UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)

Financial Statements

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Official Roster
June 30, 2018

Board of Directors

Paul Roth, MD Albuquerque, NM	Chairperson (Term expires 6/30/20, Regent appointed)
Michael Richards, MD Albuquerque, NM	Member (Term expires 6/30/19, Regent appointed)
Jerry Geist Albuquerque, NM	Member (Term expires 6/30/19, Regent appointed)
Martha McGrew, MD	Member (Term expires 12/31/19, Regent appointed)
Matthew Wilks, MD	Member (Term expires 12/31/20, Regent appointed)
Joanna Boothe Albuquerque, NM	Member (Term expires 6/30/21, County appointed)
Charlotte Garcia Albuquerque, NM	Member (Term expires 6/30/21, County appointed)
Donnie Leonard Albuquerque, NM	Member (Term expires 6/30/20, County appointed)

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Official Roster
June 30, 2018

Administrative Officers

Paul Roth, M.D.	Chancellor – UNM Health Sciences Center Dean, School of Medicine – UNM Health Sciences Center
Michael Richards, M.D.	Vice Chancellor of Clinical Affairs – UNM Health System
Ava Lovell	Senior Executive Financial Officer – UNM Health Sciences Center
Jamie Silva-Steele	Chief Executive Officer – Sandoval Regional Medical Center
Robb McLean	Chief Medical Officer – Sandoval Regional Medical Center
Pamela Demarest	Chief Nursing Officer – Sandoval Regional Medical Center
Darlene Fernandez	Chief Financial Officer – Sandoval Regional Medical Center

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

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

Independent Auditors' Report

The Board of Directors
UNM Sandoval Regional Medical Center, Inc. and
Mr. Wayne Johnson, New Mexico State Auditor:

Report on the Financial Statements

We have audited the accompanying financial statements of the UNM Sandoval Regional Medical Center, Inc. (the Medical Center), a component unit of the University of New Mexico, State of New Mexico, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The accompanying indigent care cost and funding report (Schedule 1) and calculations of cost of providing indigent care (Schedule 2) (Schedules 1 and 2) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1 and 2 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 and 2 are fairly stated, in all material respects, in relation to the basic financial statements as a whole, except for the information marked as unaudited.

The information that is marked as unaudited in the accompanying Schedules 1 and 2 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
December 11, 2018

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2018 and 2017
(Unaudited)

The following discussion and analysis provides an overview of the financial position and activities of UNM Sandoval Regional Medical Center, Inc. (the Medical Center or SRMC) as of and for the years ended June 30, 2018, 2017, and 2016. 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 Medical Center is reporting as a special-purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the Medical Center presents management's discussion and analysis, statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. The financial statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service or goods are received, regardless of when cash is exchanged.

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

The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public hospital's dependency on governmental funding can result in an operating deficit since the financial reporting model classifies such aid as nonoperating revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

Overview of Entity

The 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 corporation is formed as an instrumentality of the Regents of the University of New Mexico, to promote the social welfare of New Mexico through the advancement of healthcare. The corporation is organized for the development, construction, and operation of a licensed general, community teaching hospital located in Sandoval County, New Mexico in support of and under the operating aegis of the Health Sciences Center of the University of New Mexico (UNM HSC) and, in connection therewith, to facilitate

and develop the clinical and medical practices of the faculty of the University of New Mexico School of Medicine (UNM SOM). The Medical Center is a component unit of UNM.

In 2012, the Medical Center began its mission to improve the overall health of the community by providing the highest-quality healthcare services that meet the needs of Sandoval County's diverse population, as well as providing, increasingly over time, healthcare and medical educational opportunities.

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 and 12 intensive care unit beds. The Medical Center is equipped with an emergency department with 11 exam rooms, 2 trauma rooms, and 2 triage rooms. Additionally, the Medical Center is equipped with 6 operating rooms, 3 minor procedure rooms, and 1 interventional radiology lab.

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

Surgical Services – Anesthesia, General Surgery, Bariatric, Podiatry, Otolaryngology, Urologic, Gynecologic, Urogynecologic, Gastrointestinal, Breast, Neurosurgery, minimally invasive spine surgery, and outpatient laparoscopic surgery.

