ended June 30, 2014 to $6.1 million for the year ended June 30, 2015.

Contacting The Medical Center's Financial Management

This financial report is designed to provide the public 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 the Medical Center's Controller's office at PO Box 80600, Albuquerque, NM 87198-0600.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENTS OF NET POSITION
JUNE 30, 2015 AND 2014

Assets	2015	2014
Current assets:		
Cash and cash equivalents	$ 13,184,429	4,589,716
Restricted cash and cash equivalents:		
Held by trustee for operations	-	4,326,804
Held by trustee for debt service	5,853,358	16,290,177
Total cash and cash equivalents	19,037,787	25,206,697
Receivables:		
Patient (net of allowance for doubtful accounts and contractual allowance of approximately $16,420,546 in 2015 and $18,635,064 in 2014)	10,299,629	6,125,618
Due from University of New Mexico Health System	-	2,130,605
Estimated third party settlements, net	509,408	2,285,081
Sandoval County Treasurer	73,372	102,821
Prudential	617	942,872
Interest Receivable - Bond Subsidy Proceeds	993,213	1,081,262
Other	393	231,188
Total net receivables	11,876,632	12,899,447
Prepaid expenses	948,318	1,026,830
Inventories	2,087,239	1,708,711
Total current assets	33,949,976	40,841,685
Noncurrent assets:		
Restricted investments:		
Held by trustee for mortgage reserve fund	5,404,485	3,480,942
Capital assets, net	121,779,060	128,091,305
Total noncurrent assets	127,183,545	131,572,247
Total assets	$ 161,133,521	$ 172,413,932
Liabilities		
Current liabilities:		
Accounts payable	$ 3,875,745	$ 3,585,249
Accrued payroll	1,300,909	1,027,658
Due to University of New Mexico	158,005	1,085,931
Due to University of New Mexico Health System	201,047	333,093
Due to UNM Medical Group	103,542	2,040,000
Bonds payable – current	3,380,000	11,545,000
Interest payable bonds	2,991,650	3,252,063
Accrued compensated absences	1,507,566	1,210,889
Total current liabilities	13,518,464	24,079,883
Noncurrent liabilities:		
Bonds payable	128,500,000	131,880,000
Total noncurrent liabilities	128,500,000	131,880,000
Net Position		
Net deficiency in capital assets	(10,100,940)	(15,333,693)
Restricted		
Expendable bequests and contributions	78,735	2,375
In accordance with the trust indenture and debt agreement	11,257,843	24,097,925
Unrestricted	17,879,419	7,687,442
Total net position	$ 19,115,057	16,454,049

See accompanying notes to financial statements.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
JUNE 30, 2015 AND 2014

		2015	2014
Operating revenues:			
Net patient service revenue	$	74,754,919	52,678,045
Premium		-	973,477
Other operating revenues		516,033	439,519
Total operating revenues		75,270,952	54,091,041
Operating expenses:			
Employee compensation		29,004,375	21,767,478
Medical and other supplies		15,188,359	12,108,446
Depreciation		9,621,494	9,111,618
Medical services		5,592,810	4,507,414
Benefits		5,371,916	3,964,273
Purchased services		3,718,064	3,902,062
Equipment		2,889,499	2,357,623
Occupancy		1,619,039	1,244,938
Other		681,699	409,336
Total operating expenses		73,687,255	59,373,188
Operating gain (loss)		1,583,697	(5,282,147)
Nonoperating revenues (expenses):			
Sandoval County mill levy		6,080,650	7,982,814
Federal bond subsidy		1,998,362	2,158,940
Interest income, net		5,991	255,078
Interest on bonds		(6,017,732)	(6,504,125)
Bequests and contributions		11,066	1,292
Other nonoperating expense		(1,001,026)	(1,176,869)
Net nonoperating revenues		1,077,311	2,717,130
Increase (decrease) in net position		2,661,008	(2,565,017)
Net position, beginning of year		16,454,049	19,019,066
Net position, end of year	$	19,115,057	16,454,049

See accompanying notes to financial statements.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENTS OF CASH FLOWS
JUNE 30, 2015 AND 2014

		2015	2014
Cash flows from operating activities:			
Cash received from Medicare and Medicaid	$	22,858,729	13,482,045
Cash received from insurance and patients		49,497,852	39,349,755
Cash payments to employees		(28,434,447)	(21,466,903)
Cash payments to suppliers		(34,029,902)	(30,513,177)
Cash received from (payments to) University of New Mexico Health System		2,130,605	(832,019)
Cash payments from UNM Medical Group		103,542	2,462,193
Cash (payments to) received from University of New Mexico		(927,926)	1,085,931
Other receipts		516,033	439,519
Net cash provided by operating activities		11,714,486	4,007,344
Cash flows from noncapital financing activities:			
Cash received from Sandoval County mill levy		6,110,099	8,006,273
Cash received from contributions		11,066	1,292
Net cash provided by noncapital financing activities		6,121,165	8,007,565
Cash flows from capital financing activities:			
Purchases of capital assets		(3,309,249)	(717,060)
Cash received from federal bond subsidy		2,086,411	1,077,678
Cash payments to UNM Medical Group for negative arbitrage fund		(2,040,000)	-
Interest payments on bonds		(6,278,145)	(6,504,125)
Cash payments for mortgage reserve fund		(1,923,543)	(1,803,917)
Principal payments on mortgage		(3,221,521)	(3,154,862)
(Outflows) inflows from trustee accounts		(8,323,479)	5,915,431
Cash payments for mortgage-related activities (Mortgage servicing, MIP, GNMA guaranty)		(1,001,026)	(1,176,869)
Net cash used in capital financing activities		(24,010,552)	(6,363,724)
Cash flows from investing activities:			
Interest on investments		5,991	255,078
Net cash provided by investing activities		5,991	255,078
Net increase (decrease) in cash and cash equivalents		(6,168,910)	5,906,263
Cash and cash equivalents, beginning of year		25,206,697	19,300,434
Cash and cash equivalents, end of year	$	19,037,787	25,206,697

