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

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)
Official Roster
June 30, 2014

BOARD OF DIRECTORS

Paul Roth, MD Albuquerque, NM	Chairperson (Term expires 6/30/17, Regent appointed)
Brad Cushnyr, MD Albuquerque, NM	Member (Term expires 6/30/15, Regent appointed)
Charlotte Garcia Albuquerque, NM	Member (Term expires 6/30/15, County appointed)
Steve McKernan Albuquerque, NM	Member (Term expires 6/30/16, Regent appointed)
Michael Richards, MD Albuquerque, NM	Member (Term expires 6/30/16, Regent appointed)
Jerry Geist Albuquerque, NM	Member (Term expires 6/30/16, Regent appointed)
Manu RainBird Albuquerque, NM	Member (Term expires 6/30/17, County appointed)

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)
Official Roster (continued)
June 30, 2014

ADMINISTRATIVE OFFICERS

Jamie Silva-Steele	Chief Executive Officer – Sandoval Regional Medical Center
Tony Ogborn, MD	Chief Medical Officer – Sandoval Regional Medical Center
Pamela Demarest	Chief Nursing Officer – Sandoval Regional Medical Center
Ella Watt	Interim Chief Financial Officer – Sandoval Regional Medical Center and Interim Chief Financial Officer – UNM Health System

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

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
UNM Sandoval Regional Medical Center, Inc.
and
Mr. Hector Balderas, State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of Sandoval Regional Medical Center Inc. (SRMC), a component unit of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits*.* We conducted our audit*s* 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 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SRMC as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the year*s* then ended in accordance with accounting principles generally accepted in the United States of America.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

The Board of Directors
UNM Sandoval Regional Medical Center, Inc.
and
Mr. Hector Balderas, State Auditor

Emphasis of Matter

As discussed in Note 1, the financial statements present only SRMC and are not intended to present fairly the financial position of the University of New Mexico as of June 30, 2014 and 2013, 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 3-14 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 31, 2014 on our consideration of the 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 Center's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
October 31, 2014

The following discussion and analysis provides an overview of the financial position and activities of UNM Sandoval Regional Medical Center (Medical Center) as of and for the fiscal years ended June 30, 2014, 2013 and 2012. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of the Medical Center's management.

Using This Annual Report

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

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

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

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

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

Overview of Entity

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

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

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

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

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

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

Physician Services - the Medical Center has an "open" medical staff, allowing community physicians in addition to the UNM SOM providers to be members of the active medical staff and to admit and follow their patients at the Medical Center. There are currently 492 physicians credentialed of which 375 are School of Medicine physicians and the remaining 117 are community physicians.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2014 AND 2013

		As of June 30,	
	2014	**2013**	**2012**
Assets			
Current assets	$ 40,841,685	36,983,806	71,942,268
Capital assets, net	128,091,305	136,485,863	129,759,992
Noncurrent assets	3,480,942	1,677,025	-
Total assets	$ 172,413,932	175,146,694	201,702,260
Liabilities			
Current liabilities	$ 24,079,883	15,362,628	24,760,374
Noncurrent liabilities	131,880,000	140,765,000	143,925,000
Total liabilities	$ 155,959,883	156,127,628	168,685,374
Net Position			
Net investment in capital assets	$ -	-	2,344,125
Restricted net position, expendable	24,100,300	10,094,941	37,124,103
Unrestricted	(7,646,251)	8,924,125	(6,451,342)
Total net position	$ 16,454,049	19,019,066	33,016,886

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

The increase in cash reflects the transfer of the prepaid mortgage payments of $2.8 million made during fiscal year 2013 plus the accumulation of the monthly principal mortgage payments of $3.2 million made during fiscal year 2014. On July 21, 2014, these cash balances plus the July 2014 mortgage payment were used to make bond payments of $6.17 million on the Series 2010A bonds.

At June 30, 2013, total Medical Center assets were $175.1 million compared to $201.7 million at June 30, 2012. The Medical Center's most significant assets at June 30, 2013 were net capital assets of $136.5 million, cash and cash equivalents of $19.3 million followed by patient receivables of $6.0 million.

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

The Medical Center's liabilities totaled $156.1 million at June 30, 2013 compared to $168.7 million at June 30, 2012. At June 30, 2013, current and non-current bonds payable of $143.4 million was the largest liability, followed by accounts payable of $4.6 million.

At June 30, 2014, 2013 and 2012, the Medical Center's current assets of $40.8 million, $37.0 million and $71.9 million, respectively, were sufficient to cover current liabilities of $24.1 million (current ratio of 1.70), $15.4 million (current ratio of 2.41) and $24.8 million (current ratio of 2.91), respectively.

Total net position as of June 30, 2014 decreased by $2.6 million to $16.4 million, which included an operating loss of $5.3 million partially offset by net non-operating revenues of $2.7 million. Unrestricted net position totaled negative $7.6 million at June 30, 2014.

Total net position as of June 30, 2013 decreased by $14.0 million to $19.0 million, which included an operating loss of $30.0 million partially offset by net non-operating revenues of $16.0 million. Unrestricted net position totaled $8.9 million at June 30, 2013.

		Year Ended June 30,		
		2014	**2013**	**2012**
Total operating revenues	$	54,091,041	19,198,419	-
Total operating expenses		(59,373,188)	(49,206,822)	(6,347,010)
Operating loss		(5,282,147)	(30,008,403)	(6,347,010)
Nonoperating revenues, expense and other revenues		2,717,130	16,010,583	(3,853,679)
Total decrease in net position		(2,565,017)	(13,997,820)	(10,200,689)
Net position, beginning of year		19,019,066	33,016,886	43,217,575
Net position, end of year	$	16,454,049	19,019,066	33,016,886

Operating Revenues

The sources of operating revenues for the Medical Center are net patient services and other operating revenues, with the most significant source being net patient services revenues. Operating revenues were $54.1 million, $19.2 million and zero for the years ended June 30, 2014, 2013 and 2012, respectively. The Medical Center opened in July 2012 and received licensure in August 2012. Accordingly, there were no patient service revenues prior to fiscal year 2013.

