UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Official Roster
June 30, 2017

Board of Directors

Paul Roth, MD Albuquerque, NM	Chairperson (Term expires 6/30/20, Regent appointed)
Charlotte Garcia Albuquerque, NM	Member (Term expires 6/30/21, County appointed)
Steve McKernan Albuquerque, NM	Member (Term expires 6/30/19, Regent appointed)
Michael Richards, MD Albuquerque, NM	Member (Term expires 6/30/19, Regent appointed)
Eleana Zamora, MD Albuquerque, NM	Member (Term expires 6/30/21, Regent appointed)
Maxine Velasquez Albuquerque, NM	Member (Term expires 6/30/20, County appointed)
Jerry Geist Albuquerque, NM	Member (Term expires 6/30/19, Regent appointed)
Donnie Leonard Albuquerque, NM	Member (Term expires 6/30/20, County appointed)
Joanna Boothe Albuquerque, NM	Member (Term expires 6/30/21, County appointed)

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Official Roster
June 30, 2017

Administrative Officers

Chaouki Abdallah	Interim 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
Paul Echols, 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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KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of New Mexico Sandoval Regional Medical Center, Inc. (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, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements for the year then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2017, and the changes in its financial position and its cash flows for the year then ended, in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matter

As discussed in Note 1, the financial statements present only Medical Center and do not purport to, and do not, present fairly the financial position of the University of New Mexico, as of June 30, 2017, the changes in its financial position or its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

2016 Financial Statements

The accompanying financial statements of the Medical Center as of and for the year ended June 30, 2016 were audited by other auditors whose report thereon dated October 21 2016, expressed an unmodified opinion on those financial statements.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4-13 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.

Supplementary and Other Information

Our audit for the year ended June 30, 2017 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's 2017 basic financial statements. The accompanying indigent care cost and funding report (schedule 1) and calculations of cost of providing indigent care (schedule 2) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The indigent care cost and funding report (schedule 1) and calculations of cost of providing indigent care (schedule 2) for the year ended June 30, 2017 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2017 basic financial statements, except for the information marked as unaudited. Such information, except for the information marked as unaudited, has been subjected to the auditing procedures applied in the audit of the 2017 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2017 basic financial statements or to the 2017 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the indigent care cost and funding report (schedule 1) and calculations of cost of providing indigent care (schedule 2) are fairly stated, in all material respects, in relation to the 2017 basic financial statements as a whole, except for the information marked as unaudited in the accompanying indigent care cost and funding report (schedule 1) and calculations of cost of providing indigent care (schedule 2).

The information that is marked as unaudited in the accompanying indigent care cost and funding report (schedule 1) and calculations of cost of providing indigent care (schedule 2) 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 November 27, 2017 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's 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 Medical Center's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
November 27, 2017

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2017 and 2016

The following discussion and analysis provides an overview of the financial position and activities of UNM Sandoval Regional Medical Center (the Medical Center) or SRMC as of and for the years ended June 30, 2017, 2016, and 2015. 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 Statement No. 34, as amended, (the statements of net position, statements of revenues, expenses, and changes in net position, and the statements 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) are 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. A public hospital's dependency on governmental funding can result in an operating deficit since the financial reporting model classifies such aid as nonoperating revenues. 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 statements 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 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 (UNM SOM).

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 senior behavioral health beds prior to the closing of the Senior Behavioral Health unit as of February 24, 2017 at the Medical Center. 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 lab.

Outpatient Care – Comprehensive offering of sleep disorders center, laboratory, radiology, diagnostic services, rehabilitation services, primary care, medical, and surgical clinics.

Surgical Services – Anesthesia, General Surgery, Bariatric, Podiatry, Otolaryngology, Urologic, Gynecologic, Urogynecologic, Gastrointestinal, Breast, Neurosurgery, 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 565 physicians credentialed of which 467 are School of Medicine physicians and 98 are community physicians.

Financial Summary

Condensed Summary of Net Position

		June 30		
Assets		**2017**	**2016**	**2015**
Current assets	$	43,899,002	39,456,579	35,382,906
Capital assets, net		107,320,532	114,356,360	121,779,060
Noncurrent assets		9,505,792	7,411,546	5,404,485
Total assets	$	160,725,326	161,224,485	162,566,451
Liabilities				
Current liabilities	$	20,258,416	17,145,678	14,951,394
Noncurrent liabilities		121,245,000	124,960,000	128,500,000
Total liabilities	$	141,503,416	142,105,678	143,451,394
Net Position				
Net investment in capital assets	$	(17,639,468)	(14,143,640)	(10,100,940)
Restricted net position, expendable		16,562,124	13,426,714	11,336,578
Unrestricted		20,299,254	19,835,733	17,879,419
Total net position	$	19,221,910	19,118,807	19,115,057

(Continued)

At June 30, 2017, total Medical Center assets were $160.7 million compared to $161.2 million at June 30, 2016. The Medical Center's most significant assets at June 30, 2017 were net capital assets of $107.3 million, cash and cash equivalents of $29.8 million, followed by patient receivables of $9.9 million.

The decrease in total assets from June 30, 2016 to June 30, 2017 is primarily due to decreases in net capital assets and is the result of depreciation expense exceeding capital additions. Operating cash increased by $6.1 million during the year ended June 30, 2017 from $16.7 million at June 30, 2016 to $22.9 million at June 30, 2017. This increase was driven largely by an additional $4.3 million received in cash receipts for patient care, as well as an increase in accounts payable for the year ended June 30, 2017 compared to the year ended June 30, 2016.

At June 30, 2016, total Medical Center assets were $161.2 million compared to $162.6 million at June 30, 2015. The Medical Center's most significant assets at June 30, 2016 were net capital assets of $114.4 million, cash and cash equivalents of $22.7 million, followed by patient receivables of $11.6 million.

The Medical Center's total liabilities were $141.5 million at June 30, 2017 compared to $142.1 million at June 30, 2016. At June 30, 2017, current and noncurrent bonds payable of $125.0 million was the largest liability, followed by accounts payable of $5.5 million. The decrease in total liabilities is due to a decrease in the amount of bonds payable resulting from the payments of the scheduled mandatory bond redemptions of $3.5 million during the year ended June 30, 2017.

The Medical Center's total liabilities were $142.1 million at June 30, 2016 compared to $143.5 million at June 30, 2015. At June 30, 2016, current and noncurrent bonds payable of $128.5 million was the largest liability, followed by accounts payable of $4.9 million. The decrease in liabilities was due to a decrease in the amount of bonds payable resulting from the payments of the scheduled mandatory bond redemptions of $3.4 million during the year ended June 30, 2016.

