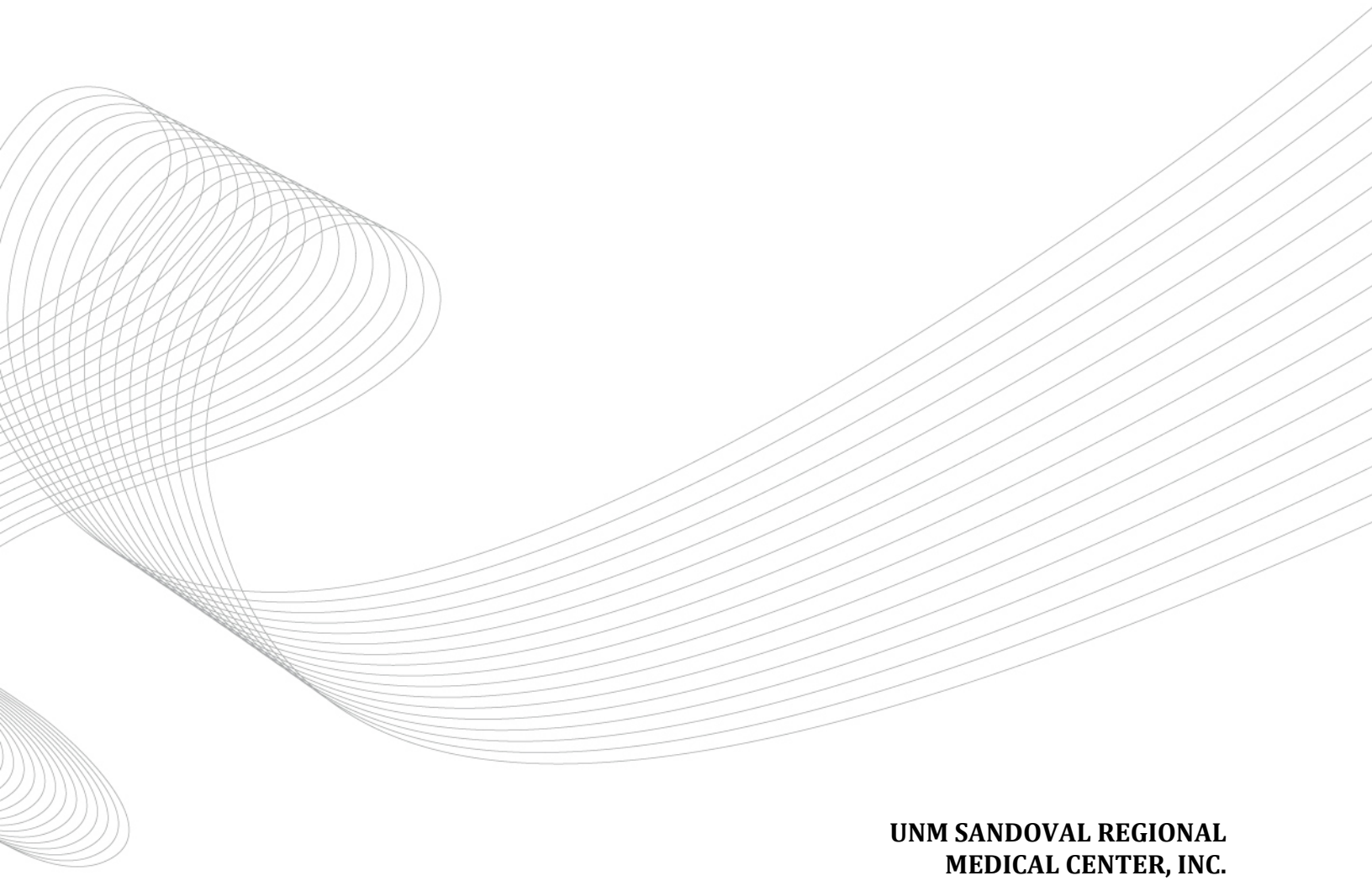

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)
Official Roster
June 30, 2016

BOARD OF DIRECTORS

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

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)
Official Roster (continued)
June 30, 2016

ADMINISTRATIVE OFFICERS

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

TABLE OF CONTENTS

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

UNM 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 Sandoval Regional Medical Center, Inc. (SRMC or the Medical Center), a component unit of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Medical Center and are not intended to present fairly the financial position of the University of New Mexico as of June 30, 2016 and 2015, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2016 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
October 21, 2016

The following discussion and analysis provides an overview of the financial position and activities of UNM Sandoval Regional Medical Center (the Medical Center) as of and for the years ended June 30, 2016, 2015, and 2014. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of the Medical Center's management.

Using This Annual Report

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

The financial statements prescribed by GASB 34, as amended, (the 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) is one indicator of the improvement or erosion of the Medical Center's financial health when considered with nonfinancial facts such as patient statistics and the condition of facilities. This statement includes all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting method used by nongovernmental hospitals and healthcare organizations.

The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. 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, which is the case with county mill levy received by the Medical Center. 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 (UNMSOM).

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. The Medical Center is equipped with an emergency department with 11 exam rooms, two trauma rooms and two triage rooms. Additionally, the Medical Center is equipped with six operating rooms, three minor procedure rooms and one interventional radiology (IR) lab.

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

Surgical Services – Anesthesia, General Surgery, Orthopedic (including hand), Bariatric, Podiatry, Otolaryngology, Urologic, Gynecologic, Urogynecologic, Gastrointestinal, Breast, 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 603 physicians credentialed of which 496 are School of Medicine physicians and the remaining 107 are community physicians.

Financial Summary

Condensed Summary of Net Position

			As of June 30,		
Assets			**2016**	**2015**	**2014**
Current assets		$	39,456,579	35,382,906	40,841,685
Capital assets, net			114,356,360	121,779,060	128,091,305
Noncurrent assets			7,411,546	5,404,485	3,480,942
	Total assets	$	161,224,485	162,566,451	172,413,932
Liabilities					
Current liabilities		$	17,145,678	14,951,394	24,079,883
Noncurrent liabilities			124,960,000	128,500,000	131,880,000
	Total liabilities	$	142,105,678	143,451,394	155,959,883
Net Position					
Net investment in capital assets		$	(14,143,640)	(10,100,940)	(15,333,693)
Restricted net position, expendable			13,426,714	11,336,578	24,100,300
Unrestricted			19,835,733	17,879,419	7,687,442
	Total net position	$	19,118,807	19,115,057	16,454,049

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 decrease in assets from June 30, 2015 to June 30, 2016 is primarily due to decreases in net capital assets. The decrease in net capital assets is the result of depreciation exceeding capital additions since the facility is still relatively new. Operating cash increased by $3.5 million during the year ended June 30, 2016 from $13.2 million at June 30, 2015 to $16.7 million at June 30, 2016. This increase was driven largely by an additional $5.1 million received in cash receipts for patient care for the year ended June 30, 2016 compared to the year ended June 30, 2015.