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 services revenues were $52.7 million, $18.3 million and zero for the years ended June 30, 2014, 2013 and 2012 respectively. The increase of $34.4 million is the result of an increase in patient revenue associated with the second year of operations (See chart below).

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

The average daily census (ADC) as of June 30, 2014 was 33.2 and increased by 14.7 patients per day from an ADC of 18.5 as of June 30, 2013.

Net patient service revenue for the fiscal year ended June 30, 2014 includes cost report estimates for the Medicare and Medicaid programs in the amounts of $2 million and $228,093, respectively. The cost report estimate includes an estimate for the settlement of the capital reimbursement component from the Medicare and Medicaid programs in the amounts of $2.4 million and $173,995, respectively. This fiscal year ended June 30, 2013, includes an estimate for the settlement of capital reimbursement component for the Medicare program in the amount of $1.3 million. 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. SRMC accepted its first patient on July 17, 2012, thus the first cost report period beginning at least two years after this date would be cost report period July 1, 2015 to June 30, 2016. Beginning July 1, 2016, UNM SRMC will be subject to the prospective federal capital rate.

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

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 Bernalillo 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 fiscal years ended June 30, 2014 and 2013 approximated $2.4 million and $875,000, respectively.

The Medical Center provides care to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance. The Medical Center encourages patients to meet with a financial counselor to develop payment arrangements. Although the Medical Center pursues collection of these accounts usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, liens are not placed on property or assets, and judgments are not filed against the patients. These accounts are fully reserved and recorded as provision for uncollectible accounts.

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, 2014, total operating expenses were $59.4 million and represent an increase of $10.2 million from June 30, 2013. The most significant expense was an increase of $5.1 million in medical and other supplies, which was the result of an increase in patient volumes. The second largest was an increase of $2.5 million for employee compensation. The number of employees increased from June 30, 2013 to June 30, 2014 as a result of an increase in staffing levels to support clinical volumes. The next largest was an increase of $1.2 million for depreciation expense driven mainly from one less month of depreciation expense in fiscal year 2013 corresponding to when the hospital first opened.

Nonoperating Revenues and Expenses

For the years ended June 30, 2014 and 2013, net nonoperating revenues (expense) were $2.7 million and $16.0 million, respectively.

The most significant nonoperating revenue at June 30, 2014, was the Sandoval County mill levy (the "mill levy") tax subsidy totaling $8.0 million in 2014. 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 Non-operating revenues. During fiscal year 2013, the Medical Center recognized as revenue the Sandoval County proceeds of the Mill Levy accumulated prior to the opening of the Medical Center in July 2012 in the amount of $13.8 million.

The next largest source of nonoperating revenue in fiscal years ended June 30, 2014, 2013 and 2012 was the Federal Bond Subsidy in the amount of $2.2 million, $2.2 million and $2.3 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).

The most significant nonoperating expense recorded for fiscal years ended June 30, 2014 and 2013 was $6.5 million for bond interest expense each year.

Capital Assets

At June 30, 2014, the Medical Center had $128.1 million invested in capital assets, net of accumulated depreciation of $17.1 million. Depreciation charges for the year ended June 30, 2014 totaled $9.1 million.

	Year Ended June 30,		
	2014	2013	2012
Land, building and improvements	$ 104,937,400	105,435,945	-
Building service equipment	2,690,802	2,651,112	-
Fixed equipment	2,382,124	2,395,668	-
Major moveable equipment	34,749,109	33,961,464	-
Construction in progress	397,709	-	129,759,992
	145,157,144	144,444,189	129,759,992
Less accumulated depreciation	(17,065,839)	(7,958,326)	-
Net property and equipment	$ 128,091,305	136,485,863	129,759,992

During 2014 the largest capital increases were within major moveable equipment, $787,645 and construction in progress, $397,709. The larger major moveable equipment purchases included a temperature management system used in the operating rooms, an EEG system used to detect electrical activity in the brain and a neoprobe GDS control unit used in laparoscopic procedures. The construction in progress is primarily related to the addition of an interventional radiology lab used for biopsies of the liver and kidney, as well as for vascular access ports. The completion of the interventional radiology lab is expected to be in September 2014.

Debt Activity

The Medical Center's current and non-current bonds payable totaled $143.4 million at June 30, 2014, 2013 and 2012. The current portion of this debt was $11.6 million, $4.7 million and $1.5 million at June 30, 2014, 2013 and 2012, respectively. This debt is related to GNMA Collateralized Series 2010A and 2010B bonds.

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

The loan guarantee is considered federal assistance subject to the requirements of Office of Management and Budget (OMB) Circular A-133 and the Single Audit Act. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2014, 2013 and 2012 Single Audit.

Change in Net Position

Total net position as of June 30, 2014 decreased by $2.6 million to $16.5 million, which included an operating loss of $5.3 million partially offset by net non-operating revenues of $2.7 million. Unrestricted net position totaled a deficiency of $7.6 million at June 30, 2014. Total net position as of June 30, 2013 decreased by $14.0 million to $19.0 million, which included an operating loss of $30.0 million partially offset by net non-operating revenues of $16.0 million. Unrestricted net position totaled $8.9 million at June 30, 2013. Total net position (assets minus liabilities) is classified by the Medical Center's ability to use these assets to meet operating needs. Unrestricted net position may be used to meet all operating needs of the Medical Center. A portion of the Medical Center's net position is restricted by the trust indenture and debt agreement.