At June 30, 2017, 2016, and 2015, the Medical Center's current assets of $43.9 million, $39.5 million, and $35.4 million, respectively, were sufficient to cover current liabilities of $20.3 million (current ratio of 2.17), $17.1 million (current ratio of 2.30), and $15.0 million (current ratio of 2.37), respectively.

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.

Total net position as of June 30, 2017 increased by $0.1 million to $19.2 million, which included an operating loss of $4.7 million and net nonoperating revenues of $4.8 million. The UNM Health System, the Medical Center's parent entity, contributed $3.3 million in partial support of the UNM SOM mission, which is carried out at the Medical Center. This support is shown in the nonoperating revenue section of the statement of net position for the year ended 2017. Unrestricted net position totaled $20.3 million with a net deficiency in capital assets of $17.6 million at June 30, 2017. Restricted net position, expendable as of June 30, 2017 increased by $3.1 million to $16.5 million, which was driven by a $2.1 million increase in cash held by trustee for mortgage reserve fund and $1.0 million increase in the bond fund trust account.

Total net position as of June 30, 2016 increased by $3,750 to $19.1 million, which included an operating loss of $2.2 million and net nonoperating revenues of $2.2 million. Unrestricted net position totaled $19.8 million with a net deficiency in capital assets of $14.1 million at June 30, 2016. Restricted net position, expendable as of June 30, 2016 increased by $2.1 million to $13.4 million, which was driven by a $2.0 million increase in cash held by trustee for mortgage reserve fund.

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

	Year ended June 30		
	2017	**2016**	**2015**
Total operating revenues	$ 78,757,869	77,175,219	75,270,952
Total operating expenses	(83,488,864)	(79,405,472)	(73,687,255)
Operating (loss) gain	(4,730,995)	(2,230,253)	1,583,697
Net nonoperating revenues	4,834,098	2,234,003	1,077,311
Total increase in net position	103,103	3,750	2,661,008
Net position, beginning of year	19,118,807	19,115,057	16,454,049
Net position, end of year	$ 19,221,910	19,118,807	19,115,057

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. Total operating revenues were $78.8 million, $77.2 million, and $75.3 million for the years ended June 30, 2017, 2016, and 2015, respectively.

Net patient service revenue comprises 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 $77.4 million, $76.6 million, and $74.8 million for the years ended June 30, 2017, 2016, and 2015, respectively. The increase of $0.8 million in 2017 is the result of an increase in case mix index, surgical inpatient volumes, outpatient visits and emergency visits (see chart below) offset by the reduction in net patient revenue associated with the state mandated Medicaid 5% inpatient and 3% outpatient reimbursement reductions, and the closure of the 12 beds in the Senior Behavioral Health unit.

(Continued)

The following table summarizes key operating statistics for the years ended June 30, 2017, 2016, and 2015:

	Year ended June 30		
	2017	**2016**	**2015**
Intensive Care Units (ICU) days and medical/surgical days	12,887	12,466	12,024
Behavioral days	1,978	3,452	3,324
Total inpatient days	14,865	15,918	15,348
ICU discharges and medical/surgical discharges	3,333	3,194	2,896
Behavioral discharges	154	259	282
Total discharges	3,487	3,453	3,178
Inpatient surgeries	1,603	1,328	1,165
Outpatient surgeries	2,580	2,807	2,548
Total surgeries	4,183	4,135	3,713
Outpatient visits	44,242	36,224	31,849
Emergency visits	19,349	18,954	15,808

ICU and medical/surgical inpatient days increased by 421 and Psychiatric inpatient days decreased by 1,474 from fiscal year 2016 to 2017. The ICU and medical/surgical average daily census (ADC) for the year ended June 30, 2017 was 35 and increased by 1 from an ICU and Medical/Surgical ADC of 34 for the year ended June 30, 2016. The Psychiatric ADC for the year ended June 30, 2017 was 5 and decreased by 4 patients per day from an ADC of 9 for the year ended June 30, 2016. This decrease in patients is associated with the closure of the 12 beds in the Senior Behavioral Health unit on February 24, 2017.

Net patient service revenue for the fiscal years ended June 30, 2017 and 2016 includes cost report estimates for the Medicare and Medicaid programs. At June 30, 2017, a reduction in revenue and associated payable for Medicare was recorded in the amount of $342,530 and an increase in revenue and associated receivable for Medicaid was recorded in the amount of $164,221. The entire receivable amount for Medicaid is an estimate for the capital reimbursement component. At June 30, 2016, a reduction in revenue and associated payable for Medicare was recorded in the amount of $142,624 and an increase in revenue and associated receivable for Medicaid was recorded in the amount of $309,678. The entire receivable amount for Medicaid was an estimate for the capital reimbursement component. Payment to new hospitals, as defined under 42 CFR 412 300(b), is paid at 85% of its allowable Medicare inpatient hospital capital-related costs through its cost report ending at least two 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 is 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. 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.

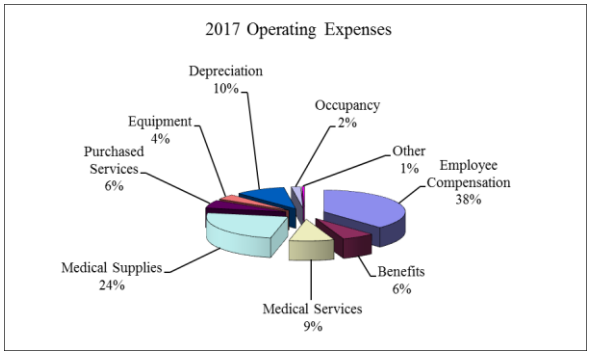
The Medical Center offers a financial assistance program called SRMC Care to which all eligible patients are encouraged to apply. This program assigns patients primary care providers and enables them to receive care throughout the Medical Center and at all clinic locations. This program is available 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 HIX.

The Medical Center does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The costs of charity care provided under this program for the years ended June 30, 2017, 2016, and 2015 approximated $1.3 million, $1.8 million, and $1.2 million, respectively.

These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2017, 2016, and 2015 was $6.9 million, $7.3 million, and $2.8 million, respectively. The cost of care provided to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance for years ended June 30, 2017, 2016, and 2015 was $2.8 million, $3.4 million, and $1.3 million, respectively.