See accompanying notes to financial statements.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENTS OF CASH FLOWS (CONTINUED)
JUNE 30, 2015 AND 2014

		2015	2014
Reconciliation of operating loss to net cash provided by operating activities:			
Operating gain (loss)	$	1,583,697	(5,282,147)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense		9,621,494	9,111,618
Provision for doubtful accounts		2,750,843	19,575,755
Change in assets and liabilities:			
Patient receivables		(6,924,854)	(19,684,625)
Due from Health System		2,130,605	(832,019)
Due from UNM Medical Group		-	2,498,459
Estimated third party payer settlements		1,775,673	(710,852)
Other receivables and prepaid expenses		1,251,562	(342,368)
Inventories		(378,528)	(158,732)
Due to Health System		(132,046)	(530,116)
Due to University of New Mexico		(927,926)	1,085,931
Due to UNM Medical Group		103,542	(36,266)
Accrued payroll		273,251	291,816
Accrued compensated absences		296,677	8,759
Accounts payable		290,496	(987,869)
Net cash provided by operating activities	$	11,714,486	4,007,344

See accompanying notes to financial statements.

NOTE 1. DESCRIPTION OF BUSINESS

UNM Sandoval Regional Medical Center Inc. (the Medical Center) is a corporation organized by the Regents of the University of New Mexico (UNM) and existing as a New Mexico government nonprofit and University Research Park and Economic Development Act (URPEDA) corporation. The Medical Center is governed by its Board of Directors (the Board), which is empowered to do all things necessary for the proper operation of the Medical Center. UNM, by and through its Board of Regents, is the sole member of the Medical Center. UNM made an initial equity contribution to the Medical Center of $46,000,000.

The Medical Center is located in Rio Rancho, New Mexico. The Medical Center is a community teaching Medical Center having completed the final stages of construction and opened and began to provide patient care on July 17, 2012. The Medical Center provides inpatient and outpatient services primarily to the residents of Sandoval County, New Mexico.

The Medical Center consists of an approximately 200,000 square foot, 48 acute medical-surgical beds, 12 intensive care unit beds, and 12 dedicated behavioral health beds, community teaching Medical Center and corresponding 40,000 square foot medical office building on a site located adjacent to the new City Center in Rio Rancho, New Mexico. In 2006, UNM acquired the land upon which the Medical Center is located and owns it fee simple. The Medical Center is a component unit of the UNM and is reported as such in the basic financial statements of UNM. The Medical Center has no component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for healthcare organizations, and are presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The Medical Center follows the business-type

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

activities' requirements of GASB Statement No. 34. This approach requires the following components of the Medical Center's financial statements:

- Management's discussion and analysis.
- Basic financial statements, including a statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows using the direct method for the Medical Center as a whole.
- Notes to financial statements.

GASB Statement No. 34, as amended by GASB Statement No. 63, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- *Net Investment in Capital Assets* – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted Net Position – Expendable* – Assets whose use by the Medical Center are subject to externally imposed constraints that can be fulfilled by actions of the Medical Center pursuant to those constraints or that expire by the passage of time.
- *Unrestricted Net Position* – Assets that are not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees.

Use of Estimates. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statement dates, and the reported amount of revenues and expenses during the reporting periods. Due to uncertainties inherent in the estimation process, actual results could differ from those estimates. During the year ended June 30, 2015, such a change in the estimate used in determining collectible accounts receivable from patient services for the prior fiscal year did occur. As more experience with respect to the conversion of patients from self-pay and indigent programs to the Medicaid program, including Centennial Care, was acquired, it was determined that net patient revenue for the year ended June 30, 2014 was much higher than was anticipated based upon evidence available at the time the estimate was made. Approximately $3.3 million more was collected in the year ended June 30, 2015 on patient accounts receivable as of June 30, 2014 than was originally estimated.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents. The Medical Center considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Medical Center follows GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risk, concentration of risk, interest rate risk, and foreign currency risk, and also requires certain disclosures of investments at fair values that are highly sensitive to changes in interest rates, as well as deposit and investment policies related to the risks identified in the statement.

Restricted Cash and Cash Equivalents. The Medical Center had two types of restricted cash and cash equivalents at June 30, 2014, with only one of the two types remaining at June 30, 2015. The first type was held by the trustee for operations and was the remaining balance of the equity contributed by UNM; the remaining balance was used in accordance with the restrictions set by UNM during the fiscal year ended June 30, 2015. The second type is held by trustee for debt service and is used for the principal and interest components of debt service.

Patient Receivables. The Medical Center records this balance at the estimated net realizable value after deducting contractual discounts and allowances, free service and allowance for uncollectible accounts.

Inventories. Inventories consisting of medical, surgical and maintenance supplies, and pharmaceuticals are stated at the lower of cost or market. Cost is determined using the first-in, first-out valuation method, except that the replacement cost method is used for pharmacy and operating room inventories.

Restricted Investments Noncurrent. The Medical Center has established a Mortgage Reserve Fund in accordance with the requirements and conditions of the FHA Regulatory Agreement. Notwithstanding any other provision in the Regulatory Agreement, the Mortgage Reserve Fund may be used by HUD if the Medical Center is unable to make a mortgage note payment on the due date. The Medical Center is required to make contributions to the fund based on the Mortgage Reserve Fund schedule.

Capital Assets. Capital assets are stated at cost or at estimated fair value on date of acquisition. The Medical Center's capitalization policy for assets includes all items with a unit cost of more than $5,000 as well as for the first year of capitalization, items in the aggregate whose total cost is more than $5,000. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets as indicated in the "Estimated Useful Lives of Depreciable Medical Center Assets," Revised 2013 Edition published by the American Medical Center Association. Repairs and maintenance costs are charged to expense as incurred. On a quarterly basis, the Medical Center assesses long-

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

lived assets in order to determine whether or not it is necessary to retire, replace, or impair based on condition of the assets and their intended use.