Factors Impacting Future Periods

On August 4, 2014, the Centers for Medicare & Medicaid Services (CMS) released the fiscal year 2015 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates will increase by a market basket increase of 2.9%, less a 0.5% productivity reduction mandated under the Patient Protection and Affordable Care Act (PPACA), less a 0.8% documentation and coding reduction mandated by the American Taxpayer Relief Act of 2012, and less a 0.2% reduction to offset projected increases associated with new admission and medical review criteria for inpatient services. The final rule includes a 2.2% mandated increase to national standardized operating payment amounts for hospitals submitting data on quality measures and meeting meaningful use of electronic health records (EHRs) requirements. Hospitals not submitting either quality data or not meaningful use users of EHRs in FY2013 will receive an update of only 1.475%. Hospitals not meeting either requirement are subject to only a 0.75% increase. The Final Rule did not provide policies or explanation regarding how CMS will identify and notify appropriate hospitals that they are subject to meaningful use payment penalties. The Medical Center has submitted quality measures; however, the Medical Center will not meet meaningful use measures for FY2013. Meaningful use of EHR requires a full year (twelve months) cost report to be on file. As the

Medical Center received its Medicare certification in August 2012, the FY2013 Medicare cost encompasses only eleven months. The FY2015 IPPS impact is estimated to be a reduction of 0.88% or $36,000.

On July 3, 2014, CMS issued the proposed calendar year 2015 Outpatient Prospective Payment rule. CMS proposed to raise the base OPPS Payment rate by a market basket increase of 2.7%, less a productivity adjustment of 0.4% and 0.2% for reductions required under PPACA. For hospitals that do not report the 22 quality measures identified by CMS, the update will be decreased by 2.0 percentage points, to 0.1%. CMS has proposed creating 28 comprehensive ambulatory payment classifications (APCs), which package related items and services into a single payment for the comprehensive primary service. These comprehensive APCs will replace the existing device-dependent APCs (procedures requiring a device to also be coded). The proposed comprehensive APCs will cover certain ancillary services with a geometric mean cost of less than $100 that are typically paid under separate fee schedules (such as laboratory services and therapy services, and durable medical equipment, prosthetic and orthotic supplies). These services will be considered adjunctive services that support the primary service and will not be paid separately. Separate payment will made for the ancillary services when they are furnished by themselves. CMS proposes using the final FY 2015 IPPS wage index for CY 2015 OPPS and the same wage index transition periods as those used in IPPS. CMS has proposed to begin collecting information that would allow it to analyze the services and payment for services furnished in off-campus provider-based hospital departments. The proposed rule would require a modifier be added to physician services and outpatient hospital services provided in an off-campus provider-based department of a hospital. The CY2015 Proposed Rule is estimated to increase program reimbursement by $30,000.

On July 31, 2014, Centers for Medicare & Medicaid Services (CMS) released the fiscal year 2015 Inpatient Psychiatric Facilities Prospective Payment System (IPF) Final Rule. The IPF rates will increase by a market basket increase of 2.9%, less a 0.5% productivity reduction and an additional market basket reduction of 0.3% as mandated under the Patient Protection and Affordable Care Act (PPACA), and an increase of 0.4% resulting from an updated outlier threshold. The Medical Center's inpatient psychiatric facility became Medicare certified on July 1, 2013. The net market basket update for FY2015 of 2.1% is not expected to have a material impact to total program reimbursement. The first cost report for the IPF will be filed November 30, 2014.

The Patient Protection and Affordable Care Act (PPACA) was enacted on March 23, 2010. PPACA expanded Medicaid eligibility provisions, Medicare and Medicaid reforms, and private insurance market reforms. PPACA includes legislation on Health Exchanges. Health

Exchanges are expected to facilitate the purchase of health insurance for qualified individuals and small employers. Federal subsidies for premiums under Health Exchanges became available beginning January 2014. On July 22, 2014, the D.C. Circuit Court of Appeals in Washington ruled that the text of PPACA forbids income-tax subsidies for low and middle income Americans whose insurance is provided through one of the federally run insurances exchanges (*Halbig v. Burwell*). The Circuit Court ruled that tax credits can only be provided on coverage purchased through an exchange established by the state. Thirty-six states currently use the federally run insurance exchanges, including New Mexico. On the same day, the 4th U.S. Circuit Court of Appeals in Virginia upheld the subsidies provided for coverage purchased on federal exchanges (*King v. Burwell*). In August 2014, plaintiffs in the Virginia case petitioned the Supreme Court to hear the case. If accepted by the Supreme Court, a ruling may not be made until after the next re-enrollment period for 2015. New Mexico will continue to utilize the federal health exchange for the next enrollment period and will be impacted by any subsequent court rulings. CMS has also identified a significant number of enrollees nationally that have not provided all required documentation to support enrollment on the federal health exchange. If documentation is not provided, patients will be removed from the federal health exchange as of September 31, 2014. The number of New Mexico enrollees impacted is not known at this time.

The Recovery Audit Contract (RAC) program was created through the Medicare Modernization Act of 2003 (MMA) to recover inappropriate payments made to providers for fee-for-service Medicare. The RAC program encompassing New Mexico became effective in March 2009, with Connolly Consulting Associates, Inc. as the contractor. CMS is currently in the procurement process for the next round of RAC contractors. In February 2014, CMS issued deadlines by which current contractors could submit additional documentation requests (ADRs) and improper payment adjustment files to the Medicare Administrative Contractors (MACs) for adjustment. These deadlines were to allow completion of all outstanding claims reviews and other process by the end of the current contracts. On August 4, 2014, due to delays in awarding RAC contracts, CMS initiated contract modifications to current RAC contracts to allow a restart of some reviews. CMS stated that most reviews will be on an automated basis, with a limited number of complex reviews of topics selected by CMS. During the extension of the current contracts, RACs will not review claims to determine if the care was delivered in the appropriate setting. SRMC has not received any RAC requests from inception through June 30, 2014. Management has established a reserve for RAC audits in the amount of $312,148 as of June 30, 2014 and is included in the caption "estimated third party settlements".