At June 30, 2015, total Medical Center assets were $162.6 million compared to $172.4 million at June 30, 2014. The Medical Center's most significant assets at June 30, 2015 were net capital assets of $121.8 million, cash and cash equivalents of $19.0 million followed by patient receivables of $10.3 million.

The Medical Center's liabilities totaled $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 is 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.

The Medical Center's liabilities totaled $143.5 million at June 30, 2015 compared to $156.0 million at June 30, 2014. At June 30, 2015, current and noncurrent bonds payable of $131.9 million was the largest liability, followed by accounts payable of $3.9 million.

At June 30, 2016, 2015 and 2014, the Medical Center's current assets of $39.5 million, $35.4 million and $40.8 million, respectively, were sufficient to cover current liabilities of $17.1 million (current ratio of 2.30), $15.0 million (current ratio of 2.37) and $24.1 million (current ratio of 1.70), respectively.

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.

Total net position as of June 30, 2015 increased by $2.7 million to $19.1 million, which included an operating gain of $1.6 million and net nonoperating revenues of $1.1 million. Unrestricted net position totaled $17.9 million with a net deficiency in capital assets of $10.1 million at June 30, 2015. Restricted net position, expendable as of June 30, 2015 decreased by $12.8 million to $11.3 million, which was driven by a $10.4 million reduction in cash held by trustee for debt service that was used to pay scheduled mandatory bond redemptions, a $4.3 million reduction in cash held by trustee for operations that was drawn down during fiscal year 2015, and partially offset by an increase of $1.9 million in cash held by trustee for mortgage reserve fund.

Total net position (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.

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

	Year Ended June 30,		
	2016	**2015**	**2014**
Total operating revenues	$ 77,175,219	75,270,952	54,091,041
Total operating expenses	(79,405,472)	(73,687,255)	(59,373,188)
Operating (loss) gain	(2,230,253)	1,583,697	(5,282,147)
Net nonoperating revenues (expenses)	2,234,003	1,077,311	2,717,130
Total increase (decrease) in net position	3,750	2,661,008	(2,565,017)
Net position, beginning of year	19,115,057	16,454,049	19,019,066
Net position, end of year	$ 19,118,807	19,115,057	16,454,049

Operating Revenues

The sources of operating revenues for the Medical Center are net patient service and other operating revenues, with the most significant source being net patient service revenues. Operating revenues were $77.2 million, $75.3 million and $54.1 million for the years ended June 30, 2016, 2015 and 2014, respectively.

Net patient service revenue is comprised of gross patient revenue, net of contractual allowances, charity care, provision for doubtful accounts, and any third party cost report settlements. Net patient service revenues were $76.6 million, $74.8 million and $52.7 million for the years ended June 30, 2016, 2015 and 2014 respectively. The increase of $1.8 million is the result of an increase in volumes (see chart below).

The following table summarizes key operating statistics for the years ended June 30, 2016, 2015 and 2014:

	Year Ended June 30,		
	2016	**2015**	**2014**
Inpatient Days	15,918	15,348	12,136
Discharges	3,453	3,178	2,682
Outpatient Visits	36,224	31,849	27,498
Emergency Visits	18,954	15,808	14,080
Surgeries	4,135	3,713	3,517

The average daily census (ADC) for the year ended June 30, 2016 was 43.5 and increased by 1.5 patients per day from an ADC of 42.0 for the year ended June 30, 2015.

Payment to New Hospitals as defined under C.F.R. §412.300(b), is paid at 85 percent of its allowable Medicare Inpatient hospital capital-related costs through its cost report ending at least 2 years after the hospital accepts its first patient. The Medical Center accepted its first patient on July 17, 2012, thus the first cost report period beginning at least two years after this date 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. Net patient service revenue for the fiscal years ended June 30, 2016 and 2015 includes cost report estimates for the Medicare and Medicaid programs. At June 30, 2016, a payable for Medicare was recorded in the amount of $142,624 and a receivable for Medicaid was recorded in the amount of $309,678. The entire receivable amount for Medicaid is an estimate for the capital reimbursement component. At June 30, 2015, receivables for Medicare and Medicaid were recorded in the amounts of $1,154,000 and $330,261, respectively, and include an estimate for the capital reimbursement component. Reductions totaling $1,042,000 were made adjusting the estimated 2014 Medicare cost report settlement receivable due to revisions in the disproportionate share (DSH) calculation when the amended cost report was filed during 2015. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations. Net patient service revenue for the fiscal year ended June 30, 2014 included cost report estimates for the Medicare and Medicaid programs in the amounts of $2.0 million and $228,093, respectively.

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

The Medical Center does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The cost of charity care provided under this program for the years ended June 30, 2016, 2015, and 2014 approximated $1.8 million, $1.2 million, and $2.4 million, respectively.

The Medical Center provides care to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance. The Medical Center encourages patients to meet with a financial counselor to develop payment arrangements. Although the Medical Center pursues collection of these accounts usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, liens are not placed on property or assets, and judgments are not filed against the patients. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2016, 2015 and 2014 was $7.3 million, $2.8 million, and $19.6 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, 2016, 2015 and 2014 was $3.4 million, $1.3 million, and $9.3 million, respectively.

Operating Expenses

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

For the year ended June 30, 2016, total operating expenses were $79.4 million and represent an increase of $5.7 million from the year ended June 30, 2015. The most significant expense was an increase of $3.4 million for employee compensation. The number of employees increased during fiscal year 2016 as a result of an increase in staffing levels to support an increase in clinical volumes. There was also a wage increase of 2.7% in November 2015. Employee benefits increased by $582,000 as a direct result of the increase in employee compensation. The second largest increase was $1.7 million in medical and other supplies, which was the result of an increase in implantable supplies due to the increase in surgeries performed.

Nonoperating Revenues and Expenses

For the years ended June 30, 2016, 2015, and 2014, net nonoperating revenues net of nonoperating expenses were $2.2 million $1.1 million and $2.7 million, respectively.

The most significant nonoperating revenue at June 30, 2016, 2015, and 2014, was the Sandoval County mill levy (the "mill levy") tax subsidy totaling $6.2 million, $6.1 million and $8.0 million, respectively. The decrease in 2015 was a result of the Medical Center's share of the tax proceeds decreasing from 60% in 2014 to 45% in 2015 and 2016. 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.