Net Deficiency in Capital Assets. Net deficiency in capital assets represents the Medical Center's total investment in capital assets, net of outstanding debt related to those capital assets. Since the outstanding debt at June 30, 2015 and 2014 is greater than the investment in capital assets, this category of Net Position is reported as a negative amount in the Statements of Net Position.

Operating Revenues and Expenses. The Medical Center's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing healthcare services, the Medical Center's principal activity. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values. Operating expenses are all expenses incurred to provide healthcare services.

Net Patient Service Revenues. Net patient service revenues are recorded at the estimated net realizable amount due from patients, third-party payors, and others for services rendered. Retroactive adjustments under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Contractual adjustments resulting from agreements with various organizations to provide services for amounts that differ from billed charges, including services under Medicare, Medicaid, and certain managed care programs, are recorded as deductions from patient revenues.

The Medical Center participated in the SCI program which was modeled after a capitated payment program. The SCI program was terminated effective December 31, 2013 with the implementation of the Medicaid Centennial Care program on January 1, 2014. Revenue with respect to SCI was recognized in the period in which the Medical Center was obligated to provide care to the enrolled members. Capitated payments were received on a monthly basis and were recorded as premium revenue of $973,477 for the year ended June 30, 2014.

Charity Care. The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Medical Center does not pursue collection of amounts determined to qualify as charity care; therefore, they are deducted from gross revenue, with the exception of copayments.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nonoperating Revenues and Expenses. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as investment income, government levies, and gifts. These revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Investment income is recognized in the period when it is earned. The mill levy is recognized in the period it is collected by the County. Bequests and contributions are recognized when all applicable eligibility requirements have been met. Nonoperating expenses also include interest expense on bonds, mortgage servicing fees and the GNMA guaranty fees.

Sandoval County Mill Levy Taxes. The amount of the property tax levy is assessed annually on January 1 on the valuation of property as determined by the County Assessor and is due in equal semi-annual installments on November 10 and April 10 of the next year. Taxes become delinquent 30 days after the due date unless the original levy date has been formally extended. Taxes are collected on behalf of the Medical Center by the County Treasurer and are remitted to the Medical Center in the month following collection. Revenue is recognized in the fiscal year the levy is collected by the County.

Federal Bond Subsidy. The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs. These sources of funds are accounted for as nonoperating revenues and recorded as they are received. Under the program, the Medical Center applies for subsidy funds commensurate with each bond payment, so the application for the subsidy is made semiannually. For the years ended June 30, 2015 and 2014, the Medical Center recognized $1,998,362 and $2,158,940 in federal bond subsidy revenue, respectively.

Income Taxes. The Medical Center has received a determination letter from the Internal Revenue Service (IRS) that it is an organization described in Internal Revenue Code section 501(c)(3). As such, it is exempt from federal income tax on income generated from activities related to its exempt function. The Medical Center previously received a discretionary ruling from the IRS under Revenue Procedure 95-48, excluding it from the requirement to file certain information returns. Changes made by the Pension Protection Act removed the IRS's discretionary authority to waive these filing requirements. However, subsequent to these changes, the Medical Center requested and was granted status as a 509(a)(2) rather than a 509(a)(3). This current status now exempts the Medical Center from having to file an IRS Form 990. Accordingly, no provision for income taxes has been made.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management. The Medical Center sponsors a self-insured health plan. Blue Cross and Blue Shield of New Mexico and HMO New Mexico (BCBSNM and HMONM) provide administrative claim payment services for the Medical Center's plan. Liabilities are based on an estimate of claims that have been incurred but not reported (IBNR) and claims received but not yet paid. At June 30, 2015 and 2014, the estimated amount of the Medical Center's IBNR and accrued claims was $241,206 and $216,028, respectively, which is included in accrued payroll. The liability for IBNR was based on actuarial analysis calculated using information provided by BCBSNM.

	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2014 - 2015	$216,028	2,593,103	(2,567,925)	241,206
2013- 2014	—	1,764,194	(1,548,166)	216,028

Classification. Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

NOTE 3. CASH AND CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

Deposits. The Medical Center's deposits are held in demand accounts with a financial institution.

The carrying amounts of the Medical Center's deposits with financial institutions at June 30, 2015 and 2014 are $13,179,779 and $4,587,451, respectively.

Bank balances are categorized at June 30, as follows:

	2015	2014
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 500,000	383,590
Other cash	14,155,907	5,220,827
	$ 14,655,907	5,604,417

NOTE 3. CASH AND CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Interest-bearing deposit accounts are subject to FDIC's standard deposit insurance amount of $250,000.

Restricted Cash and Cash Equivalents

In connection with the 2010 Financing Transaction, as a requirement of the Trust Indenture and the Financing Agreement, the Medical Center was required to establish trust funds for the deposit of restricted bond proceeds, the required capital contribution, and other restricted contributions by the Medical Center. The financial statement balances of the trust funds were as follows at June 30:

		2015	2014
Operating capital escrow fund	$	-	4,326,804
Debt service fund		5,853,358	16,290,177
Total restricted cash and cash equivalents	$	5,853,358	20,616,981

Operating Capital Escrow Fund – Established to hold the portion of the equity contribution that was made for working capital purposes, as required by the Federal Housing Administration. Draws against this fund are requested from and approved by HUD to cover monthly pre-opening and post-opening expenses.

Debt Service Fund – Established to collect the interest income and necessary funds to make the semi-annual coupon payments for the bonds. This fund also includes a depository account for the proceeds received from the Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond payments.

Interest Rate Risk – Debt Investments – Cash and Cash Equivalents. Currently, the Medical Center does not have a specific policy to limit its exposure to interest rate risk. The Medical Center holds no investments that are subject to interest rate risk.