In January 2009, the Department of Health and Human Services (HHS) published final rules on the adoption of International Classification of Diseases, 10th Revision, Clinical Modification (ICD-10) as the Health Insurance Portability and Accountability Act of 1996 (HIPAA) standard code set to replace ICD-9. This 2009 ICD-10 final rule established October 1, 2013 as the compliance date for ICD-10 coding of diagnosis and procedure codes. In September 2012, HHS published a delay in the ICD-10 compliance date from October 1, 2013 to October 1, 2014. On April 1, 2014, the Protecting Access to Medicare Act of 2014 (PAMA) was signed delaying the transition to ICD-10 for at least one year. On July 31, 2014, HHS issued a final rule establishing October 1, 2015 as the compliance date for ICD-10.

The Sandoval County mill levy the Medical Center receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially decrease as a result of reduced property values and slowdowns in the building construction industry. The Medical Center receives mill levy proceeds pursuant to the Sandoval County Health Facilities Agreement between the Board of County Commissioners of the County of Sandoval and the Medical Center. Through June 30, 2014, Mill levy proceeds were distributed to the Medical Center and Presbyterian Hospital under the "Fixed Distribution Period". The Medical Center received 20% of the proceeds for operation of its inpatient behavioral health services and 50% of the remaining proceeds. Commencing July 1, 2014, the Health Facilities Agreement calls for a distribution of mill levy proceeds under the "Volume-Based Distribution Period". Under this methodology, the mill levy proceeds will be distributed to the Medical Center and Presbyterian based on their proportion of emergency room visits and inpatient days to the total emergency room visits and inpatient days of both organizations. The Medical Center has negotiated with Sandoval County and Presbyterian Hospital to modify the distribution of mill levy funds. The agreement amendment was approved by the Sandoval County Commission to distribute the mill levy proceeds 45% to the Medical Center and 55% to Presbyterian Hospital effective July 1, 2014. The amendment states that the 20% paid to the Medical Center in consideration for operating the behavioral health services is included in its 45% distribution.

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, 2014 and 2013

Assets		2014	2013
Current assets:			
Cash and cash equivalents	$	4,589,716	6,143,766
Restricted cash and cash equivalents:			
Held by trustee for operations		4,326,804	2,823,188
Held by trustee for debt service		16,290,177	5,593,869
Held by trustee for capital acquisition		-	4,739,611
Total cash and cash equivalents		25,206,697	19,300,434
Receivables:			
Patient (net of allowance for doubtful accounts and contractual allowance of approximately $18,635,064 in 2014 and $30,108,400 in 2013)		6,125,618	6,016,748
Due from University of New Mexico Health System		2,130,605	1,298,586
Due from UNM Medical Group		-	2,498,459
Estimated third party settlements, net		2,285,081	1,574,229
Sandoval County Treasurer		102,821	126,280
Prudential		942,872	-
Interest Receivable - Bond Proceeds		1,081,262	-
Other		231,188	633,977
Total net receivables		12,899,447	12,148,279
Prepaid expenses		1,026,830	1,224,545
Prepaid mortgage payments		-	2,760,569
Inventories		1,708,711	1,549,979
Total current assets		40,841,685	36,983,806
Noncurrent assets:			
Restricted investments:			
Held by trustee for mortgage reserve fund		3,480,942	1,677,025
Total restricted investments		3,480,942	1,677,025
Capital assets, net		128,091,305	136,485,863
Total noncurrent assets		131,572,247	138,162,888
Total assets	$	172,413,932	175,146,694
Liabilities			
Current liabilities:			
Accounts payable	$	3,585,249	4,573,118
Accrued payroll		1,027,658	735,842
Due to University of New Mexico		1,085,931	-
Due to University of New Mexico Health System		333,093	863,209
Due to UNM Medical Group		2,040,000	36,266
Bonds payable – current		11,545,000	4,700,000
Interest payable bonds		3,252,063	3,252,063
Accrued compensated absences		1,210,889	1,202,130
Total current liabilities		24,079,883	15,362,628
Noncurrent liabilities:			
Bonds payable		131,880,000	138,725,000
Due to UNM Medical Group		-	2,040,000
Total noncurrent liabilities		131,880,000	140,765,000
Total liabilities		155,959,883	156,127,628
Net Position			
Net investment in capital assets		-	-
Restricted, expendable			
For expendable bequests, and contributions		2,375	858
In accordance with the trust indenture and debt agreement		24,097,925	10,094,083
Unrestricted		(7,646,251)	8,924,125
Total net position	$	16,454,049	19,019,066

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, 2014 and 2013

		2014	2013
Operating revenues:			
Net patient service revenue	$	52,678,045	18,282,944
Premium		973,477	644,231
Other operating revenues		439,519	271,244
Total operating revenues		54,091,041	19,198,419
Operating expenses:			
Employee compensation		21,767,478	19,314,403
Medical and other supplies		12,108,446	7,036,820
Depreciation		9,111,618	7,958,326
Medical services		4,507,414	3,516,365
Benefits		3,964,273	4,049,759
Purchased services		3,902,062	3,943,527
Equipment		2,357,623	2,061,880
Occupancy		1,244,938	874,951
Other		409,336	450,791
Total operating expenses		59,373,188	49,206,822
Operating loss		(5,282,147)	(30,008,403)
Nonoperating revenues (expenses):			
Sandoval County mill levy		7,982,814	20,832,519
Federal bond subsidy		2,158,940	2,225,243
Interest income, net		255,078	604,479
Interest on bonds		(6,504,125)	(6,504,125)
Bequests and contributions		1,292	1,083
Other nonoperating expense		(1,176,869)	(1,148,616)
Net nonoperating revenues (expenses)		2,717,130	16,010,583
Decrease in net position		(2,565,017)	(13,997,820)
Net position, beginning of year		19,019,066	33,016,886
Net position, end of year	$	16,454,049	19,019,066