Operating Expenses

The following pie charts depict the distribution of the operating expenses for the Medical Center for the years ended June 30, 2017, 2016, and 2015:



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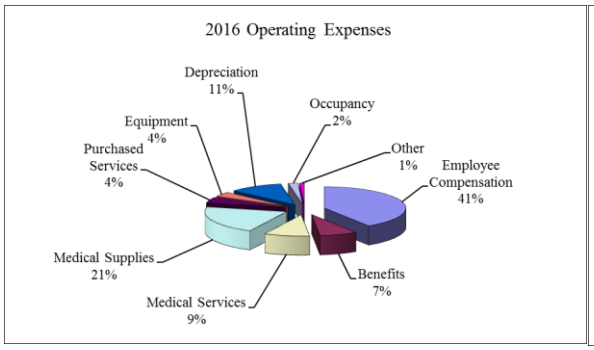

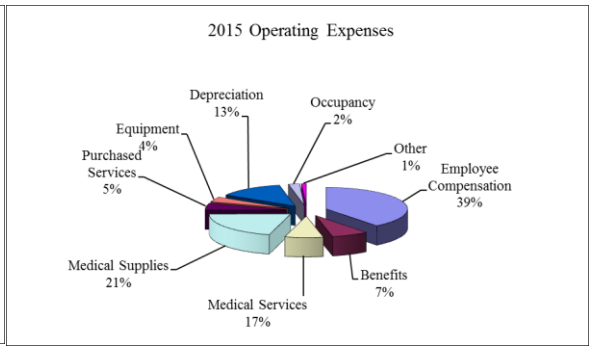

Operating expenses for the Medical Center include items, such as employee compensation and benefits, medical services, medical supplies, purchased services and equipment.

For the year ended June 30, 2017, total operating expenses were $83.5 million and represent an increase of $4.1 million from the year ended June 30, 2016. The most significant change was an increase of $3.5 million for medical and other supplies.

Nonoperating Revenues and Expenses

For the years ended June 30, 2017, 2016, and 2015, net nonoperating revenues net of nonoperating expenses were $4.8 million $2.2 million and $1.1 million, respectively.

The most significant nonoperating revenue for the years ended June 30, 2017, 2016, and 2015 was the Sandoval County mill levy (the mill levy) tax subsidy totaling $6.3 million, $6.2 million, and $6.1 million, respectively. 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. In November 2016, voters in Sandoval County did not approve the mill levy for the tax period beginning January 1, 2017 and as a result, beginning in July 2017, the Medical Center will no longer be receiving mill levy proceeds.

Beginning in fiscal year 2017, the Medical Center received $3.3 million of nonoperating revenue for Health System mission support. This support was provided to assist with State-mandated reimbursement cuts, cost of medical services, Health System salaries, purchased services and equipment provided by UNM and other entities associated with UNM to SRMC.

The next largest source of nonoperating revenue in the years ended June 30, 2017, 2016, and 2015 was the Federal bond subsidy in the amount of $1.9 million, $2.0 million, and $2.0 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 most significant nonoperating expense recorded for the years ended June 30, 2017, 2016, and 2015 was bond interest expense in the amount of $5.7 million, $5.9 million, and $6.0 million, respectively.

Capital Assets

At June 30, 2017, the Medical Center had $107.3 million invested in capital assets, net of accumulated depreciation of $43.5 million. Depreciation charges for the year ended June 30, 2017, 2016, and 2015 totaled $8.4 million, $8.5 million, and $9.6 million, respectively.

	Year ended June 30,		
	2017	**2016**	**2015**
Land, building, and improvements	$ 105,431,774	105,233,120	105,130,301
Building service equipment	3,847,741	3,670,354	3,505,706
Fixed equipment	4,055,147	4,044,135	3,484,347
Major moveable equipment	37,359,387	36,368,556	36,145,365
Construction in progress	97,068	165,778	200,675
	150,791,117	149,481,943	148,466,394
Less accumulated depreciation	(43,470,585)	(35,125,583)	(26,687,334)
Net property and equipment	$ 107,320,532	114,356,360	121,779,060

For the year ended June 30, 2017, total depreciable capital assets increased by $1.4 million from June 30, 2016. Major moveable equipment additions were $1,008,117 with the largest asset additions of $439,730 for operating room equipment, such as cameras, scopes, and other operating equipment.

For the year ended June 30, 2016, total depreciable capital assets increased by $1.1 million from June 30, 2015. Major moveable equipment additions were $744,094 with the largest asset additions of $113,340 for a sterilization system.

Debt Activity

The Medical Center's current and noncurrent bonds payable totaled $125.0 million, $128.5 million, and $131.9 million at June 30, 2017, 2016, and 2015, respectively. The current portion of this debt was $3.7 million, $3.5 million, and $3.4 million at June 30, 2017, 2016, and 2015, respectively. This debt is related to the Government National Mortgage Association (GNMA) Collateralized Series 2010A and 2010B bonds.

On July 20, 2016 and on January 20, 2017, the Medical Center paid the scheduled mandatory bond redemption payments on the Series 2010A, which consisted of principal payments of $1.75 million and $1.8 million, respectively, as well as interest payments of $2.67 million and $2.63 million, respectively. On July 20, 2016 and on January 20, 2017, the scheduled interest payments of $243,500 and $243,500, respectively were paid on the Series 2010B bonds. No principal payments were scheduled for either period.

(Continued)

There is a loan guarantee that is considered federal assistance subject to the requirements of Office of Management and Budget Uniform Guidance. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2017, 2016, and 2015 Single Audit.

Factors Impacting Future Periods

As a result of the Sandoval County residents voting against the mill levy in November 2016, SRMC management developed a formal action plan that was submitted to Housing and Urban Development on February 28, 2017. The intent of the action plan is to make organizational and strategic changes to the Medical Center in order to mitigate the loss of the $6.3 million in mill levy proceeds.

On August 2, 2017, Center for Medicare and Medicaid Services released the fiscal year 2018 Inpatient Prospective Payment System Final Rule. The rule finalizes a net market basket increase of 1.75%. The Medical Center's Medicare reimbursement is also affected by Quality-Based payment adjustments for readmissions. The net impact of the market basket increase and Quality-Based payment adjustments is estimated to be a decrease in reimbursement of $55,000.

Beginning in fiscal year 2014, Affordable Care Act required changes to Medicare Disproportionate Share Hospital (DSH) payments. The Medical Center receives 25% of the DSH payment previously received using the traditional formula as part of the "base" Diagnosis-Related Group payments for each Medicare inpatient discharge. The remaining 75% is paid on a per discharge basis as DSH uncompensated care. Uncompensated care payments are based on each DSH-eligible hospital's ratio of uncompensated care relative to the total for all DSH-eligible hospitals nationally. Beginning in federal fiscal year 2018, CMS will begin using Cost Report Worksheet S-10 uncompensated care cost to determine a hospital's allocation of DSH uncompensated care payments, and use of Medicaid days and Supplemental Security Income Ratios will be phased out over the next two years. The Medical Center's estimated increase in DSH for 2018 is $307,000. The Center is projected to receive a 62% increase in uncompensated care DSH in federal fiscal year 2019 and a 26% increase in uncompensated care DSH for federal fiscal year 2020 based on the transition to Cost Report Worksheet S-10.