The next largest source of nonoperating revenue in the years ended June 30, 2016, 2015 and 2014 was the Federal Bond Subsidy in the amount of $2.0 million, $2.0 million and $2.2 million, respectively. The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs. The Medical Center is eligible to receive cash subsidy payments from the United States Department of Treasury equal to 35% of the interest payable on the Build America Bonds (Series 2010A), and 45% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B). Pursuant to the Budget Control Act of 2011, as postponed by the American Taxpayer Relief Act of 2012, the budget sequestration impact was a reduction of 7.2%, effective July 1, 2013. This had the effect of changing the subsidy payment from the United States Department of Treasury equal to 32.48% of the interest payable on the Build America Bonds (Series 2010A), and 41.76% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B). For Federal fiscal year 2016, beginning October 1, 2015, the sequestration percentage changed slightly to 6.8%.

The most significant nonoperating expense recorded for the years ended June 30, 2016, 2015, and 2014 was bond interest expense in the amount of $5.9 million, $6.0 million, and $6.5 million, respectively.

Capital Assets

At June 30, 2016, the Medical Center had $114.4 million invested in capital assets, net of accumulated depreciation of $35.1 million. Depreciation charges for the year ended June 30, 2016, 2015 and 2014 totaled $8.5 million, $9.6 million and $9.1 million, respectively.

	Year Ended June 30,		
	2016	**2015**	**2014**
Land, building and improvements	$ 105,233,120	105,130,301	104,937,400
Building service equipment	3,670,354	3,505,706	2,690,802
Fixed equipment	4,044,135	3,484,347	2,382,124
Major moveable equipment	36,368,556	36,145,365	34,749,109
Construction in progress	165,778	200,675	397,709
	149,481,943	148,466,394	145,157,144
Less accumulated depreciation	(35,125,583)	(26,687,334)	(17,065,839)
Net property and equipment	$ 114,356,360	121,779,060	128,091,305

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, $48,128 for an operating room discoscope system and $44,903 for an operating room video system. Building service equipment increased by $164,648 for multiple assets. Building and building improvements increased by $102,818 with the largest asset of $68,846 for a new cardiology exam room.

Debt Activity

The Medical Center's current and noncurrent bonds payable totaled $128.5 million, $131.9 million and $143.4 million at June 30, 2016, 2015 and 2014, respectively. The current portion of this debt was $3.5 million, $3.4 million and $11.5 million at June 30, 2016, 2015, and 2014, respectively. This debt is related to the Government National Mortgage Association (GNMA) Collateralized Series 2010A and 2010B bonds.

On July 20, 2015, the scheduled mandatory bond redemption payment was made by the Medical Center on the Series 2010A; a principal payment of $1.67 million and an interest payment of $2.75 million. On January 20, 2016 a principal payment of $1.71 million and an interest payment of $2.71 million were made. No principal payment was due on the Series 2010B bonds, but interest payments of $243,500 were made on both dates.

There is a loan guarantee that is considered federal assistance subject to the requirements of Office of Management and Budget (OMB) Uniform Guidance. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2016, 2015, and 2014 Single Audit.

Factors Impacting Future Periods

In the 2016 New Mexico State legislative session, House Bill 2 was issued which stated that the Human Services Department (HSD) "…shall reduce reimbursement rates to Medicaid providers…" This was in response to significant shortfalls in State revenues, largely related to reduced oil and gas taxes. On April 29, 2016, HSD published Medical Assistance Program Manual Supplement Number 16-01 announcing that the HSD would be implementing payment rate reductions to be effective July 1, 2016. The HSD convened a subcommittee of the Medicaid Advisory Committee (MAC) to provide recommendations for reductions. On June 29, 2016, HSD issued Supplement Number 16-03 that finalized the reductions that were effective July 1, 2016. Inpatient hospital reimbursement rates at acute care and critical access hospitals were decreased by 5%. This reduction applies to all payment methodologies for inpatient hospital services, including DRG methodology, reimbursement for capital costs and outlier payments.

Hospital outpatient reimbursement rates at acute care, critical access and outpatient rehabilitative hospitals were reduced by 3%. Outpatient hospital laboratory services were reduced by 6% to align with the Medicaid fee schedule for laboratory services and to reflect

movement of the Medicaid fee schedule to 94% of Medicare rates for laboratory services. The Medical Center's reimbursement from Medicaid managed care organizations (MCO) is based on the State outpatient fee schedules. Reimbursement rates for both fee-for-service and Medicaid MCO patients are impacted by this outpatient reduction.

Supplement 16-03 delayed implementation of certain fee schedule reductions for physicians and other practitioners until August 1, 2016, to allow for further analysis by HSD. On July 20, 2016, HSD published Supplement Number 16-07 with final reductions that were effective August 1, 2016. HSD considers the fee schedule for the Medicare program to be the "standard for fee-for-service payment methodology in America … and intends to move its reimbursement policy for the Medicaid program toward greater alignment with a percentage of Medicare rates." The Supplement states that "New Mexico's Medicaid rates were 7th highest in the nation in 2014, at an average of 91% of Medicare and 25% above the national average for state Medicaid programs." HSD implemented a first phase of reductions effective August 1, 2016 and a second phase of reductions to be effective January 1, 2017. The practitioner reductions effective August 1, 2016, range from 0% to 6% depending on a comparison of each CPT codes current reimbursement rate to Medicare reimbursement rates, with a goal of reimbursement being at or below 94% of Medicare reimbursement rates. For the reductions effective January 1, 2017, HSD intends to move any rates that are above 100% of Medicare rates to 94% of Medicare rates. The State does not expect these reductions in inpatient and outpatient hospital and practitioner reimbursement to have an impact on Medicaid recipient access to providers. The impact of these inpatient, outpatient and practitioner reductions on the Medical Center is estimated at $310,000.

Effective July 1, 2016, one of the Medical Center's MCO, United Healthcare, terminated its Medicaid managed care contract with the Medical Center after the MCO sought extensive reductions in Medicaid reimbursement. The Medical Center is no longer contracted with United Healthcare to provide Medicaid services. The Medical Center expects to see a decline in United Healthcare Medicaid patients scheduled for clinic visits and procedures. The Medical Center is anticipating to backfill this loss in volumes with patients covered by other Medicaid and commercial providers. The Medical Center's commercial contract with United Healthcare is unaffected by these changes.

The Medical Center currently has a 3-year agreement with Molina Healthcare to provide services to Medicaid patients. During fiscal year 2016, Molina forced reopening of negotiations by threatening contract termination as it sought substantial reductions in its Medicaid payments to the Hospital. In lieu of termination and the corresponding impact to Medicaid beneficiaries, the Medical Center and Molina have tentatively agreed to a reduction in rates for both inpatient acute and outpatient services that would be effective for dates of service beginning August 1, 2016. These reductions are estimated to impact the Medical Center by $1.3 million.

On August 2, 2016, CMS released the fiscal year 2017 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates will increase by a market basket increase of 2.7%, less a 0.3% productivity reduction mandated under the Affordable Care Act (ACA), less a 1.5% documentation and coding reduction mandated by the American Taxpayer Relief Act of 2012 (ATRA), less a 0.75% reduction to offset projected increases associated with new admission and medical review criteria for inpatient services, and plus a 0.8% increase for two-midnight policy adjustments. CMS states that the fiscal year 2017 ATRA cut, combined with those applied in fiscal years 2014, 2015 and 2016 will fulfill the $11 billion required recoupment. CMS is expected to restore this reduction to the standardized amount in fiscal year 2018.