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, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Cash received from Medicare and Medicaid	$	13,482,045	2,854,165
Cash received from insurance and patients		39,349,755	7,645,951
Cash payments to employees		(21,466,903)	(17,915,711)
Cash payments to suppliers		(30,513,177)	(35,934,744)
Cash payments to University of New Mexico Health System		(832,019)	(571,385)
Cash payments from/to UNM Medical Group		2,462,193	(1,996,517)
Cash payments from University of New Mexico		1,085,931	-
Other receipts		439,519	271,244
Net cash provided by (used in) operating activities		4,007,344	(45,646,997)
Cash flows from noncapital financing activities:			
Cash received from Sandoval County mill levy		8,006,273	20,706,239
Cash received from contributions		1,292	1,083
Net cash provided by noncapital financing activities		8,007,565	20,707,322
Cash flows from capital financing activities:			
Purchases of capital assets		(717,060)	(14,684,197)
Cash received from federal bond subsidy		1,077,678	2,225,243
Cash payments to UNM Medical Group for negative arbitrage fund		-	(2,600,000)
Interest payments on bonds		(6,504,125)	(6,504,125)
Cash payments for mortgage reserve fund		(1,803,917)	(1,677,025)
Principal payments on mortgage		(3,154,862)	(2,760,569)
Inflows (outflows) to trustee accounts		5,915,431	-
Cash payments for mortgage-related activities (Mortgage servicing, MIP, GNMA guaranty)		(1,176,869)	(789,272)
Net cash used in capital financing activities		(6,363,724)	(26,789,945)
Cash flows from investing activities:			
Interest on investments		255,078	604,479
Net cash provided by investing activities		255,078	604,479
Net increase (decrease) in cash and cash equivalents		5,906,263	(51,125,141)
Cash and cash equivalents, beginning of year		19,300,434	70,425,575
Cash and cash equivalents, end of year	$	25,206,697	19,300,434

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, 2014 and 2013

		2014	2013
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(5,282,147)	(30,008,403)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense		9,111,618	7,958,326
Provision for doubtful accounts		19,575,755	9,478,955
Change in assets and liabilities:			
Patient receivables		(19,684,625)	(15,495,703)
Due from Health System		(832,019)	(1,298,586)
Due from UNM Medical Group		2,498,459	(1,443,090)
Estimated third party payer settlements		(710,852)	(1,574,229)
Other receivables and prepaid expenses		(342,368)	(1,452,291)
Inventories		(158,732)	(1,494,886)
Due to Health System		(530,116)	655,154
Due to University of New Mexico		1,085,931	-
Due to UNM Medical Group		(36,266)	36,266
Accrued payroll		291,816	436,553
Accrued compensated absences		8,759	962,139
Accounts payable		(987,869)	(12,407,202)
Net cash provided by (used in) operating activities	$	4,007,344	(45,646,997)

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 non-profit and University Research Park and Economic Development Act (URPEDA) corporation. The Medical Center is governed by its Board of Directors (the Board), which is empowered to do all things necessary for the proper operation of the Medical Center. UNM, by and through its Board of Regents, is the sole member of the Medical Center. UNM made an initial equity contribution to the Medical Center of $46,000,000.

The Medical Center is located in Rio Rancho, New Mexico. The Medical Center is a community teaching Medical Center having completed the final stages of construction and opened and began to provide patient care on July 16, 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, 72 acute bed, community teaching Medical Center and corresponding 40,000 square foot medical office building on a site located adjacent to the new City Center in Rio Rancho, New Mexico. In 2006, UNM acquired the land upon which the Medical Center is located and owns it fee simple. The Medical Center is a component unit of the UNM and is reported as such in the basic financial statements of UNM. The Medical Center has no component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

requirements of GASB Statement No. 34. This approach requires the following components of the Hospital'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 Hospital 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.

Changes in Accounting Policies and Statements. Effective July 1, 2012, the Medical Center adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The primary effects of implementing GASB statement No. 63 was to change all previous references from "net assets" to "net position," change the line item for "invested in capital assets, net of related debt" to "net investment in capital assets," and to classify certain assets and liabilities as "deferred inflows" and "deferred outflows." At June 30, 2014, the Medical Center had no items meeting the criteria of "deferred inflows" or "deferred outflows."

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

Restricted Cash and Cash Equivalents. The Medical Center has three types of restricted cash and cash equivalents. The first type is held by the trustee for operations and is the remaining balance of the equity contributed by UNM. The held by trustee for debt service is used for the principal component of debt service. The held by trustee for capital acquisitions consists of remaining proceeds from the Series 2010 bond in the amount of zero and $4,739,611 as of June 30, 2014 and 2013, respectively.

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.