A summary of the restricted cash and cash equivalents at June 30, 2015 and 2014 and their exposure to interest rate risk is as follows:

		June 30, 2015		June 30, 2014	
		Fair Value	Less than 1 Year	Fair Value	Less than 1 Year
Items not subject to interest rate risk:					
Money market fund	$	5,853,358	5,853,358	20,616,981	20,616,981
Items not subject to interest rate risk		5,853,358	5,853,358	20,616,981	20,616,981
Total restricted cash and cash equivalents	$	5,853,358	5,853,358	20,616,981	20,616,981

NOTE 3. CASH AND CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Debt Investments – Cash and Equivalents. As of June 30, 2015 and 2014, the Medical Center debt investments that are subject to custodial credit risk.

The Medical Center's custodial risk policy for the bond proceeds conforms to the Trust Indenture, and the Trustee holds the investments in safekeeping.

Credit Risk – Debt Investments. The Medical Center is required to disclose credit ratings of its debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. government, and nondebt investments are excluded from this requirement. Currently, the Medical Center does not have a specific policy to limit its exposure to credit risk.

	June 30, 2015		June 30, 2014	
	Rating	Fair Value	Rating	Fair Value
Items subject to credit risk				
Money market fund	Not Rated	$ 5,404,485	Not Rated	$ 3,480,942
Total items subject to credit risk	-	5,404,485		3,480,942
Total long-term investments	-	$ 5,404,485		$ 3,480,942

Long-Term Investments

Interest Rate Risk – Debt Investments – Long Term Investments. Currently, the Medical Center does not have a specific policy to limit its exposure to interest rate risk. The Medical Center holds no investments that are subject to interest rate risks.

A summary of the long term investments at June 30, 2015 and 2014 and their exposure to interest rate risk is as follows:

	June 30, 2015		June 30, 2014	
	Fair Value	Less than 1 Year	Fair Value	Less than 1 Year
Items not subject to interest rate risk:				
Money market fund	$ 5,404,485	5,404,485	3,480,942	3,480,942
Items not subject to interest rate risk	5,404,485	5,404,485	3,480,942	3,480,942
Total long-term investments	$ 5,404,485	5,404,485	3,480,942	3,480,942

NOTE 3. CASH AND CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Custodial Credit Risk – Debt Investments. As of June 30, 2015 and 2014, the Medical Center held no U.S. government obligations for long-term investment purposes.

The Medical Center's custodial risk policy for the bond proceeds conforms to the Trust Indenture, and the Trustee holds the investments in safekeeping.

Credit Risk – Debt Investments – Long Term Investments. The Medical Center is required to disclose credit ratings of its debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. government, and nondebt investments are excluded from this requirement. Currently, the Medical Center does not have a specific policy to limit its exposure to credit risk.

	June 30, 2015		June 30, 2014	
	Rating	Fair Value	Rating	Fair Value
Items subject to credit risk				
Money market fund	Not Rated	$ 5,404,485	Not Rated	$ 3,480,942
Total items subject to credit risk	-	5,404,485		3,480,942
Total long-term investments	-	$ 5,404,485		$ 3,480,942

NOTE 4. CONCENTRATION OF RISK

The Medical Center receives payment for services rendered to patients under payment arrangements with payors, which include: (i) Medicare and Medicaid, (ii) other third-party payors including commercial carriers and health maintenance organizations, and (iii) others. The following summarizes patient accounts receivable and the percentage of gross accounts receivable from all payors as of June 30:

	2015		2014	
Medicare and Medicaid	$ 16,817,801	63%	13,414,540	54%
Other third party payors	3,991,134	15%	6,302,770	26%
Others	5,911,240	22%	5,043,372	20%
Total patient accounts receivable	26,720,175	100%	24,760,682	100%
Less allowance for uncollectible accounts and contractual adjustments	(16,420,546)		(18,635,064)	
Patient accounts receivable, net	$ 10,299,629		6,125,618	

NOTE 5. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

The Medical Center is reimbursed by the Medicare and Medicaid programs on a prospective payment basis for hospital services, with certain items reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Medical Center. The annual cost reports are subject to audit by the Medicare Administrative Contractor and the Medicaid audit agent. Under C.F.R. §412.300(b), the Medical Center is paid at 85 percent of its allowable Medicare Inpatient hospital capital-related costs through its cost report ending at least 2 years after the hospital accepts its first patient. The Medical Center accepted its first patient on July 17, 2012, thus the first cost report period beginning at least two years after this date would be cost report period July 1, 2015 to June 30, 2016. Beginning July 1, 2016, the Medical Center will be subject to the prospective federal capital rate. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The estimated settlements at June 30, 2015 and 2014 are receivables of $509,408 and $2,285,081, respectively.

NOTE 6. CAPITAL ASSETS

The major classes of capital assets at June 30, and related activity for the year then ended are as follows:

	Year Ended June 30, 2015				
	Beginning Balance	**Additions**	**Transfers**	**Retirements**	**Ending Balance**
UNM Sandoval Capital Assets not being depreciated:					
Construction in progress	$ 397,709	837,143	(1,034,178)	-	200,674
	-	-	-	-	-
UNM Sandoval depreciable capital assets:					
Building and improvements	104,937,402	6,725	186,175	-	105,130,302
Building service equipment	2,690,801	-	814,905	-	3,505,706
Fixed equipment	2,382,123	-	1,102,224	-	3,484,347
Major moveable equipment	34,749,110	2,465,381	(1,069,126)	-	36,145,365
Total depreciable capital assets	144,759,436	2,472,106	1,034,178	-	148,265,720
Less Accumulated Depreciation for:					
Building and building improvements	(5,035,587)	(2,708,507)	-	-	(7,744,094)
Building service equipment	(495,665)	(305,692)	-	-	(801,357)
Fixed equipment	(309,319)	(236,641)	(141,071)	-	(687,031)
Major moveable equipment	(11,225,269)	(6,370,654)	141,071	-	(17,454,852)
Total accumulated depreciation	(17,065,840)	(9,621,494)	-	-	(26,687,334)
UNM Sandoval depreciable capital assets, net	127,693,596	(7,149,388)	1,034,178	-	121,578,386
UNM Sandoval Capital Assets not being depreciated	397,709	837,143	(1,034,178)	-	200,674
UNM Sandoval total cost of capital assets	145,157,145	3,309,249	-	-	148,466,394
Less accumulated depreciation	(17,065,840)	(9,621,494)	-	-	(26,687,334)
UNM Sandoval capital assets, net	$ 128,091,305	(6,312,245)	-	-	121,779,060