In the fiscal year 2014 IPPS final rule, CMS imposed a permanent 0.2% reduction to offset what CMS estimated to be a $220 million increase in inpatient PPS due to implementation of the two-midnight rule. Several hospitals and hospital organizations filed suit against CMS challenging the reduction. In September 2015, the court rejected CMS's arguments and required CMS to provide further justification for the reduction. CMS failed to provide adequate justification. In the fiscal year 2017 final rule, CMS will implement a permanent increase of 0.2% for fiscal year 2017 and onward. The rule also provides for a temporary increase of 0.6% to recover the negative impact of this cut on fiscal years 2014, 2015, and 2016. The temporary increase will be removed from the market basket in fiscal year 2018. The net impact of the market basket increase and adjustments is estimated to be $600,000.

Hospitals not submitting quality data and not meaningful use users of electronic health records (EHRs) in fiscal year 2015 are subject to a full reduction in the initial market basket increase of 2.7%. If a hospital is subject to both reductions, they will start with a market basket rate of 0.0%, and will receive an update of negative 1.75%. The Medical Center has submitted quality measures and is considered a meaningful use user for fiscal year 2015; therefore, there will be no negative impact on the Medical Center's reimbursement for these two factors.

Beginning in fiscal year 2014, ACA required changes to Medicare DSH payments. The Medical Center receives 25% of the DSH payment previously received using the traditional formula as part of the "base" DRG payments for each Medicare inpatient discharge. The remaining 75% flows into a separate funding pool and is distributed based on each DSH-eligible hospital's ratio of uncompensated care relative to the total for all DSH-eligible hospitals. This portion of the Medicare DSH funding is paid as a flat amount on each Medicare inpatient discharge. This pool is reduced as uninsured populations decline. The national uninsured rate is estimated to be 10% for fiscal year 2017. The estimated impact associated with the federal fiscal year 2017 Medicare Disproportionate share will be an increase of $42,000.

The 2017 IPPS final rule implements the Notice of Observation Treatment and Implication of Care Eligibility (NOTICE) Act. This Act requires hospitals to provide Medicare beneficiaries receiving observation services for more than 24 hours a notice and an oral

explanation that the beneficiary is an outpatient receiving observation services and the implications of that status. Hospitals will be required to furnish a new CMS-developed standardized notice, the Medicare Outpatient Observation Notice (MOON), to Medicare beneficiaries receiving observation services for more than 24 hours. The notice must be delivered no later than 36 hours after observation services begin, or sooner if the patient is transferred, discharged or admitted as an inpatient. Implementation of the NOTICE act is delayed beyond the August 6, 2016 statutory deadline as the MOON is submitted for comment and a comment review period. CMS will announce the start of the implementation period on its Beneficiary Notices Initiative website.

On July 6, 2016, CMS issued the proposed calendar year 2017 Outpatient Prospective Payment rule. CMS proposed to raise the base OPPS Payment rate by a market basket increase of 2.8%, less a productivity adjustment of 0.5% and 0.75% for reductions required under ACA. For hospitals that do not report the required quality measures identified by CMS, the update will be decreased by 2.0 percentage points, to -0.45%. The Medical Center does report quality measures so no financial impact is anticipated.

OPPS currently includes 37 comprehensive ambulatory payment classifications (C-APCs) that package a number of related items and services contained on the same claim into a single payment for a comprehensive primary service. For calendar year 2017, CMS has proposed adding 25 C-APCs, many of which are major surgical APCs. CMS has proposed adding new C-APC clinical families to include nerve procedures, excisions, biopsy, incision and drainage procedures and airway endoscopy procedures.

Effective January 1, 2016, CMS implemented the Comprehensive Care for Joint Replacement Model (CJR), a mandatory bundled payment program for hip and knee replacement surgery (MS-DRGs 469 and 470). The CJR payment model holds the hospital in which the joint replacement takes place financially responsible for the entire episode of care, from the date of surgery through 90 days post-discharge. The episode of care includes the surgical procedure and inpatient stay and related services within 90 days of discharge, including inpatient and outpatient, readmission, inpatient rehabilitation, skilled-nursing and home health services. CMS will test the CJR model for five years with the first model year beginning April 1, 2016 and year five ending December 31, 2020. Under the model, all providers continue to receive payment under Medicare fee-for-service. After the completion of the performance year, claims payments are grouped into episodes and aggregated. CMS will compare the participating hospital's total episode payment to their "target price". The "target price" would reflect a hospital's hospital-specific and regional blended historical payments, less 2.0%. If the total episode payments are below the target price, Medicare will pay the hospital the difference in the form of a "reconciliation payment." If spending was in excess of the target price, the hospital will pay Medicare the difference. Only hospitals meeting or exceeding performance thresholds on certain quality measures will be eligible for a "reconciliation payment." The first performance year begins April 1, 2016 and ends December 31, 2016. Medicare will not require repayment from

hospitals for performance year one for actual episode payments that exceed their target price.

On August 2, 2016, CMS published a proposed rule to implement retrospective bundled payments in certain selected geographic areas for Medicare fee-for-services receiving care for acute myocardial infarction (AMI), coronary artery bypass graft (CABG) and surgical hip/femur fracture treatment excluding lower extremity joint replacement (SHFFT). Similar to the CJR model, inpatient hospitals would be the episode initiator and bear the financial risk of Medicare fee-for-service patients discharged under these conditions. The episode would consist of all services provided during the acute inpatient encounter and post-discharge services through 90 days post-discharge. The rule proposes to test this payment model for 5 performance years beginning July 1, 2017 and ending December 31, 2021. Providers will continue to receive Medicare fee-for-service payments. Upon completion of a performance year, claims payments will be combined to calculate the actual episode payment and compared against a target price. Reconciliation payments will be made to hospitals when actual payments are less than the target price. Also similar to CJR, hospitals must meet certain quality measures to be eligible for reconciliation payments. Beginning with the second performance year, CMS will require repayment from hospital when their actual payments are greater than the target price. CMS proposed to test this payment model in 98 metropolitan service areas (MSAs) from a possible 294 MSAs. The Medical Center is included in the Albuquerque, NM (MSA), which is listed as one of the potential MSAs. If the MSA is selected, the Medical Center would be a participant in this episode payment model.

On July 28, 2016, Centers for Medicare & Medicaid Services (CMS) released the fiscal year 2017 Inpatient Psychiatric Facilities (IPF) Prospective Payment System (PPS) Final Rule. The IPF PPS rates will increase by a market basket increase of 2.8%, less a 0.3% productivity reduction and an additional market basket reduction of 0.2% as mandated under the ACA, and a decrease of 0.1% resulting from an updated outlier threshold. The increase to the Medical Center would be an estimated $26,600.