On July 13, 2017, CMS issued the proposed calendar year 2018 Outpatient Prospective Payment System rule (OPPS). CMS proposed to raise the base OPPS payment rate by an adjusted market basket increase of 1.75%. This proposed rule is expected to increase the Medical Center's OPPS reimbursement by $143,300. The proposed OPPS rule has also proposed to decrease the reimbursement for drugs acquired through the Office of Pharmacy Affairs Section 340B drug program from Average Wholesale Price (AWP) plus 6.0% to AWP less 22.5%. The estimated impact of this proposed reduction on the Medical Center is a decrease in reimbursement of $78,000. CMS Advisory Panel on Hospital Outpatient Payment issued a recommendation that CMS to not finalize the proposal to decrease the payment rate on 340B purchased drugs and to collect data from public comment and other sources about the impact of the proposal and how CMS intends to shift the savings if the cut were implemented.

The proposed OPPS rule also includes a provision to remove total knee arthroplasty, also known as total knee replacement, and surgeries from the inpatient only list of procedures. If approved, these surgeries could be performed on an outpatient basis at hospital facilities and ambulatory surgical centers, rather than requiring an admission to an inpatient hospital facility.

The Medical Center currently participates in the CMS Innovation's Comprehensive Care for Joint Replacement Model (CJR). This episodic (or bundled) payment model became effective April 1, 2016. The model compares the 90-day cost of treating patients for knee and hip replacements to regional averages and incentivizes hospitals to reduce that cost through lowered utilization of acute and post-acute care resources. CMS announced a proposed rule to reduce the number of mandatory statistical areas (MSA) participating in the CJR program from 67 to 34. In addition, CMS proposes to allow CJR program participants in the 33 remaining MSAs to participate on a voluntary basis. The Medical Center is located in one of the 33 voluntary MSAs. If the Medical Center does not elect to continue in the CJR program, the Medical Center will no longer be incentivized or penalized for the cost of post-acute care provided after discharge.

In May 2017, BlueCross BlueShield of New Mexico (BCBS NM) provided notice to the Medical Center that it would be terminating its Medicare Advantage Amendment effective September 1, 2017 as the Medical Center was identified as a provider with rates higher than the BCBS NM Medicare Plan fee schedule. The Medical Center has continued to negotiate with BCBS NM to ensure an adequate network for the Medicare Advantage Preferred Provider Organization members. BCBS NM has issued an extension to the termination to November 1, 2017, to allow BCBS NM and the Medical Center additional time to agree upon and contractualize new terms. Payments to the Medical Center under the BCBS NM Medicare Advantage amendment are estimated at $2.7 million annually.

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 University of New Mexico)

Statements of Net Position

June 30, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	$ 22,860,739	16,748,235
Restricted cash and cash equivalents:		
Held by trustee for debt service	6,973,824	5,937,858
Total cash and cash equivalents	29,834,563	22,686,093
Receivables:		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $29,876,168 in 2017 and $27,495,637 in 2016)	9,902,199	11,600,655
Due from UNUM Medical Group	39,114	47,567
Estimated third-party settlements	1,087,669	826,489
Sandoval County mill levy	66,695	74,034
Interest receivable – bond subsidy proceeds	—	973,763
Other	132,645	70,571
Total net receivables	11,228,322	13,593,079
Prepaid expenses	364,789	776,323
Inventories	2,471,328	2,401,084
Total current assets	43,899,002	39,456,579
Noncurrent assets:		
Restricted investments:		
Held by trustee for mortgage reserve fund	9,505,792	7,411,546
Capital assets, net	107,320,532	114,356,360
Total noncurrent assets	116,826,324	121,767,906
Total assets	$ 160,725,326	161,224,485
Liabilities		
Current liabilities:		
Accounts payable	$ 5,474,982	4,861,256
Accrued payroll	1,578,294	1,478,255
Due to University of New Mexico	240,121	66,313
Due to University of New Mexico Health System	1,625,884	1,278,331
Due to UNM Medical Group	176,136	197,804
Estimated third-party settlements	2,807,228	1,201,016
Bonds payable – current	3,715,000	3,540,000
Interest payable bonds	2,835,950	2,915,600
Accrued compensated absences	1,804,821	1,607,103
Total current liabilities	20,258,416	17,145,678
Noncurrent liabilities:		
Bonds payable	121,245,000	124,960,000
Total noncurrent liabilities	121,245,000	124,960,000
Total liabilities	$ 141,503,416	142,105,678
Net Position		
Net deficiency in capital assets	$ (17,639,468)	(14,143,640)
Restricted, expendable:		
Expendable bequests and contributions	82,508	77,310
In accordance with the trust indenture and debt agreement	16,479,616	13,349,404
Unrestricted	20,299,254	19,835,733
Total net position	$ 19,221,910	19,118,807

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Net patient service revenue	$ 77,423,291	76,623,662
Other operating revenues	1,334,578	551,557
Total operating revenues	78,757,869	77,175,219
Operating expenses:		
Employee compensation	31,685,353	32,449,963
Medical and other supplies	20,433,142	16,913,832
Depreciation	8,360,558	8,456,101
Medical services	7,460,107	7,139,074
Benefits	5,436,059	5,954,159
Purchased services	4,962,185	3,374,966
Equipment	3,237,473	2,893,275
Occupancy	1,524,870	1,507,620
Other	389,117	716,482
Total operating expenses	83,488,864	79,405,472
Operating loss	(4,730,995)	(2,230,253)
Nonoperating revenues (expenses):		
Sandoval County mill levy	6,271,254	6,152,531
Health System mission support	3,323,728	—
Federal bond subsidy	1,911,061	1,960,076
Interest income, net	31,128	11,883
Interest on bonds	(5,712,288)	(5,869,675)
Bequests and contributions	4,760	20
Other nonoperating expense	(995,545)	(20,832)
Net nonoperating revenues	4,834,098	2,234,003
Increase in net position	103,103	3,750
Net position, beginning of year	19,118,807	19,115,057
Net position, end of year	$ 19,221,910	19,118,807