Prepaid Mortgage Payments. Beginning August 2012, the Medical Center has made principal payments on the mortgage loan that guarantees the Series 2010 bond issuance. The mortgage servicer retained the principal until final endorsement after which the prepaid mortgage payments were used to service the current portion of the principal amount of the Series 2010 bonds.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets. Capital assets are stated at cost or at estimated fair value on date of acquisition. The Medical Center's capitalization policy for assets includes all items with a unit cost of more than $5,000 as well as for the first year of capitalization, items in the aggregate whose total cost is more than $5,000. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets as indicated in the "Estimated Useful Lives of Depreciable Medical Center Assets," Revised 2008 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 Investment in Capital Assets. Net investment 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, 2014 and 2013 is greater than the investment in capital assets, this category of Net Position is reported as zero in the Statements of Net Position. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. There are zero and $4,739,611 in unspent bond proceeds at June 30, 2014 and 2013, respectively.

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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

With respect to the SCI program, funding is modeled after a capitated payment program. Revenue with respect to SCI is recognized in the period in which the Center is obligated to provide care to the enrolled members. Funds are remitted to the Center on a per member per month basis for all state approved members. Therefore, contractual adjustments are recorded as a deduction from patient revenue in its entirety. Capitated payments are received on a monthly basis and are recorded as an offset to contractual adjustments in the amount of approximately $973,477 and $644,231 for years ended June 30, 2014 and 2013, respectively. Accounts, when determined to be uncollectible, are charged against the allowance for doubtful accounts. The SCI program was terminated effective December 31, 2013 with the implementation of the Medicaid Centennial Care program on January 1, 2014.

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

Nonoperating Revenues and Expenses. Nonoperating revenue includes activities that have the characteristics of non-exchange transactions, such as investment income, government levies, and gifts. These revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange 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 on bonds, mortgage servicing fees and the GNMA guaranty fees.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 non-operating revenues and recorded as they are received. Under the program, the Medical Center applies for subsidy funds commensurate with each bond payment, so the application for the subsidy is made semiannually. For the years ended June 30, 2014 and 2013, the Medical Center recognized $2,158,940 and $2,225,243 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 would be exempt from federal income tax on income generated from activities related to its exempt function. Furthermore, 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. Subsequent failures to file would result in automatic revocation of exempt status. The IRS is expected to issue further guidance to assist organizations with Rev. Proc. 95-48 rulings in maintaining exempt status. The Medical Center intends to monitor and comply with this guidance. Accordingly, no provision for income taxes has been made.

Classification. Certain 2013 amounts have been reclassified to conform to the 2014 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, 2014 and 2013 are $4,587,451 and $6,141,966, respectively.

Bank balances are categorized at June 30, as follows:

		2014	2013
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$	383,590	250,000
Other cash		5,220,827	5,988,820
	$	5,604,417	6,238,820

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:

		2014	2013
Operating capital escrow fund	$	4,326,804	2,823,188
Debt service fund		16,290,177	5,593,869
Capital acquisition fund		-	4,739,611
Total restricted cash and cash equivalents	$	20,616,981	13,156,668

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

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

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.

Capital Acquisition Fund – Proceeds from the sale of the bonds were placed in this fund. Draws on this fund are made to offset the certificates issued from the mortgagor during the construction period. This fund also includes the Capital Escrow Fund established to hold the portion of the equity contribution that was made for capital purposes, as required by the Federal Housing Administration. Draws against this fund are requested from and approved by HUD to purchase capital assets used for the construction of the building.

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

A summary of the restricted cash and cash equivalents at June 30, 2014 and 2013 and their exposure to interest rate risk is as follows:

	June 30, 2014	
	Fair Value	**Less than 1 Year**
Items not subject to interest rate risk:		
Money market fund	$ 20,616,984	20,616,984
Items not subject to interest rate risk	20,616,984	20,616,984
Total restricted cash and cash equivalents	$ 20,616,984	20,616,984

	June 30, 2013	
	Fair Value	**Less than 1 Year**
Items not subject to interest rate risk:		
Money market fund	$ 13,156,668	13,156,668
Items not subject to interest rate risk	13,156,668	13,156,668
Total restricted cash and cash equivalents	$ 13,156,668	13,156,668

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

Custodial Credit Risk – Debt Investments – Cash and Equivalents. As of June 30, 2014 and 2013, the Medical Center debt investments that are subject to custodial credit risk.

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

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

Long-Term Investments

	June 30, 2014		June 30, 2013	
	Rating	Fair Value	Rating	Fair Value
Items subject to credit risk:				
Money market fund	Not Rated	$ 20,616,981	Not Rated	$ 13,156,668
Total items subject to credit risk		20,616,981		13,156,668
Total restricted cash and cash equivalents		$ 20,616,981		$ 13,156,668

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

A summary of the long term investments at June 30, 2014 and 2013 and their exposure to interest rate risk is as follows:

	June 30, 2014		June 30, 2013	
	Fair Value	Less than 1 Year	Fair Value	Less than 1 Year
Items not subject to interest rate risk:				
Money market fund	$ 3,480,942	3,480,942	1,677,025	1,677,025
Items not subect to interest rate risk	3,480,942	3,480,942	1,677,025	1,677,025
Total long-term investments	$ 3,480,942	3,480,942	1,677,025	1,677,025

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

Custodial Credit Risk – Debt Investments. As of June 30, 2014 and 2013, 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 non-debt 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, 2014		June 30, 2013	
	Rating	**Fair Value**	**Rating**	**Fair Value**
Items subject to credit risk				
Money market fund	Not Rated	$ 3,480,942	Not Rated	$ 1,677,025
Total items subject to credit risk		3,480,942		1,677,025
Total long term investments		$ 3,480,942		$ 1,677,025

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:

	2014		2013	
Medicare and Medicaid	$ 13,414,540	54%	12,609,943	35%
Other third party payors	6,302,770	26%	13,750,828	38%
Others	5,043,372	20%	9,764,377	27%
Total patient accounts receivable	24,760,682	100%	36,125,148	100%
Less allowance for uncollectible accounts and contractual adjustments	(18,635,064)		(30,108,400)	
Patient accounts receivable, net	$ 6,125,618		6,016,748	