The RAC program encompassing New Mexico became effective in March 2009, with Connolly Consulting Associates, Inc. as the contractor. CMS is currently in the procurement process for the next round of RAC contractors. The new RAC contracts are expected to be awarded by the end of calendar year 2016. October 1, 2016 is the last day that current RAC contractors can submit claim adjustments to MAC for overpayment or underpayments. Once new contracts have been awarded, the RAC contractors can begin sending Additional Documentation Requests.

The Sandoval County mill levy the Medical Center receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially decrease as a result of reduced property values and slowdowns in the building construction industry. The Medical Center receives mill levy proceeds pursuant to the Sandoval County Health Facilities Agreement between the Board of County Commissioners of the County of

Sandoval and the Medical Center. The mill levy is subject to approval by the Sandoval County voters every eight years, and it will be up for renewal in the November 2016 election. On August 4, 2016, the Sandoval County Commission voted to place the mill levy on the November ballot.

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, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash and cash equivalents	$ 16,748,235	13,184,429
Restricted cash and cash equivalents:		
Held by trustee for debt service	5,937,858	5,853,358
Total cash and cash equivalents	22,686,093	19,037,787
Receivables:		
Patient (net of allowance for doubtful accounts and contractual allowance of approximately $27,495,637 in 2016 and $16,420,546 in 2015)	11,600,655	10,299,629
Due from UNM Medical Group	47,567	-
Estimated third party settlements	826,489	1,942,338
Sandoval County mill levy	74,034	73,372
Interest receivable - bond subsidy proceeds	973,763	993,213
Other	70,571	1,010
Total net receivables	13,593,079	13,309,562
Prepaid expenses	776,323	948,318
Inventories	2,401,084	2,087,239
Total current assets	39,456,579	35,382,906
Noncurrent assets:		
Restricted investments:		
Held by trustee for mortgage reserve fund	7,411,546	5,404,485
Capital assets, net	114,356,360	121,779,060
Total noncurrent assets	121,767,906	127,183,545
Total assets	161,224,485	162,566,451
Liabilities		
Current liabilities:		
Accounts payable	4,861,256	3,875,745
Accrued payroll	1,478,255	1,300,909
Due to University of New Mexico	66,313	158,005
Due to University of New Mexico Health System	1,278,331	201,047
Due to UNM Medical Group	197,804	103,542
Estimated third party settlements	1,201,016	1,432,930
Bonds payable – current	3,540,000	3,380,000
Interest payable bonds	2,915,600	2,991,650
Accrued compensated absences	1,607,103	1,507,566
Total current liabilities	17,145,678	14,951,394
Noncurrent liabilities:		
Bonds payable	124,960,000	128,500,000
Total noncurrent liabilities	124,960,000	128,500,000
Total liabilities	142,105,678	143,451,394
Net Position		
Net deficiency in capital assets	(14,143,640)	(10,100,940)
Restricted, expendable		
Expendable bequests and contributions	77,310	78,735
In accordance with the trust indenture and debt agreement	13,349,404	11,257,843
Unrestricted	19,835,733	17,879,419
Total net position	$ 19,118,807	19,115,057

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, 2016 and 2015

		2016	2015
Operating revenues:			
Net patient service revenue	$	76,623,662	74,754,919
Other operating revenues		551,557	516,033
Total operating revenues		77,175,219	75,270,952
Operating expenses:			
Employee compensation		32,449,963	29,004,375
Medical and other supplies		16,913,832	15,188,359
Depreciation		8,456,101	9,621,494
Medical services		7,139,074	5,592,810
Benefits		5,954,159	5,371,916
Purchased services		3,374,966	3,718,064
Equipment		2,893,275	2,889,499
Occupancy		1,507,620	1,619,039
Other		716,482	681,699
Total operating expenses		79,405,472	73,687,255
Operating (loss) gain		(2,230,253)	1,583,697
Nonoperating revenues (expenses):			
Sandoval County mill levy		6,152,531	6,080,650
Federal bond subsidy		1,960,076	1,998,362
Interest income, net		11,883	5,991
Interest on bonds		(5,869,675)	(6,017,732)
Bequests and contributions		20	11,066
Other nonoperating expense		(20,832)	(1,001,026)
Net nonoperating revenues (expenses)		2,234,003	1,077,311
Increase in net position		3,750	2,661,008
Net position, beginning of year		19,115,057	16,454,049
Net position, end of year	$	19,118,807	19,115,057

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, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Cash received from Medicare and Medicaid	$	25,925,174	22,858,729
Cash received from insurance and patients		50,281,397	49,497,852
Cash payments to employees		(28,246,457)	(24,710,090)
Cash payments to suppliers		(38,172,064)	(35,300,859)
Cash received from (payments to) University of New Mexico Health System		(1,238,654)	(322,795)
Cash payments from UNM Medical Group		(1,047,673)	103,542
Cash (payments to) received from University of New Mexico		(91,692)	(927,926)
Other receipts		481,996	516,033
Net cash provided by operating activities		7,892,027	11,714,486
Cash flows from noncapital financing activities:			
Cash received from Sandoval County mill levy		6,151,869	6,110,099
Cash received from contributions		20	11,066
Net cash provided by noncapital financing activities		6,151,889	6,121,165
Cash flows from capital financing activities:			
Purchases of capital assets		(1,061,126)	(3,309,249)
Cash received from federal bond subsidy		1,979,526	2,086,411
Cash payments to UNM Medical Group for negative arbitrage fund		-	(2,040,000)
Interest payments on bonds		(5,945,725)	(6,278,145)
Cash payments for mortgage reserve fund		(2,007,061)	(1,923,543)
Principal payments on bonds		(3,380,000)	(11,545,000)
Cash payments for mortgage-related activities (Mortgage servicing, MIP, GNMA guaranty)		(792,690)	(1,001,026)
Other receipts		799,583	-
Net cash used in capital financing activities		(10,407,493)	(24,010,552)
Cash flows from investing activities:			
Interest on investments		11,883	5,991
Net cash provided by investing activities		11,883	5,991
Net increase (decrease) in cash and cash equivalents		3,648,306	(6,168,910)
Cash and cash equivalents, beginning of year		19,037,787	25,206,697
Cash and cash equivalents, end of year	$	22,686,093	19,037,787

See accompanying notes to financial statements.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF UNIVERSITY OF NEW MEXICO)
STATEMENTS OF CASH FLOWS (CONTINUED)
Years ended June 30, 2016 and 2015

		2016	2015
Reconciliation of operating loss to net cash used in operating activities:			
Operating (loss) gain	$	(2,230,253)	1,583,697
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense		8,456,101	9,621,494
Provision for doubtful accounts		7,323,852	2,750,843
Change in assets and liabilities:			
Patient receivables		(8,624,878)	(6,924,854)
Due from University of New Mexico Health System		-	2,130,605
Due from UNM Medical Group		(47,567)	-
Estimated third party payer settlements		883,935	1,775,673
Other receivables and prepaid expenses		102,434	1,251,562
Inventories		(313,845)	(378,528)
Due to University of New Mexico Health System		1,077,284	(132,046)
Due to University of New Mexico		(91,692)	(927,926)
Due to UNM Medical Group		94,262	103,542
Accrued payroll		177,346	273,251
Accrued compensated absences		99,537	296,677
Accounts payable		985,511	290,496
Net cash provided by operating activities	$	7,892,027	11,714,486

See accompanying notes to financial statements.