NOTE 6. CAPITAL ASSETS (CONTINUED)

	Year Ended June 30, 2014				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
UNM Sandoval Capital Assets not being depreciated:					
Construction in progress	$ -	426,509	(28,800)	-	397,709
	-	426,509	(28,800)	-	397,709
UNM Sandoval depreciable capital assets:					
Building and improvements	105,435,945	(514,356)	15,813	-	104,937,402
Building service equipment	2,651,112	26,702	12,987	-	2,690,801
Fixed equipment	2,395,668	-	-	(13,545)	2,382,123
Major moveable equipment	33,961,464	776,921	-	10,725	34,749,110
Total depreciable capital assets	144,444,189	289,267	28,800	(2,820)	144,759,436
Less Accumulated Depreciation for:					
Building and building improvements	(2,505,013)	(2,530,574)	-	-	(5,035,587)
Building service equipment	(219,052)	(276,613)	-	-	(495,665)
Fixed equipment	(148,636)	(161,384)	-	701	(309,319)
Major moveable equipment	(5,085,625)	(6,143,049)	-	3,405	(11,225,269)
Total accumulated depreciation	(7,958,326)	(9,111,620)	-	4,106	(17,065,840)
UNM Sandoval depreciable capital assets, net	136,485,863	(8,822,353)	28,800	1,286	127,693,596
UNM Sandoval Capital Assets not being depreciated	-	426,509	(28,800)	-	397,709
UNM Sandoval total cost of capital assets	144,444,189	715,776	-	(2,820)	145,157,145
Less accumulated depreciation	(7,958,326)	(9,111,620)	-	4,106	(17,065,840)
UNM Sandoval capital assets, net	$ 136,485,863	(8,395,844)	-	1,286	128,091,305

NOTE 7. COMPENSATED ABSENCES

Qualified Medical Center employees are entitled to accrue sick, holiday and annual leave as one inclusive Paid Time Off (PTO) bank based on their Full-Time Equivalent (FTE) status.

Full-time employees with zero to seven years of service accrue 11.07 hours of PTO each pay period (36 days per annum) up to a maximum of 500 hours to be used for sick, holiday and annual leave. Full-time employees with years of service in excess of seven years accrue 12.61 hours of PTO each pay period (41 days per annum) up to a maximum of 500 hours to be used for sick, holiday and annual leave. Part-time employees earn PTO leave on a prorated basis each pay period. When publicized by the Medical Center each year, employees have the opportunity to exchange for cash at 80% of their hourly rate all hours accumulated in excess of 80 hours. At termination, employees are eligible for payment of unused accumulated hours at 100% of their regular hourly rate. Accrued PTO as of June 30, 2015 and 2014 of $1,507,566 and $1,210,889, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

During the years ended June 30, 2015 and 2014, the following changes occurred in accrued compensated absences:

Balance July 1, 2014	Increase	Decrease	Balance June 30, 2015
$ 1,210,889	1,507,566	(1,210,889)	1,507,566

Balance July 1, 2013	Increase	Decrease	Balance June 30, 2014
$ 1,202,130	2,370,824	(2,362,065)	1,210,889

The balances above include annual leave, sick leave, and holiday as disclosed above. The portion of accrued compensated absences due after one year is not material and, therefore, is not presented separately.

NOTE 8. BONDS PAYABLE

In November 2010, the Medical Center issued $133,425,000 in aggregate principal amount of its Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized – UNM Sandoval Regional Medical Center Project) Series 2010A with a maturity date of July 20, 2036 and $10,000,000 in aggregate principal amount of its Taxable Revenue Recovery Zone Economic Development Bonds (Direct Pay) (GNMA Collateralized – UNM Sandoval

NOTE 8. BONDS PAYABLE (CONTINUED)

Regional Medical Center Project) Series 2010B with a maturity date of July 20, 2037. The Bonds were issued pursuant to a Trust Indenture, dated as of October 1, 2010, by and between the Medical Center and Wells Fargo Bank, National Association, as Trustee for the purpose of financing the Medical Center facility and to pay certain costs associated with the issuance of the bonds.

The bonds were issued as special limited obligations of the Medical Center and are secured primarily by fully modified mortgage backed securities in the aggregate principal amount of $143,425,000 (the "GNMA Securities"), to be issued by Prudential Huntoon Paige Associates, Ltd. (the "Lender"), guaranteed as to principal and interest by GNMA, with respect to the Mortgage Note.

Under the GNMA Mortgage Backed Securities Program, the GNMA Securities are a "fully modified pass-through" mortgage-backed security issued and serviced by the Lender. The face amount of the GNMA Securities is to be the same amount as the outstanding principal balance of the Mortgage Note. The Lender is required to pass through to the Trustee, as the holder of the GNMA Securities, by the 15th day of each month, the monthly scheduled installments of principal and interest on the Mortgage Note (less the GNMA guarantee fee and the Lender's servicing fee), whether or not the Lender receives such payment from the Medical Center under the Mortgage Note, plus any unscheduled prepayments of principal of the Mortgage Note received by the Lender. The GNMA Securities are issued solely for the benefit of the Trustee on behalf of the Bondholders and any and all payments received with respect to the GNMA Securities are solely for the benefit of the Bondholders.