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from Medicare and Medicaid	$ 27,706,016	25,925,174
Cash received from insurance and patients	52,760,763	50,281,397
Cash payments to employees	(28,985,440)	(28,246,457)
Cash payments to suppliers	(40,147,941)	(38,172,064)
Cash received from (payments to) University of New Mexico Health System	(819,085)	(1,238,654)
Cash payments from UNM Medical Group	(265,001)	(1,047,673)
Cash (payments to) received from University of New Mexico	173,808	(91,692)
Other receipts	1,272,504	481,996
Net cash provided by operating activities	11,695,624	7,892,027
Cash flows from noncapital financing activities:		
Cash received from Sandoval County mill levy	6,278,593	6,151,869
Cash received from contributions	4,760	20
Net cash provided by noncapital financing activities	6,283,353	6,151,889
Cash flows from capital financing activities:		
Purchases of capital assets	(1,326,460)	(1,061,126)
Cash received from federal bond subsidy	2,884,824	1,979,526
Interest payments on bonds	(5,791,938)	(5,945,725)
Principal payments on bonds	(3,540,000)	(3,380,000)
Cash payments for mortgage-related activities (Mortgage servicing, Mortgage Insurance Premium, GNMA guaranty)	(1,001,817)	(792,690)
Other receipts	8,002	799,583
Net cash used in capital financing activities	(8,767,389)	(8,400,432)
Cash flows from investing activity:		
Cash payments for mortgage reserve fund	(2,094,246)	(2,007,061)
Interest on investments	31,128	11,883
Net cash provided by investing activity	(2,063,118)	(1,995,178)
Net increase in cash and cash equivalents	7,148,470	3,648,306
Cash and cash equivalents, beginning of year	22,686,093	19,037,787
Cash and cash equivalents, end of year	$ 29,834,563	22,686,093

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2017 and 2016

		2017	2016
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(4,730,995)	(2,230,253)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense		8,360,558	8,456,101
Provision for doubtful accounts		6,932,244	7,323,852
Health System Mission Support		3,323,728	—
Change in assets and liabilities:			
Patient receivables		(5,233,788)	(8,624,878)
Due from UNM Medical Group		8,453	(47,567)
Estimated third-party payor settlements		1,345,032	883,935
Other receivables and prepaid expenses		349,460	102,434
Inventories		(70,244)	(313,845)
Accounts payable		613,726	985,511
Accrued payroll		100,039	177,346
Due to University of New Mexico		173,808	(91,692)
Due to University of New Mexico Health System		347,553	1,077,284
Due to UNM Medical Group		(21,668)	94,262
Accrued compensated absences		197,718	99,537
Net cash provided by operating activities	$	11,695,624	7,892,027

See accompanying notes to financial statements.

(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.

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, 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 community-teaching Medical Center, with 48 acute medical/surgical beds and 12 intensive care unit beds. The Medical Center previously had 12 dedicated senior behavioral health beds; however, the behavioral unit was closed on February 24, 2017 after the Sandoval County mill levy was rejected by voters in November 2016. There is also an onsite 40,000 square foot medical office building. The Medical Center is adjacent to the 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 blended component unit of UNM and is reported as such in the basic financial statements of UNM. The Medical Center has no component units.

(2) Summary of Significant Accounting Policies

(a) 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 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, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, 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 Deficiency 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.

(b) Recent Accounting Pronouncements

The GASB issued GASB Statement No. 77, *Tax Abatement Disclosures* (GASB No. 77), which is effective for budgets starting after December 15, 2015. GASB No. 77 addresses the financial impacts on a state and local government's ability to meet its financial commitments as a result of providing tax abatements to individuals or entities. Tax abatements are used to encourage economic development and GASB No. 77 requires disclosure on how the abatements affect governments' financial position and results of operations, including their ability to raise resources in the future. The Medical Center receives mill levy tax funds from Sandoval County.

(c) 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.

(d) 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.

(e) Nonoperating Revenues and Expenses

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as government levies and subsidies, and gifts or income not directly related to the provision of patient care, such as investment income. 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 Sandoval 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, mortgage insurance premium, GNMA guaranty fees, and other nonoperating revenue.

(f) Mission Support

SRMC incurred operating losses for the years ended June 30, 2017 and 2016. In fiscal year 2017 nonoperating revenues included $3.3 million of mission support received from UNM Health System. Also, as discussed in note 2(p) the Sandoval County mill levy was not re-approved for fiscal year 2018. As a result of these factors, SRMC may require additional financial support from UNM Health System to meet its obligations and debt service requirements until such time it generates sufficient cash flows. UNM Health System has committed to such financial support until at least July 1, 2018 and has the capacity to provide such support. Further discussion of the mission support provided in fiscal year 2017 is included in note 12.

(g) 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.

(h) Restricted Cash and Cash Equivalents

The balance of restricted cash and cash equivalents at June 30, 2017 and 2016 is cash held by trustee for debt service and is used for the principal and interest components of debt service.

(i) 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.

(j) 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.

(k) Restricted Investments Noncurrent

The Medical Center has established a Mortgage Reserve Fund in accordance with the requirements and conditions of the Federal Housing Administration (FHA) Regulatory Agreement. Notwithstanding any other provision in the Regulatory Agreement, the Mortgage Reserve Fund may be used by the Housing and Urban Development 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.

(l) 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-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.

(m) 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, 2017 and 2016 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.

(n) 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.

(o) 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.

(p) 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. In November 2016, voters in Sandoval County voted not to approve the mill levy for the tax period beginning January 1, 2017. The Medical Center will no longer collect for mill levy proceeds beginning July 1, 2017. However, the mill levy could potentially be placed on a future ballot.

Any taxes remitted to the Medical Center by the County Treasurer are paid after any potential impacts related to GASB No. 77. Foregone mill levy proceeds resulting from Sandoval County tax abatements are not included in any mill levy proceeds received by the Medical Center and the financial impacts are the responsibility of the taxing agency to disclose. The proceeds of the levy were reduced by $679,227 during the year ended June 30, 2017 as a result of the exemptions and abatements granted.

(q) 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 earned. 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, 2017 and 2016, the Medical Center recognized $1,911,061 and $1,960,076 in federal bond subsidy revenue, respectively.

(r) 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.

(Continued)

(s) Risk Management

The Medical Center sponsors a self-insured health plan. Blue Cross and Blue Shield of New Mexico (BCBS NM) and HMO New Mexico 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, 2017 and 2016, the estimated amounts of the Medical Center's IBNR and accrued claims were $263,865 and $239,884, respectively, which are included in accrued payroll. The liability for IBNR was based on actuarial analysis calculated using information provided by BCBS NM.

	Balance at beginning of fiscal year	Claims and changes in estimates	Claim payments	Balance at fiscal year-end
2016–2017	$ 239,884	2,591,046	(2,567,065)	263,865
2015–2016	241,206	2,592,447	(2,593,769)	239,884

(3) Cash and Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

(i) 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, 2017 and 2016 are $22,855,739 and $16,743,235, respectively.