NOTE 1. DESCRIPTION OF BUSINESS

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

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, 12 intensive care unit beds, and 12 dedicated senior behavioral health beds. 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 component unit of the UNM and is reported as such in the basic financial statements of UNM. The Medical Center has no component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Recent Accounting Pronouncement. The GASB issued GASB Statement No. 72, *Fair Value Measurement and Application* (GASB No. 72), which is effective for financial statements for periods beginning after June 15, 2015. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement requires the use of valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value and establishes a hierarchy of inputs to valuation techniques used to measure fair value.

Use of Estimates. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statement dates, and the reported amount of revenues and expenses during the reporting periods. Due to uncertainties inherent in the estimation process, actual results could differ from those estimates. During the year ended June 30, 2015, such a change in the estimate used in determining collectible accounts receivable

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

from patient services for the prior fiscal year did occur. As more information with respect to the conversion of patients from self-pay and indigent programs to the Medicaid program, including Centennial Care, was acquired, it was determined that patient accounts receivable at June 30, 2014 were understated by approximately $3.3 million. This change in estimate resulted in the additional $3.3 million in collections in patient accounts receivable at June 30, 2014 being included in net patient service revenue for the year ended June 30, 2015.

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

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

Restricted Cash and Cash Equivalents. The balance of restricted cash and cash equivalents at June 30, 2016 and 2015 is cash held by trustee for debt service and is used for the principal and interest components of debt service.

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

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

Restricted Investments Noncurrent. The Medical Center has established a Mortgage Reserve Fund in accordance with the requirements and conditions of the 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.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2016 and 2015 is greater than the investment in capital assets, this category of Net Position is reported as a negative amount in the Statements of Net Position.

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

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

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

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.

Nonoperating Revenues and Expenses. Nonoperating revenue includes 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*

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

and Financial Reporting for Nonexchange Transactions. Investment income is recognized in the period when it is earned. The mill levy is recognized in the period it is collected by the County. Bequests and contributions are recognized when all applicable eligibility requirements have been met. Nonoperating expenses also include interest expense on bonds, mortgage servicing fees, mortgage insurance premium, GNMA guaranty fees and other nonoperating revenue.

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

Federal Bond Subsidy. The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs. These sources of funds are accounted for as nonoperating revenues and recorded as they are 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, 2016 and 2015, the Medical Center recognized $1,960,076 and $1,998,362 in federal bond subsidy revenue, respectively.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management. The Medical Center sponsors a self-insured health plan. Blue Cross and Blue Shield of New Mexico and HMO New Mexico (BCBSNM and HMONM) provide administrative claim payment services for the Medical Center's plan. Liabilities are based on an estimate of claims that have been incurred but not reported (IBNR) and claims received but not yet paid. At June 30, 2016 and 2015, the estimated amount of the Medical Center's IBNR and accrued claims was $239,884 and $241,206, respectively, which is included in accrued payroll. The liability for IBNR was based on actuarial analysis calculated using information provided by BCBSNM.

	Beginning of Fiscal Year	Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2015 - 2016	$241,206	2,592,447	(2,593,769)	239,884
2014 - 2015	216,028	2,593,103	(2,567,925)	241,206

Classification. Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

NOTE 3. CASH AND CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

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

The carrying amounts of the Medical Center's deposits with financial institutions at June 30, 2016 and 2015 are $16,743,235 and $13,179,779, respectively.

Bank balances are categorized at June 30, as follows:

	2016	2015
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 291,999	500,000
Other cash	17,820,840	14,155,907
	$ 18,112,839	14,655,907

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

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

Restricted Cash and Cash Equivalents

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

	2016	2015
Debt service fund	$ 5,937,858	5,853,358

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

Interest Rate Risk – Debt Investments – Cash and Cash Equivalents. 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, 2016 and 2015 and their exposure to interest rate risk is as follows:

	June 30, 2016		June 30, 2015	
	Fair Value	Less than 1 Year	Fair Value	Less than 1 Year
Items not subject to interest rate risk:				
Money market fund	$ 5,937,858	5,937,858	$ 5,853,358	5,853,358
Items not subject to interest rate risk	5,937,858	5,937,858	5,853,358	5,853,358
Total restricted cash and cash equivalents	$ 5,937,858	5,937,858	$ 5,853,358	5,853,358

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

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, 2016 and 2015, the Medical Center debt investments that are subject to custodial credit risk.

	June 30, 2016		June 30, 2015	
	Fair Value	Less than 1 Year	Fair Value	Less than 1 Year
Items not subject to interest rate risk:				
Money market fund	$ 5,937,858	5,937,858	$ 5,853,358	5,853,358
Items not subject to interest rate risk	5,937,858	5,937,858	5,853,358	5,853,358
Total restricted cash and cash equivalents	$ 5,937,858	5,937,858	$ 5,853,358	5,853,358

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

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

	June 30, 2016		June 30, 2015	
	Fair Value	Less than 1 Year	Fair Value	Less than 1 Year
Items not subject to interest rate risk:				
Money market fund	$ 5,937,858	5,937,858	$ 5,853,358	5,853,358
Items not subject to interest rate risk	5,937,858	5,937,858	5,853,358	5,853,358
Total restricted cash and cash equivalents	$ 5,937,858	5,937,858	$ 5,853,358	5,853,358

Long-Term Investments

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

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

A summary of the long term investments at June 30, 2016 and 2015 and their exposure to interest rate risk is as follows:

	June 30, 2016		June 30, 2015	
	Fair Value	Less than 1 Year	Fair Value	Less than 1 Year
Items not subject to interest rate risk:				
Money market fund	$ 7,411,546	7,411,546	5,404,485	5,404,485
Items not subject to interest rate risk	7,411,546	7,411,546	5,404,485	5,404,485
Total long-term investments	$ 7,411,546	7,411,546	5,404,485	5,404,485

Custodial Credit Risk – Debt Investments. As of June 30, 2016 and 2015, the Medical Center held no U.S. government obligations for long-term investment purposes.