Effective October 1, 2010, the Medical Center entered into a Financing Agreement with the Lender and the Trustee. Under the Financing Agreement, the Lender agreed to originate a Mortgage Note in favor of the Lender and secured by a leasehold mortgage on the project. The Mortgage Note is insured by the Federal Housing Administration ("FHA") pursuant to Section 242 of the National Housing Act of 1934 and to provide security for the Bonds, the Trustee will use the proceeds of the Bonds to purchase from the Lender the GNMA Securities. The Medical Center has agreed to use the proceeds of the Mortgage Note to acquire, construct, and equip the construction of the Medical Center.

Under the terms of the Trust Indenture, the Medical Center has granted to the Trustee all rights, title, and interests to all revenues, receipts, interest, income, investment earnings and other monies received or to be received by the Trustee, including monies received or to be received from the GNMA Securities and all investment earnings from the GNMA Securities. Upon issuance of the Bonds, the proceeds were placed in trust with the Trustee, and the proceeds are to be used to purchase from the lender the GNMA Securities, or to

NOTE 8. BONDS PAYABLE (CONTINUED)

redeem the bonds according to the various early, optional, and mandatory redemption provisions of the Bonds.

As of June 30, 2015 and 2014, the balance of the Mortgage Note equaled the balance of the GNMA securities.

The terms of the Bonds Issued are as follows:

Bond	Maturity Date	Principal Amount	Interest Rate
Series 2010A	July 20, 2036	$ 133,425,000	4.50%
Series 2010B	July 20, 2037	$ 10,000,000	5.00%

The Medical Center is eligible to receive cash subsidy payments from the United States Department of Treasury equal to 35% of the interest payable on the Build America Bonds (Series 2010A), and 45% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B), payable on or about each respective interest payment date, which payments lower the overall true cost of the bonds to 3.33%. Pursuant to the Budget Control Act of 2011, as postponed by the American Tax Payer Relief Act of 2012, the budget sequestration impact was a reduction of 7.2%, effective March 1, 2013. This had the effect of changing the subsidy payment from the United States Department of Treasury equal to 32.48% of the interest payable on the Build America Bonds (Series 2010A), and 41.76% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B). For Federal fiscal year 2015, beginning October 1, 2014, the sequestration percentage changed slightly to 7.3%.

NOTE 8. BONDS PAYABLE (CONTINUED)

The following schedule summarizes the special and scheduled mandatory redemption requirements of the Series 2010A and Series 2010B bonds as of June 30, 2015:

	Series 2010A Bonds		Series 2010B Bonds		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 3,380,000	5,458,725	-	487,000	3,380,000	5,945,725
2017	3,540,000	5,304,938	-	487,000	3,540,000	5,791,938
2018	3,715,000	5,143,612	-	487,000	3,715,000	5,630,612
2019	3,890,000	4,974,525	-	487,000	3,890,000	5,461,525
2020	4,075,000	4,797,338	-	487,000	4,075,000	5,284,338
2021-2025	23,520,000	21,017,475	-	2,435,000	23,520,000	23,452,475
2026-2030	29,740,000	15,123,150	-	2,435,000	29,740,000	17,558,150
2031-2035	37,615,000	7,668,675	-	2,435,000	37,615,000	10,103,675
2036-2038	12,665,000	564,300	9,740,000	1,080,250	22,405,000	1,644,550
	$ 122,140,000	70,052,738	9,740,000	10,820,250	131,880,000	80,872,988

The bonds are subject to various redemption provisions as set forth in the Trust Indenture, including Special Mandatory Redemption, Scheduled Mandatory Redemption, and Optional Redemption. The Special Mandatory Redemption provisions are contingent on various events, including but not limited to circumstances that result in the trust estate receiving early payments on the GNMA Securities, or in the event the balance of GNMA Securities after completion of the construction are less than the amount of outstanding bonds. The Medical Center completed final endorsement of the project on June 18, 2014. The balance of the GNMA Securities was less than the amount of the outstanding bonds by $3.7 million. As a result, on July 15, 2014, a special mandatory redemption occurred in the amounts of $3.48 million for the Series 2010A bonds and $260,000 for the Series 2010B bonds. On July 21, 2014, the scheduled mandatory redemption in the amount of $6.17 million for the Series 2010A bonds occurred.

On July 20, 2015, the scheduled mandatory bond redemption payment was made by the Medical Center. A principal payment of $1.67 million and an interest payment of $2.75 million were made on the Series 2010A bonds. No principal payment was due on the Series 2010B bonds, but an interest payment of $243,500 was made on this date.

The Mortgage Note bears interest at 4.61%. The Mortgage Note has a term of 299 months following the commencement of amortization and matures on July 1, 2037. Principal and interest are payable in equal monthly installments upon commencement of amortization. A mortgage servicing fee of 12 basis points and a GNMA guaranty fee of 13 basis points are

NOTE 8. BONDS PAYABLE (CONTINUED)

also included in the monthly payment, for a total of 4.86%. The Mortgage Note is subject to optional prepayment beginning on January 20, 2021 or thereafter, and mandatory prepayment at any time based on the occurrence of certain events, including the receipt of any mortgage insurance proceeds.