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 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. SRMC accepted its first patient on July 17, 2012, thus the first cost report period beginning at least two years after this date would be cost report period July 1, 2015 to June 30, 2016. Beginning July 1, 2016, UNM SRMC will be subject to the prospective federal capital rate. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The estimated settlements at June 30, 2014 and 2013 are receivables of $2,285,081 and $1,574,299, 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, 2014				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
UNM Sandoval Capital Assets not being depreciated:					
Construction in progress	-	426,509	(28,800)	-	397,709
	-	426,509	(28,800)	-	397,709
UNM Sandoval depreciable capital assets:					
Building and building improvements	105,435,945	(514,356)	15,813		104,937,402
Building service equipment	2,651,112	26,702	12,987		2,690,801
Fixed equipment	2,395,668	-	-	(13,545)	2,382,123
Major moveable equipment	33,961,464	776,921	-	10,725	34,749,110
Total depreciable capital assets	144,444,189	289,267	28,800	(2,820)	144,759,436
Less Accumulated Depreciation for:					
Building and building improvements	(2,505,013)	(2,530,574)	-	-	(5,035,587)
Building service equipment	(219,052)	(276,613)	-	-	(495,665)
Fixed equipment	(148,636)	(161,384)	-	701	(309,319)
Major moveable equipment	(5,085,625)	(6,143,049)	-	3,405	(11,225,269)
Total accumulated depreciation	(7,958,326)	(9,111,620)	-	4,106	(17,065,840)
UNM Sandoval depreciable capital assets, net	136,485,863	(8,822,353)	28,800	1,286	127,693,596
UNM Sandoval Capital Assets not being depreciated	-	426,509	(28,800)	-	397,709
UNM Sandoval total cost of capital assets	144,444,189	715,776	-	(2,820)	145,157,145
Less accumulated depreciation	(7,958,326)	(9,111,620)	-	4,106	(17,065,840)
UNM Sandoval capital assets, net	$ 136,485,863	(8,395,844)	-	1,286	128,091,305

NOTE 6. CAPITAL ASSETS (CONTINUED)

	Year Ended June 30, 2013				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
UNM Sandvoal Capital Assets not being depreciated:					
Construction in progress	129,759,992	15,294,218	(145,054,210)	-	-
	129,759,992	15,294,218	(145,054,210)	-	-
UNM Sandoval depreciable capital assets:					
Building and building improvements	-	-	105,435,945	-	105,435,945
Building service equipment	-	-	2,651,112	-	2,651,112
Fixed equipment	-	-	2,395,668	-	2,395,668
Major moveable equipment	-	-	34,571,485	(610,021)	33,961,464
Total depreciable capital assets	-	-	145,054,210	(610,021)	144,444,189
Less Accumulated Depreciation for:					
Building and building improvements	-	(2,505,013)	-	-	(2,505,013)
Building service equipment	-	(219,052)	-	-	(219,052)
Fixed equipment	-	(148,636)	-	-	(148,636)
Major moveable equipment	-	(5,197,462)	-	111,837	(5,085,625)
Total accumulated depreciation	-	(8,070,163)	-	111,837	(7,958,326)
UNM Sandoval depreciable capital assets, net	-	(8,070,163)	145,054,210	(498,184)	136,485,863
UNM Sandoval Capital Assets not being depreciated	129,759,992	15,294,218	(145,054,210)	-	-
UNM Sandoval total cost of capital assets	129,759,992	15,294,218	-	(610,021)	144,444,189
Less accumulated depreciation	-	(8,070,163)	-	111,837	(7,958,326)
UNM Sandoval capital assets, net	$ 129,759,992	7,224,055	-	(498,184)	136,485,863

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, 2014 and 2013 of $1,210,889 and $1,202,130, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

During the years ended June 30, 2014 and 2013, the following changes occurred in accrued compensated absences:

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

Balance July 1, 2012	Increase	Decrease	Balance June 30, 2013
$ 239,991	1,782,741	(820,602)	1,202,130

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

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

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

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

NOTE 8. BONDS PAYABLE (CONTINUED)

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

As of June 30, 2014, the balance of the Mortgage note equaled the balance of the GNMA securities. As of June 30, 2013, the balance of the Mortgage note did not equal the balance of the GNMA securities since effective August 2012, the Medical Center was obligated to make monthly mortgage principal payments; therefore, the principal payments on the mortgage are listed as a current asset in the accompanying financial statements as prepaid mortgage payments.

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).

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, 2014:

		Series 2010A Bonds		Series 2010B Bonds		Total	
Fiscal Year		Principal	Interest	Principal	Interest	Principal	Interest
2015	$	11,285,000	5,784,825	260,000	493,319	11,545,000	6,278,144
2016		3,380,000	5,458,725	-	487,000	3,380,000	5,945,725
2017		3,540,000	5,304,938	-	487,000	3,540,000	5,791,938
2018		3,715,000	5,143,612	-	487,000	3,715,000	5,630,612
2019		3,890,000	4,974,525	-	487,000	3,890,000	5,461,525
2020-2024		22,440,000	22,039,200	-	2,435,000	22,440,000	24,474,200
2025-2029		28,375,000	16,415,213	-	2,435,000	28,375,000	18,850,213
2030-2034		35,885,000	9,302,738	-	2,435,000	35,885,000	11,737,738
2035-2038		20,915,000	1,413,788	9,740,000	1,567,250	30,655,000	2,981,038
	$	133,425,000	75,837,564	10,000,000	11,313,569	143,425,000	87,151,133

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. As of June 30, 2014 and 2013, the Medical Center has a balance of zero and $4.7 million, respectively, left from the original bond proceeds. On July 21, 2014, the scheduled mandatory redemption in the amount of $6.17 million for the Series 2010A bonds occurred.