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

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

	June 30, 2016		June 30, 2015	
	Rating	Fair Value	Rating	Fair Value
Items subject to credit risk:				
Money market fund	Not Rated	$ 7,411,546	Not Rated	$ 5,404,485
Total items subject to credit risk		7,411,546		5,404,485
Total long-term investments		$ 7,411,546		$ 5,404,485

NOTE 4. CONCENTRATION OF RISK

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

	2016		2015	
Medicare and Medicaid	$ 24,862,322	64%	$ 16,817,801	63%
Other third party payors	7,770,858	20%	3,991,134	15%
Others	6,463,112	16%	5,911,240	22%
Total patient accounts receivable	39,096,292	100%	26,720,175	100%
Less allowance for uncollectible accounts and contractual adjustments	(27,495,637)		(16,420,546)	
Patient accounts receivable, net	$ 11,600,655		$ 10,299,629	

NOTE 5. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

The Medical Center is reimbursed by the Medicare and Medicaid programs on a prospective payment basis for hospital services, with certain items reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Medical Center. The annual cost reports are subject to audit by the Medicare Administrative Contractor and the Medicaid audit agent. Under C.F.R. §412.300(b), the Medical Center is paid at 85 percent of its allowable Medicare Inpatient hospital capital-related costs through its cost report ending at least 2 years after the hospital accepts its first patient. The Medical Center accepted its first patient on July 17, 2012, thus the first cost report period beginning at least two years after this date would be cost report period July 1, 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, 2016 and 2015 are a payable of $230,234 and a receivable of $957,748, respectively. The estimated Medicaid settlements at June 30, 2016 and 2015 are receivables of $790,675 and $555,678, respectively.

NOTE 6. CAPITAL ASSETS

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

	Year Ended June 30, 2016				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
UNM Sandoval capital assets not being depreciated:					
Construction in Progress	$ 200,674	244,868	(279,764)	-	165,778
UNM Sandoval 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)
UNM Sandoval depreciable capital assets, net	121,578,386	(7,639,843)	279,764	(27,725)	114,190,582
UNM Sandoval capital assets not being depreciated	200,674	244,868	(279,764)	-	165,778
UNM Sandoval depreciable capital assets, at cost	148,265,720	816,258	279,764	(45,577)	149,316,165
UNM Sandoval 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)
UNM Sandoval capital assets, net	$ 121,779,060	(7,394,975)	-	(27,725)	114,356,360

NOTE 6. CAPITAL ASSETS (CONTINUED)

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

NOTE 7. COMPENSATED ABSENCES

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

Full-time employees with zero to seven years of service accrue 11.07 hours of PTO each pay period (36 days per annum) up to a maximum of 500 hours to be used for sick, holiday and annual leave. Full-time employees with years of service in excess of seven years accrue 12.61 hours of PTO each pay period (41 days per annum) up to a maximum of 500 hours to be used for sick, holiday and annual leave. Part-time employees earn PTO leave on a prorated basis each pay period. When publicized by the Medical Center each year, employees have the opportunity to exchange for cash at 80% of their hourly rate all hours accumulated in excess of 80 hours. At termination, employees are eligible for payment of unused accumulated hours at 100% of their regular hourly rate. Accrued PTO as of June 30, 2016 and 2015 of $1,607,103 and $1,507,566, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

During the years ended June 30, 2016 and 2015, the following changes occurred in accrued compensated absences:

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

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

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

NOTE 8. BONDS PAYABLE

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

NOTE 8. BONDS PAYABLE (CONTINUED)

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

The bonds were issued as special limited obligations of the Medical Center and are secured primarily by fully modified mortgage backed securities in the aggregate principal amount of $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 FHApursuant to Section 242 of the National Housing Act of 1934 and to provide security for the Bonds, the Trustee will use the proceeds of the Bonds to purchase from the Lender the GNMA Securities. The Medical Center has agreed to use the proceeds of the Mortgage Note to acquire, construct, and equip the construction of the Medical Center.

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

NOTE 8. BONDS PAYABLE (CONTINUED)

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

As of June 30, 2016 and 2015, the balance of the Mortgage Note equaled the balance of the GNMA securities.

The terms of the Bonds Issued are as follows:

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

The Medical Center is eligible to receive cash subsidy payments from the United States Department of Treasury equal to 35% of the interest payable on the Build America Bonds (Series 2010A), and 45% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B), payable on or about each respective interest payment date, which payments lower the overall true cost of the bonds to 3.33%. Pursuant to the Budget Control Act of 2011, as postponed by the American Tax Payer Relief Act of 2012, the budget sequestration impact was a reduction of 7.2%, effective March 1, 2013. This had the effect of changing the subsidy payment from the United States Department of Treasury equal to 32.48% of the interest payable on the Build America Bonds (Series 2010A), and 41.76% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B). For Federal fiscal year 2016, beginning October 1, 2015, the sequestration percentage changed slightly to 6.8%.

NOTE 8. BONDS PAYABLE (CONTINUED)

The following schedule summarizes the special and scheduled mandatory redemption requirements of the Series 2010A and Series 2010B bonds as of June 30, 2016:

	Series 2010A Bonds		Series 2010B Bonds		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 3,540,000	5,304,938	-	487,000	3,540,000	5,791,938
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
2022-2026	24,645,000	19,946,588	-	2,435,000	24,645,000	22,381,588
2027-2031	31,170,000	13,768,988	-	2,435,000	31,170,000	16,203,988
2032-2036	39,430,000	5,955,863	-	2,435,000	39,430,000	8,390,863
2037-2038	4,020,000	90,450	9,740,000	593,250	13,760,000	683,700
	$ 118,760,000	64,594,016	9,740,000	10,333,250	128,500,000	74,927,266

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

On July 20, 2015, the scheduled mandatory bond redemption payment was made by the Medical Center on the Series 2010A; a principal payment of $1.67 million and an interest payment of $2.75 million. On January 20, 2016 a principal payment of $1.71 million and an interest payment of $2.71 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

NOTE 8. BONDS PAYABLE (CONTINUED)

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

NOTE 9. NET PATIENT SERVICE REVENUES

The majority of the Medical Center's revenue is generated through agreements with third-party payors that provide for reimbursement to the Medical Center at amounts different from its established charges. Approximately 31% and 27% of the Medical Center's gross patient revenue for the year ended June 30, 2016, 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, 2015, approximately 33% and 26% were derived from the Medicare and Medicaid programs, respectively. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. The implementation of the Affordable Care Act on January 1, 2014 profoundly impacted not only the proportion of patients covered by Medicaid, but it also affected the reimbursement rates paid by Medicaid for hospital services. See Note 2, *Use of Estimates,* for further discussion of the change in estimate for the year ended June 30, 2014 that impacted net patient revenue reported in fiscal year ended June 30, 2015. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at established charges for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from major third-party payors follows:

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

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

NOTE 9. NET PATIENT SERVICE REVENUES (CONTINUED)

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

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:

		2016	2015
Charges at established rates	$	174,042,772	155,049,393
Charity care		(3,832,040)	(2,502,426)
Contractual adjustments		(86,263,218)	(75,041,205)
Provision for doubtful accounts		(7,323,852)	(2,750,843)
Net patient service revenues	$	76,623,662	74,754,919

NOTE 10. CHARITY CARE

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

	2016	2015
Charges foregone, based on established rates	$ 3,832,040	2,502,426
Estimated costs and expenses incurred to provide charity care	1,747,410	1,188,652
Equivalent percentage of charity care charges foregone to total gross revenue	2.2%	1.6%

NOTE 11. MALPRACTICE INSURANCE

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

The NMTCA limits, as an integral part of this waiver of immunity, the amount of damages that can be assessed against UNM Sandoval Regional Medical Center, Inc. on any tort claim including medical malpractice, professional or general liability claims. The NMTCA provides that total liability for all claims that arise out of a single occurrence shall not exceed $700,000 set forth as follows: (a) $200,000 for real property; (b) up to $300,000 for past and future medical and medically related expenses; and (c) up to $400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. While the language of the NMTCA does not expressly provide for claims of loss of consortium, New Mexico appellate court decisions have allowed claimants to seek loss of consortium. As a result, if loss of consortium claims are presented, those claims cannot exceed $350,000 in the aggregate. Thus, it appears that if a claim presents both direct claims and third party claims, the maximum exposure of the Public Liability Fund and, therefore, UNM Sandoval Regional Medical Center, Inc., cannot exceed $1,050,000. The NMTCA prohibits the award of punitive or exemplary damages against UNM Sandoval Regional Medical Center, Inc.

NOTE 11. MALPRACTICE INSURANCE (CONTINUED)

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

NOTE 12. RELATED PARTY TRANSACTIONS

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

		2016	2015
UNM Health System	$	241,532	738,546
	$	241,532	738,546

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

NOTE 12. RELATED PARTY TRANSACTIONS (CONTINUED)

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

		2016	2015
University of New Mexico	$	716,249	477,212
UNM Health System		2,759,729	2,378,672
UNM Medical Group		1,814,686	540,197
	$	5,290,664	3,396,081

Additionally, UNMMG extended funds to the Medical Center for the funding of the Negative Arbitrage Account fund as required by the bond rating agencies. UNMMG advanced the Medical Center $10,125,000 in November of 2010. Final endorsement was completed on June 18, 2014. The final balance owed to UNMMG for the funding on the Negative Arbitrage was paid on July 29, 2014 in the amount of $2,040,000 and is reflected in the statement of cash flows presented for fiscal year 2015.

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

NOTE 13. BENEFIT PLANS

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

Contributions to the plan are made through employee deferrals on earned compensation. Participants may contribute, on a tax-deferred basis, up to the annual limitations as prescribed by the Internal Revenue Service. Participants may designate all or a portion of 403(b) elective deferral contributions as Roth elective deferral contributions. Participants may also make rollover contributions representing distributions from other qualified plans. 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 $680,435, $493,587 and $409,204 in the years ended June 30, 2016, 2015 and 2014, respectively. Total employee contributions under this plan were $980,098, $738,157 and $593,346 for the years ended June 30, 2016, 2015 and 2014, respectively.

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

UNM Sandoval Regional Medical Center, Inc.
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 Sandoval Regional Medical Center, Inc. (SRMC), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise SRMC's basic financial statements and have issued our report thereon dated October 21, 2016.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SRMC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted a certain matter that is required to be reported per Section 12-6-5 NMSA 1978, that we have described in the accompanying schedule of findings and responses as item 2016-001.

SRMC's Response to Finding

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

Purpose of this Report

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

Moss Adams LLP

Albuquerque, New Mexico
October 21, 2016

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2016

2016-001 FORMALIZED REVIEW OF ALL SOARIAN USERS (OTHER MATTER)

CRITERIA

The Medical Center's Soarian system processes, records, and stores information that is vital to its daily operations and contains protected health information of its patients. It is critical that access to this system is properly maintained to prevent inappropriate transactions from occurring, data from being lost, and to prevent protected health information from being released.

CONDITION

During the audit, we noted that the Medical Center did not conduct a formalized review of all Soarian users. Although the Medical Center did conduct an ad-hoc user access review, in which they reviewed the access rights for all Soarian users, there was no actual formalized user access review being conducted on an annual basis.

CAUSE

Soarian was implemented in August 2015, and the design and implementation of a formalized user access review process had not been completed at the time of our audit inquiries.

EFFECT

There is a risk of one or more individuals gaining access to Soarian or retaining access after it should be revoked, potentially resulting in a breach of data or protected health information.

RECOMMENDATION

We recommend that management continues to review user access at least on an annual basis. This review should be formally documented and included as part the Medical Center's official policies and procedures. A departmental manager or individual responsible for the functional data should perform the review.

MANAGEMENT RESPONSE

Patient Financial Services Information Technology (PFS-IT) staff will conduct an annual review on 100% of user accounts in the Soarian Financials Patient Accounting system to ensure proper termination of access for unused accounts and accounts where the user changed departments. The audit will be conducted by the IT Manager and reviewed by the PFS Finance Director with completion prior to December 31st of each calendar year beginning in 2016. A procedure regarding the annual review will be written by Management and maintained in coordination with the Data Integrity document.

In addition, users who have not logged into Soarian Financials for 90 days or more on a quarterly basis will be disabled based upon inactivity. This process will commence in the fall of 2016 and will continue on a quarterly basis thereafter.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2016

No matters were reported.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
EXIT CONFERENCE
JUNE 30, 2016

An exit conference was conducted on October 20, 2016, with members of the board of directors and members of SRMC management. During this meeting, the contents of this report were discussed with the following board members, management personnel, and Moss Adams LLP representatives present:

Jerry Geist	Board Member
Michael Richards	MD Executive Physician-in-Chief
Steve McKernan	CEO, UNM Hospitals
Ava Lovell	Chief Financial Officer, UNM Health Sciences Center
Darlene Fernandez	Chief Financial Officer, SRMC
Ella Watt	Chief Financial Officer, UNM Health System
Jamie Silva-Steele	President and CEO, SRMC
Lawrence Pineda	Finance Director
Pam Demarest	Chief Nursing Officer, SRMC
Purvi Mody	Health System Compliance and Internal Audit Officer
Shawna Gonzales	Executive Director & Controller, Finance
Correen Bales	Executive Director, Human Resources SRMC
Paul Echols	Chief Medical Officer, SRMC
Diana Heider	Assistant University Counsel
DeVon Wiens	Partner, Moss Adams LLP
Josh Lewis	Partner, Moss Adams LLP

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