Bank balances are categorized at June 30, as follows:

	2017	2016
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 281,738	291,999
Other cash	23,774,187	17,820,840
	$ 24,055,925	18,112,839

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

(Continued)

(b) 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. As of June 30, 2017 there were no unspent bond proceeds. The financial statement balances of the trust funds are as follows at June 30:

		2017	2016
Debt service fund	$	6,973,824	5,937,858

Debt Service Fund – Collects 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.

(i) Interest Rate Risk – Debt Investments – Cash and Cash Equivalents

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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, 2017 and 2016 and their exposure to interest rate risk is as follows:

		June 30, 2017		June 30, 2016	
		Fair value	Less than 1 year	Fair value	Less than 1 year
Items not subject to interest rate risk:					
Money market fund	$	6,973,824	6,973,824	5,937,858	5,937,858
Items not subject to interest rate risk		6,973,824	6,973,824	5,937,858	5,937,858
Total restricted cash and cash equivalents	$	6,973,824	6,973,824	5,937,858	5,937,858

(Continued)

(ii) Custodial Credit Risk – Debt Investments – Cash and Equivalents

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investments or collateral that is in the possession of an outside party. As of June 30, 2017 and 2016, there were no investments or cash and cash equivalents 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.

(iii) 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. As of June 30, 2017 and 2016, there were no debt investments subject to credit risk

(c) Long-Term Investments

(i) 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, 2017 and 2016 and their exposure to interest rate risk is as follows:

	June 30, 2017		June 30, 2016	
	Fair value	Less than 1 year	Fair value	Less than 1 year
Items not subject to interest rate risk:				
Money market fund	$ 9,505,792	9,505,792	7,411,546	7,411,546
Items not subject to interest rate risk	9,505,792	9,505,792	7,411,546	7,411,546
Total long-term investments	$ 9,505,792	9,505,792	7,411,546	7,411,546

(ii) Custodial Credit Risk – Debt Investments

As of June 30, 2017 and 2016, 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.

(iii) 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, 2017		June 30, 2016	
	Rating	Fair value	Rating	Fair value
Items subject to credit risk:				
Money market fund	Not Rated	$ 9,505,792	Not Rated	$ 7,411,546
Total items subject to credit risk		9,505,792		7,411,546
Total long-term investments		$ 9,505,792		$ 7,411,546

(Continued)

(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:

	2017		2016	
Medicare	$ 16,770,808	42 %	$ 15,954,712	41 %
Medicaid	10,145,868	26	8,907,610	23
Other third-party payors	7,023,327	17	7,770,858	20
Others	5,838,364	15	6,463,112	16
Total patient accounts receivable	39,778,367	100 %	39,096,292	100 %
Less allowance for uncollectible accounts and contractual adjustments	(29,876,168)		(27,495,637)	
Patient accounts receivable, net	$ 9,902,199		$ 11,600,655	

(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 CFR §412.300(b), the Medical Center is paid at 85% of its allowable Medicare inpatient hospital capital-related costs through its cost report ending at least two 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, 2014 to June 30, 2015. Beginning July 1, 2015, the Medical Center is 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 Medicare settlements at June 30, 2017 and 2016 are payables of $688,832 and $260,161, respectively. The estimated Medicaid settlements at June 30, 2017 and 2016 are receivables of $820,567 and $790,675, respectively.

(Continued)

(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, 2017				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
SRMC capital assets not being depreciated:					
Construction in progress	$ 165,778	307,331	(376,041)	—	97,068
SRMC depreciable capital assets:					
Building and building improvements	105,233,120	—	198,654	—	105,431,774
Building service equipment	3,670,354	—	177,387	—	3,847,741
Fixed equipment	4,044,135	11,012	—	—	4,055,147
Major moveable equipment	36,368,556	1,008,117	—	(17,286)	37,359,387
Total depreciable capital assets	149,316,165	1,019,129	376,041	(17,286)	150,694,049
Less accumulated depreciation for:					
Building and building improvements	(10,460,158)	(2,730,924)	—	—	(13,191,082)
Building service equipment	(1,144,366)	(342,558)	—	—	(1,486,924)
Fixed equipment	(1,296,341)	(346,201)	—	—	(1,642,542)
Major moveable equipment	(22,224,718)	(4,940,875)	—	15,556	(27,150,037)
Total accumulated depreciation	(35,125,583)	(8,360,558)	—	15,556	(43,470,585)
SRMC depreciable capital assets, net	114,190,582	(7,341,429)	376,041	(1,730)	107,223,464
SRMC capital assets not being depreciated	165,778	307,331	(376,041)	—	97,068
SRMC depreciable capital assets, at cost	149,316,165	1,019,129	376,041	(17,286)	150,694,049
SRMC total cost of capital assets	149,481,943	1,326,460	—	(17,286)	150,791,117
Less accumulated depreciation	(35,125,583)	(8,360,558)	—	15,556	(43,470,585)
SRMC capital assets, net	$ 114,356,360	(7,034,098)	—	(1,730)	107,320,532

(Continued)

	Year ended June 30, 2016				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
SRMC capital assets not being depreciated:					
Construction in progress	$ 200,674	244,868	(279,764)	—	165,778
SRMC depreciable capital assets:					
Building and building improvements	105,130,302	—	102,818	—	105,233,120
Building service equipment	3,505,706	—	164,648	—	3,670,354
Fixed equipment	3,484,347	72,163	487,625	—	4,044,135
Major moveable equipment	36,145,365	744,095	(475,327)	(45,577)	36,368,556
Total depreciable capital assets	148,265,720	816,258	279,764	(45,577)	149,316,165
Less accumulated depreciation for:					
Building and building improvements	(7,744,094)	(2,716,064)	—	—	(10,460,158)
Building service equipment	(801,357)	(338,306)	(4,703)	—	(1,144,366)
Fixed equipment	(687,031)	(336,739)	(272,571)	—	(1,296,341)
Major moveable equipment	(17,454,852)	(5,064,992)	277,274	17,852	(22,224,718)
Total accumulated depreciation	(26,687,334)	(8,456,101)	—	17,852	(35,125,583)
SRMC depreciable capital assets, net	121,578,386	(7,639,843)	279,764	(27,725)	114,190,582
SRMC capital assets not being depreciated	200,674	244,868	(279,764)	—	165,778
SRMC depreciable capital assets, at cost	148,265,720	816,258	279,764	(45,577)	149,316,165
SRMC total cost of capital assets	148,466,394	1,061,126	—	(45,577)	149,481,943
Less accumulated depreciation	(26,687,334)	(8,456,101)	—	17,852	(35,125,583)
SRMC capital assets, net	$ 121,779,060	(7,394,975)	—	(27,725)	114,356,360

(7) Compensated Absences

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

(Continued)

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 leaves. 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 leaves. 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 PTO for cash at 80% of their hourly rate. At termination, employees are eligible for payment of unused accumulated hours at 100% of their regular hourly rate. Accrued PTO as of June 30, 2017 and 2016 of $1,804,821 and $1,607,103, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

During the years ended June 30, 2017 and 2016, the following changes occurred in accrued compensated absences:

	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017
$	1,607,103	1,804,821	(1,607,103)	1,804,821

	Balance July 1, 2015	Increase	Decrease	Balance June 30, 2016
$	1,507,566	1,607,103	(1,507,566)	1,607,103

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.