NOTE 9. NET PATIENT SERVICE REVENUES

The majority of the Medical Center's revenue is generated through agreements with third-party payors that provide for reimbursement to the Medical Center at amounts different from its established charges. Approximately 26% and 33% of the Medical Center's gross patient revenue for the year ended June 30, 2015, was derived from the Medicare and Medicaid programs, respectively, the continuation of which are dependent upon governmental policies. For the year ended June 30, 2014, approximately 27% and 16% were derived from the Medicare and Medicaid programs, 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 revenue estimates could change as a result of regulatory review. The implementation of the Affordable Care Act on January 1, 2014 profoundly impacted not only the proportion of patients covered by Medicaid, but it also affected the reimbursement rates paid by Medicaid for hospital services. See Note 2, *Use of Estimates,* for further discussion of the change in estimate for the year ended June 30, 2014 net patient revenue. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at established charges for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from major third-party payors follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These Medical Severity Diagnosis Related Group (MS-DRG) rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Most Medicare outpatient services are prospectively paid through Medicare's Outpatient Prospective Payment system (OPPS). Services excluded from the OPPS and paid under separate fee schedules include: clinical lab, certain rehabilitation services, durable medical equipment, renal dialysis treatments, ambulance services, and professional fees of physicians and nonphysician practitioners.

Medicaid – Inpatient acute care services rendered to Medicaid Fee-for-Service (FFS) program beneficiaries are paid at prospectively determined rates per discharge based upon the MS-DRG system. These rates vary according to clinical factors and patient diagnosis.

NOTE 9. NET PATIENT SERVICE REVENUES (CONTINUED)

In addition, the Medical Center has reimbursement agreements with certain Managed Care Organizations (MCOs) that have contracted with the State of New Mexico SALUD! and Centennial Care programs to administer services to enrolled Medicaid beneficiaries. The State of New Mexico terminated its SALUD! program effective December 31, 2013 and began its Centennial Care program effective January 1, 2014. The basis for reimbursement under these agreements includes prospectively determined rates (MS-DRG) or per diem for inpatient services, and prospectively determined payments for outpatient services.

The Medical Center participated in the reimbursement agreement between UNM Hospitals and the State of New Mexico. Funding is modeled after a capitated payment program. Funds are remitted to UNM Hospitals on a per-member-per-month basis for all state-approved members. UNM Hospitals remits funds to the Medical Center based on the pro rata share of the adjudicated claims for these patients. Funding under the SCI program for years ended June 30, 2015 and 2014 was zero and $973,477, respectively, and is included in premium revenue. The state of New Mexico terminated its SCI Medicaid program effective December 31, 2013.

Other – The Medical Center has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined per diem rates.

A summary of net patient revenues follows for the years ended June 30:

		2015	2014
Charges at established rates	$	155,049,393	125,453,318
Charity care		(2,502,426)	(5,068,930)
Contractual adjustments		(75,041,205)	(48,130,588)
Provision for doubtful accounts		(2,750,843)	(19,575,755)
Net patient service revenues	$	74,754,919	52,678,045

NOTE 10. CHARITY CARE

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the years ended June 30:

		2015	2014
Charges foregone, based on established rates	$	2,502,426	5,068,930
Estimated costs and expenses incurred to provide charity care		1,188,652	2,397,603
Equivalent percentage of charity care charges forgone to total gross revenue		1.6%	4.0%

NOTE 11. MALPRACTICE INSURANCE

As a University Research Park and Economic Development Act (URPEDA) corporation, UNM Sandoval Regional Medical Center, Inc. has immunity from tort liability except as set forth in the New Mexico Tort Claims Act (NMTCA). In this connection, the New Mexico Legislature waived the State's and the UNM Sandoval Regional Medical Center, Inc.'s immunity for claims arising out of negligence out of the operation of its Medical Center, the treatment of the Medical Center's patients, and the healthcare services provided by UNM Sandoval Regional Medical Center, Inc. employees. Additionally, as described below, consistent with the provisions of URPEDA, UNM Sandoval Regional Medical Center, Inc., elected to purchase its medical malpractice, professional and general liability coverage from the Risk Management Division of the State of New Mexico General Services Department (RMD), who administers the Public Liability Fund established under the NMTCA.

The NMTCA limits, as an integral part of this waiver of immunity, the amount of damages that can be assessed against UNM Sandoval Regional Medical Center, Inc. on any tort claim including medical malpractice, professional or general liability claims. The NMTCA provides that total liability for all claims that arise out of a single occurrence shall not exceed $700,000 set forth as follows: (a) $200,000 for real property; (b) up to $300,000 for past and future medical and medically related expenses; and (c) up to $400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. While the language of the NMTCA does not expressly provide for claims of loss of consortium, New Mexico appellate court decisions have allowed claimants to seek

NOTE 11. MALPRACTICE INSURANCE (CONTINUED)

loss of consortium. As a result, if loss of consortium claims are presented, those claims cannot exceed $350,000 in the aggregate. Thus, it appears that if a claim presents both direct claims and third party claims, the maximum exposure of the Public Liability Fund and, therefore, UNM Sandoval Regional Medical Center, Inc., cannot exceed $1,050,000. The NMTCA prohibits the award of punitive or exemplary damages against UNM Sandoval Regional Medical Center, Inc.

The URPEDA authorizes URPEDA corporations to obtain their liability coverages from RMD for those torts where the Legislature has waived the State's immunity up to the damages limits of the NMTCA, as described above, plus the cost incurred in defending any claims and/or lawsuits (including attorney's fees and expenses), with no deductible and with no self-insured retention by UNM Sandoval Regional Medical Center, Inc. As stated previously, UNM Sandoval Regional Medical Center, Inc., did elect to purchase, and did in fact purchase, its medical malpractice, professional and general liability coverage from RMD. As a result of this, UNM Sandoval Regional Medical Center, Inc. is fully covered for claims and/or lawsuits relating to medical malpractice or professional liability occurring at its Medical Center.

NOTE 12. RELATED PARTY TRANSACTIONS

The Medical Center provides professional and purchased services to UNM and other entities associated with UNM. The Medical Center billed the following amounts, included as either revenue or as an expense reduction in the accompanying statements of revenues, expenses, and changes in net position, for services rendered during the years ended June 30:

	2015	2014
UNM Health System	$ 738,546	6,820,917
UNM Department of Orthopedics	-	3,600
	$ 738,546	6,824,517

The Medical Center reimburses UNM Hospital and UNM Medical Group for primarily professional service incurred on behalf of the Medical Center.