NOTE 8. BONDS PAYABLE (CONTINUED)

Mortgage Note

The Mortgage Note bears interest at 4.61%. The Mortgage Note has a term of 299 months following the commencement of amortization and matures on July 1, 2037. Principal and interest are payable in equal monthly installments upon commencement of amortization. A mortgage servicing fee of 12 basis points and a GNMA guaranty fee of 13 basis points are also included in the monthly payment, for a total of 4.86%. The Mortgage Note is subject to optional prepayment beginning on January 20, 2021 or thereafter, and mandatory prepayment at any time based on the occurrence of certain events, including the receipt of any mortgage insurance proceeds.

In connection with GNMA insuring the Mortgage Note, during 2011 the Regents of UNM made an equity contribution of $46,000,000 to the Medical Center, which was placed in two escrow accounts, one in the amount of $32,484,850 in an account titled Operating Capital Escrow Fund and the other in the amount of $13,515,150 in an account titled Capital Escrow Fund with the Trustee. The Operating Capital funds were to sustain the pre-opening operational costs and working capital needs of the Medical Center. The Capital Escrow Fund was the Medical Center's capital contribution to the costs of construction.

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 27% and 16% of the Medical Center's gross patient revenue for the fiscal year ended June 30, 2014, was derived from the Medicare and Medicaid programs, respectively, the continuation of which are dependent upon governmental policies. For the fiscal year ended June 30, 2013, approximately 27% and 28% 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. 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:

NOTE 9. NET PATIENT SERVICE REVENUES (CONTINUED)

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.

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

The Medical Center sees patients that are enrolled in the New Mexico SCI Medicaid plan. The Center participates in the reimbursement agreement between UNM Hospitals and the State of New Mexico. Funding is modeled after a capitated payment program. Funds are remitted to UNM Hospitals on a per-member-per-month basis for all state-approved members. UNM Hospitals remits funds to the Medical Center based on the pro rata share of the adjudicated claims for these patients. Funding under the SCI program for fiscal years ended June 30, 2014 and 2013 was $973,477 and 644,231, respectively, and is included in net patient service revenue. The state of New Mexico terminated its SCI Medicaid program effective December 31, 2013.

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

NOTE 9. NET PATIENT SERVICE REVENUES (CONTINUED)

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

	2014	2013
Charges at established rates	$ 125,453,318	59,249,376
Charity care	(5,068,930)	(1,053,561)
Contractual adjustments	(48,130,588)	(30,433,916)
Provision for doubtful accounts	(19,575,755)	(9,478,955)
Net patient service revenues	$ 52,678,045	18,282,944

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:

	2014	2013
Charges foregone, based on established rates	$ 5,068,930	1,053,561
Estimated costs and expenses incurred to provide charity care	2,397,603	874,982
Equivalent percentage of charity care charges forgone to total gross revenue	4%	2%

NOTE 11. MALPRACTICE INSURANCE

As a University Research Park and Economic Development Act (URPEDA) corporation, UNM Sandoval Regional Medical Center, Inc. enjoys immunity from suit for 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. sovereign 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, consistent with the 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.

NOTE 11. MALPRACTICE INSURANCE (CONTINUED)

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

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

NOTE 12. RELATED PARTY TRANSACTIONS

The Medical Center provides professional 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:

	2014	2013
UNM Health System	$ 6,820,917	-
UNM Hospital	-	836,082
UNM Department of Orthopedics	3,600	1,119
	$ 6,824,517	837,201

The Medical Center reimburses UNM Hospital and UNM Medical Group for primarily professional service 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:

	2014	2013
University of New Mexico	$ 1,221,160	-
UNM Health System	333,093	-
UNM Medical Group	96,949	596,950
UNM Hospital	-	776,725
	$ 1,651,202	1,373,675

Additionally, UNMMG extended funds to the Medical Center for the funding of the Negative Arbitrage Account fund as required by the bond rating agencies. UNMMG advanced the Medical Center $10,125,000 in November of 2010. During years ended June 30, 2014, 2013 and 2012, the Medical Center repaid $0, $2,600,000 and $3,800,000, respectively. As the required funds balance is recalculated every six months, up until the final endorsement from HUD, all funds authorized to be released are remitted to UNMMG. 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.

NOTE 12. RELATED PARTY TRANSACTIONS (CONTINUED)

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.

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*

The Board of Directors
UNM Sandoval Regional Medical Center, Inc.
and
Mr. Hector Balderas, 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, 2014 and the related notes to the financial statements, which collectively comprise SRMC's basic financial statements and have issued our report thereon dated October 31, 2014.

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.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

The Board of Directors
UNM Sandoval Regional Medical Center, Inc.
and
Mr. Hector Balderas, State Auditor

Compliance and Other Matters

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

Purpose of this Report

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

Moss Adams LLP

Albuquerque, New Mexico
October 31, 2014

Prior Year Audit Finding

13-01 Equipment and Real Property Management (Other Matter)

The finding has been resolved as of June 30, 2014.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
EXIT CONFERENCE
JUNE 30, 2014

An exit conference was conducted on October 16, 2014, 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:

Steve McKernan	Board Member
Jerry Geist	Board Member
Jamie Silva Steele	President and Chief Executive Officer
Darlene Fernandez	Chief Financial Officer, SRMC
Lawrence Pineda	Finance Director
Ella Watt	Interim Chief Financial Officer, UNM Health System
Scot Sauder	Deputy University Counsel, UNM Health Sciences
Correen Bales	Executive Director, Human Resources
DeVon Wiens	Partner, Moss Adams LLP

SRMC's management prepared the financial statements and is responsible for the contents.