(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 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 $127,164,027 (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 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 redeem the bonds according to the various early, optional, and mandatory redemption provisions of the bonds.

As of June 30, 2017 and 2016, 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	Original principal	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 U.S. Department of Treasury equal to 35.00% of the interest payable on the Build America Bonds (Series 2010A), and 45.00% 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 7.20%, effective March 1, 2013. For federal fiscal year 2016, beginning October 1, 2015, the sequestration percentage was reduced to 6.80%. This had the

(Continued)

overall effect of changing the subsidy payment from the U.S. Department of Treasury equal to 32.62% of the interest payable on the Build America Bonds (Series 2010A), and 41.94% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B).

Bond payable activity consists of the following:

	Year ended June 30, 2017				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
Bond Series 2010A	$ 118,760,000	—	(3,540,000)	115,220,000	3,715,000
	$ 118,760,000	—	(3,540,000)	115,220,000	3,715,000

	Year ended June 30, 2017				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
Bond Series 2010B	$ 9,740,000	—	—	9,740,000	—
	$ 9,740,000	—	—	9,740,000	—

The following schedule summarizes the special and scheduled mandatory redemption requirements of the Series 2010A and Series 2010B bonds as of June 30, 2017:

	Series 2010A bonds		Series 2010B bonds		Total	
Fiscal year	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 3,715,000	5,143,613	—	487,000	3,715,000	5,630,613
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	4,275,000	4,611,713	—	487,000	4,275,000	5,098,713
2022	4,475,000	4,417,200	—	487,000	4,475,000	4,904,200
2023–2027	25,835,000	18,824,287	—	2,435,000	25,835,000	21,259,287
2028–2032	32,670,000	12,349,687	—	2,435,000	32,670,000	14,784,687
2033–2037	36,285,000	4,170,712	5,035,000	2,423,625	41,320,000	6,594,337
2038	—	—	4,705,000	117,625	4,705,000	117,625
	$ 115,220,000	59,289,075	9,740,000	9,846,250	124,960,000	69,135,325

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 20, 2016, the scheduled mandatory bond redemption payment was made by the Medical Center on the Series 2010A; a principal payment of $1.745 million and an interest payment of $2.672 million. On January 20, 2017 a principal payment of $1.795 million and an interest payment of $2.633 million were made. No principal payment was due on the Series 2010B bonds, but interest payments of $243,500 were made on both dates.

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 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.

(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 gross charges. Approximately 29% and 27% of the Medical Center's gross patient revenue for the year ended June 30, 2017 was derived from the Medicare and Medicaid programs, respectively, the continuation of which are dependent upon governmental policies and government funding. For the year ended June 30, 2016, approximately 31% and 27% 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. 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. Medicaid outpatient services are paid through Medicaid's OPPS.

In addition, the Medical Center has reimbursement agreements with certain Managed Care Organizations (MCOs) that have contracted with the State of New Mexico Centennial Care programs to administer services to enrolled Medicaid beneficiaries. The basis for reimbursement under these agreements includes prospectively determined rates Medicare Severity-Diagnosis Related Group (MS-DRG) or per diem for inpatient services, and prospectively determined payments for outpatient services.

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:

		2017	2016
Charges at established rates	$	194,632,678	174,042,772
Charity care		(3,106,363)	(3,832,040)
Contractual adjustments		(107,170,780)	(86,263,218)
Provision for doubtful accounts		(6,932,244)	(7,323,852)
Net patient service revenues	$	77,423,291	76,623,662

(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:

		2017	2016
Charges foregone, based on established rates	$	3,106,363	3,832,040
Estimated costs and expenses incurred to provide charity care		1,332,630	1,747,410
Equivalent percentage of charity care charges foregone to total gross revenue		1.6 %	2.2 %

(11) Malpractice Insurance

As an URPEDA corporation, the Medical Center 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 Medical Center'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 the Medical Center's employees. Additionally, as described below, consistent with the provisions of URPEDA, the Medical Center 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.

(Continued)

The NMTCA limits, as an integral part of this waiver of immunity, the amount of damages that can be assessed against the Medical Center 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 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, the Medical Center, cannot exceed $1,050,000. The NMTCA prohibits the award of punitive or exemplary damages against the Medical Center.

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 fees and expenses), with no deductible and with no self-insured retention by the Medical Center. As stated previously, the Medical Center did elect to purchase, and did in fact purchase, its coverage-basis medical malpractice, professional, and general liability coverage from RMD. As a result of this, the Medical Center is fully covered for claims and/or lawsuits relating to medical malpractice or professional liability occurring at its Medical Center.

(12) Related-Party Transactions

The Medical Center provides medical services and leases equipment to UNM and other entities associated with UNM. Also, as noted in note 2, the Medical Center received $3.3 million of nonoperating revenue in the form of Health System mission support during fiscal year 2017. This support was provided to assist with State-mandated reimbursement cuts, cost of medical services, Health System salaries, purchased services, and equipment provided by UNM and other entities associated with UNM to the Medical Center.

The Medical Center included the following amounts in the accompanying statements of revenues, expenses, and changes in net position for services rendered during the years ended June 30:

		2017	2016
UNM Health System	$	3,649,021	241,532
	$	3,649,021	241,532

The Medical Center reimburses UNM Hospital and UNM Medical Group for professional services incurred on behalf of the Medical Center. Included in the 2017 amount above was $325,293 for services rendered by the Medical Center.

The Medical Center enters into intercompany transactions with UNM and other entities associated with UNM, which includes UNM Hospital and UNM Medical Group, for the cost of salaries of various medical and administrative personnel, malpractice insurance, liability insurance, safety and risk services, and physician coverage incurred on behalf of the Medical Center. The balances for these expenses are settled with the related parties through the mission support the Medical Center receives. 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:

		2017	2016
University of New Mexico	$	1,095,472	716,249
UNM Health System		2,169,270	2,759,729
UNM Medical Group		1,140,000	1,814,686
	$	4,404,742	5,290,664

UNM and the Medical Center have entered into a Ground Lease under which the Medical Center leases approximately 18.4 acres of land from 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.