NOTE 12. RELATED PARTY TRANSACTIONS (CONTINUED)

The Medical Center reimburses UNM and other entities associated with UNM, for the cost of salaries of various medical and administrative personnel, malpractice insurance, and physician coverage incurred on behalf of the Medical Center. The Medical Center incurred expenses, included in total expenses in the accompanying statements of revenues, expenses, and changes in net position, related to the following entities during the years ended June 30:

	2015	2014
University of New Mexico	$ 477,212	1,221,160
UNM Health System	2,378,672	333,093
UNM Medical Group	540,197	96,949
	$ 3,396,081	1,651,202

Additionally, UNMMG extended funds to the Medical Center for the funding of the Negative Arbitrage Account fund as required by the bond rating agencies. UNMMG advanced the Medical Center $10,125,000 in November of 2010. During the years ended June 30, 2015 and 2014, the Medical Center repaid $2,040,000 and $0, respectively. Final endorsement was completed on June 18, 2014. The final balance owed to UNMMG for the funding on the Negative Arbitrage was paid on July 29, 2014 in the amount of $2,040,000.

UNM and the Medical Center have entered into a Ground Lease under which the Medical Center will lease approximately 18.4 acres of land from the UNM. The Ground lease provides for rent of $1.00 per year for the primary and extended terms of the Ground Lease. The Ground Lease further provides that the primary term of the Ground Lease will be for a term of 74 years and grants the Medical Center the option to renew the Ground Lease for an extended term of 25 years.

NOTE 13. BENEFIT PLANS

The Medical Center has a defined contribution plan covering eligible employees which provides retirement benefits. The name of the plan is UNM Sandoval Regional Medical Center 403(b) Retirement Plan (the Plan). The Plan was adopted on October 1, 2011. It is a participant-directed defined contribution plan covering employees of the Medical Center.

Contributions to the plan are made through employee deferrals on earned compensation. Participants may contribute, on a tax-deferred basis, up to the annual limitations as prescribed by the Internal Revenue Service. Participants may designate all or a portion of 403(b) elective deferral contributions as Roth elective deferral contributions. Participants may also make rollover contributions representing distributions from other qualified plans.

NOTE 13. BENEFIT PLANS (CONTINUED)

Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers various mutual funds and an insurance investment contract as investment options for participants. The Medical Center may make matching contributions equal to a percentage of participant contributions. If matching contributions are made, the percentage contributed is determined by the Medical Center. The Medical Center may also make a discretionary contribution each plan year. Contributions are subject to regulatory limitations. The expense for the defined contribution plan was $493,587 and $409,204 in the years ended June 30, 2015 and 2014, respectively. Total employee contributions under this plan were $738,157 and $593,346 for the years ended June 30, 2015 and 2014, respectively.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
CONTRACTS ENTERED INTO GREATER THAN $60,000

Procurement Type	Vendors that responded	In-State	Out-of-State	Residential Preference	In-state vs Veteran Preference	Scope of Work	Vendor(s) Awarded	Amount of Contract
Sole Source		No	Yes	No	NA	Software upgrade of Aquarius iNtuition i3-6000	TeraRecon Inc.	$235,548
Emergency Procurement		No	Yes	No	NA	Radiology products	Bard Peripheral Vascular, Inc.	n/a
Emergency Procurement		Yes	No	No	NA	Exit and egress Light Testing Services	Systems Engineering Services	$61,000 per yr
RFP P174-11	1. True North 2. NCO 3. UCB	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	NA	Outsourcing and Management of Accounts Receivable	United Collection Bureau, Inc.	
RFP P189-11	1. Emboider- ISM 2. We've Got Scrubs 3. Standard Textile 4. Ameri-Pride 5. Staples 6. Scrubs Direct					Employee Scrubs and Uniforms	Scrubs Direct, Inc.	
RFP P234-13	1. Accretive PAS 2. Executive Ehealth Resources 3. Schumacher Group	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	NA	Physician Advisory Services	Accretive PAS	
RFP P285-14	Cook Medical Inc	No	Yes	No	NA	Radiology products	Cook Medical Inc.	

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

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

The Board of Directors
UNM Sandoval Regional Medical Center, Inc.
and
Mr. Timothy Keller, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Sandoval Regional Medical Center, Inc. (SRMC), as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise SRMC's basic financial statements and have issued our report thereon dated October 29, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The Board of Directors
UNM Sandoval Regional Medical Center, Inc.
and
Mr. Timothy Keller, New Mexico State Auditor

Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams LLP

Albuquerque, New Mexico
October 29, 2015

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2015

There are no current or prior year findings.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
EXIT CONFERENCE
JUNE 30, 2015

An exit conference was conducted on October 22, 2015, with members of the board of directors and members of SRMC management. During this meeting, the contents of this report were discussed with the following board members, management personnel, and Moss Adams LLP representatives present:

Jerry Geist	Board Member
Michael Richards	MD Executive Physician-in-Chief
Jamie Silva Steele	President and Chief Executive Officer
Darlene Fernandez	Chief Financial Officer, SRMC
Lawrence Pineda	Finance Director
Ella Watt	Interim Chief Financial Officer, UNM Health System
Correen Bales	Executive Director, Human Resources
Rosalyn Nguyen	Associate University Counsel
Bernice Lopez	Finance Director
Purvi Mody	Health System Compliance and Internal Audit Officer
Shawna Gonzales	Executive Director, Finance
Pam Demarest	Chief Nursing Officer
Brad Cushnyr	MD Interim Chief Medical Officer
DeVon Wiens	Partner, Moss Adams LLP
Josh Lewis	Senior Manager, Moss Adams LLP

UNM Sandoval Regional Medical Center, Inc.'s management prepared the financial statements and is responsible for the contents.