(13) Benefit Plans

The Medical Center has a defined-contribution plan covering eligible employees that 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 IRS. 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. 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 $694,628 and $680,435 in the years ended June 30, 2017 and 2016, respectively. Total employee contributions under this plan were $1,018,289 and $980,098 for the years ended June 30, 2017 and 2016, respectively.

Schedule 1

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

Indigent Care Cost and Funding Report

	Years ended June 30		
	2017	**2016**	**2015**
		Unaudited	Unaudited
Funding for Indigent Care:			
State appropriations specified for indigent care – Out of County Indigent Fund	$ —	—	—
County indigent funds received	—	—	—
Out of county indigent funds received	—	—	—
Payments and copayments received from uninsured patients qualifying for indigent care	1,505	—	10,064
Reimbursement received for services provided to patients qualifying for coverage under EMSA	2,897	6,714	6,075
Charitable contributions received from donors that are designated for funding indigent care	—	—	—
Other sources:			
Other source	—	—	—
Total Funding for Charity Care	4,402	6,714	16,139
Cost of Providing Indigent Care:			
Total cost of care for providing services to:			
Uninsured patients qualifying for indigent care	381,614	329,265	496,926
Patients qualifying for coverage under EMSA	36,952	63,000	51,696
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	951,016	1,391,103	736,432
Direct costs paid to other providers on behalf of patients qualifying for indigent care	—	—	—
Total Cost of Providing Indigent Care	1,369,582	1,783,369	1,285,054
Excess (Shortfall) of Funding for Charity Care to Cost of Providing Indigent Care	$ (1,365,180)	(1,776,655)	(1,268,915)
Patients Receiving Indigent Care Services (Unaudited):			
Total number of patients receiving indigent care	10,023	2,348	2,274
Total number of patient encounters receiving indigent care	16,136	3,316	5,011

See accompanying independent auditors' report.

Schedule 2

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

Calculations of Cost of Providing Indigent Care

	Years ended June 30		
	2017	**2016**	**2015**
		Unaudited	Unaudited
Uninsured patients qualifying for indigent care:			
Charges for these patients	$ 889,543	721,692	1,045,610
Ratio of cost to charges	42.9 %	45.6 %	47.5 %
Cost for uninsured patients qualifying for indigent care	$ 381,614	329,265	496,926
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA):			
Charges for these patients	$ 86,137	138,085	108,775
Ratio of cost to charges	42.9 %	45.6 %	47.5 %
Cost for Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	$ 36,952	63,000	51,696
Cost of care related to patient portion of bill for insured patients qualifying for indigent care:			
Indigent/charity care adjustments for these patients	$ 2,216,820	3,049,053	1,549,568
Ratio of cost to charges	42.9 %	45.6 %	47.5 %
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	$ 951,016	1,391,103	736,432
Direct costs paid to other providers on behalf of patients qualifying for indigent care:			
Payments to other providers for care of these patients	$ —	—	—
	$ —	—	—

See accompanying independent auditors' report.

KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

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

The University of New Mexico Sandoval Regional Medical Center, Inc.
The Board of Directors 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 the University of New Mexico Sandoval Regional Medical Center (the Medical Center), a component unit of the University of New Mexico, State of New Mexico, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center'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*. We note a certain matter that is required to be reported per Section 12-6-5 NMSA 1978, which we have described in the accompanying schedule of findings and responses as item 2017-001.

The Medical Center's Response to the Finding

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

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 Medical Center'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 Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
November 27, 2017

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
June 30, 2017

Other Findings as Required by Section 12-6-5 NMSA 1978

2017-001. Terminated Employee Documentation Process – Control Deficiency – Sandoval Regional Medical Center

Criteria

In accordance with current SRMC policy, it is the responsibility of the HR department or an employee's supervisor to complete required documentation to notify the IT department when an employee terminates SRMC employment. The status of terminated employees should be updated in SRMC's IT systems on a timely basis. Based on industry standards, the appropriate disabling of access within IT systems would occur within a reasonable time, or five working days of termination.

Condition

Our testwork revealed that notification of employee terminations was not always provided in a timely manner to the IT department. We identified three employees from the population sampled for whom access to the Millennium system was not timely disabled after termination. We verified that none of these employees recorded any activity in Millennium subsequent to their termination.

For our testwork we compared all employee terminations during the year to determine if any of these employees still had access to the Millennium system as of June 30, 2017.

Effect

There is an increased risk that a terminated employee has continued access to IT systems and the data contained therein subsequent to termination.

Cause

Departments are not complying with existing SRMC policies to timely notify the IT department of final employment dates for terminating employees.

Recommendation

SRMC should develop a procedure to enforce timely documentation of terminated employees. This documentation and disabling of user access within IT systems should take place within a reasonable time, or five working days of termination of employment.

Management's Response

SRMC Human Resources will initiate an e-mail to a specific distribution list to notify System Owners of SRMC employees leaving the organization as soon as the SRMC HR department is notified of employees leaving. Additionally, the UNMH IT Helpdesk Manager has implemented a tracking process for all termination notifications to include the Helpdesk personnel that acknowledge the notification. The Helpdesk Manager will ensure all termination notifications received from the distribution list are acknowledged and documented on a weekly basis. This process was implemented in August 2017 and is the joint responsibility of the SRMC Executive Director of Human Resources and the Manager of PC and Customer Support. The Executive Director of Human Resources and the Executive Director of System Development and IT ensured a corrective action plan was implemented.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings
June 30, 2017

Finding 2016-001. Formalized Review of All Soarian Users - Other Matter

Current Status: Resolved

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Exit Conference
June 30, 2017

An exit conference was conducted on October 18, 2017, 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 KPMG LLP representatives present:

Jerry Geist	Board Member
Michael Richards	MD Executive Physician-in-Chief
Ava Lovell	Senior Executive Officer for Finance and Administration, UNM Health Sciences Center
Darlene Fernandez	Chief Financial Officer, SRMC
Ella Watt	Chief Financial Officer, UNM Hospital
Jamie Silva-Steele	President and CEO, SRMC
Lawrence Pineda	Finance Director, SRMC
Pam Demarest	Chief Nursing Officer, SRMC
Purvi Mody	Health System Compliance and Internal Audit Officer
Julie Alliman	Executive Director & Controller, Finance, UNM Hospital
Correen Bales	Executive Director, Human Resources, SRMC
Robb McLean	Chief Medical Officer, SRMC
Diana Heider	Assistant University Counsel
John Kennedy	Partner, KPMG LLP
Jaime Cavin	Senior Manager, KPMG LLP

SRMC is responsible for the contents of the financial statements. KPMG LLP assisted with the preparation of the financial statements.