Physician Services – The Medical Center has an "open" medical staff, allowing community physicians in addition to the UNM SOM providers to be members of the active medical staff and to admit and follow their patients at the Medical Center. There are currently 521 physicians credentialed, of which 434 are SOM physicians and 87 are community physicians.

Financial Summary

Condensed summary of net position

		June 30		
Assets		**2018**	**2017**	**2016**
Current assets	$	46,294,420	43,899,002	39,456,579
Capital assets, net		103,115,704	107,320,532	114,356,360
Noncurrent assets		11,329,655	9,505,792	7,411,546
Total assets	$	160,739,779	160,725,326	161,224,485
Liabilities				
Current liabilities	$	23,238,451	20,258,416	17,145,678
Noncurrent liabilities		117,355,000	121,245,000	124,960,000
Total liabilities	$	140,593,451	141,503,416	142,105,678
Net Position				
Net investment in capital assets	$	(18,129,296)	(17,639,468)	(14,143,640)
Restricted net position, expendable		17,635,876	16,562,124	13,426,714
Unrestricted		20,639,748	20,299,254	19,835,733
Total net position	$	20,146,328	19,221,910	19,118,807

Total Medical Center assets at June 30, 2018 were unchanged from June 30, 2017 at $160.7 million. Cash at June 30, 2018 increased by $4.0 million and was offset by a decrease of $4.2 million in net capital assets due to an increase in accumulated depreciation. Total liabilities decreased by $0.9 million at June 30, 2018 compared to June 30, 2017. There was an increase in estimated third party settlements of $4.0 million, which was offset by a decrease in bonds payable of $4.0 million compared to June 30, 2017. The change in estimated third party settlements relates to a cash payment received in 2018 for 2016 Disproportionate Share revenue. The Medical Center's most significant assets at June 30, 2018 were net capital assets of $103.1 million, cash and cash equivalents of $33.1 million, and restricted investments held by trustee for mortgage reserve fund of $11.3 million.

Operating cash increased by $4.0 million during the year ended June 30, 2018 from $22.9 million at June 30, 2017 to $26.9 million at June 30, 2018. This increase was driven largely by an additional $8.7 million received in cash receipts for patient care, of which $4.1 million is recorded as estimated third party settlements.

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

(Continued)

The Medical Center's total liabilities were $140.6 million at June 30, 2018, compared to $141.5 million at June 30, 2017. At June 30, 2018, current and noncurrent bonds payable of $121.2 million was the largest liability, followed by estimated third-party settlements of $6.8 million. The decrease in total liabilities is primarily due to a decrease in the amount of bonds payable resulting from the payments of the scheduled mandatory bond redemptions of $3.7 million during the year ended June 30, 2018, offset by the increase in estimated third-party settlements.

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

At June 30, 2018, 2017, and 2016, the Medical Center's current assets of $46.3 million, $43.9 million, and $39.5 million, respectively, were sufficient to cover current liabilities of $23.2 million (current ratio of 2.00), $20.3 million (current ratio of 2.17), and $17.1 million (current ratio of 2.30), respectively.

Total net position (assets minus liabilities) is classified by the Medical Center's ability to use these assets to meet operating needs. Unrestricted net position may be used to meet all operating needs of the Medical Center. A portion of the Medical Center's net position is restricted by the trust indenture and debt agreement.

Total net position as of June 30, 2018 increased by $0.9 million to $20.1 million, which included an operating gain of $5.3 million and net nonoperating expenses of $4.4 million. Unrestricted net position totaled $20.6 million, with a net deficiency in capital assets of $18.1 million at June 30, 2018. Restricted net position, expendable as of June 30, 2018 increased by $1.1 million to $17.6 million, which was driven by a $0.7 million decrease in cash held by trustee for mortgage reserve fund and $1.8 million increase in the bond fund trust account.

Total net position as of June 30, 2017 increased by $0.1 million to $19.2 million, which included an operating loss of $4.7 million and net nonoperating revenues of $4.8 million. In 2017, UNM Health System contributed $3.3 million in partial support of the UNM SOM mission, which is carried out at the Medical Center. This support is shown in the nonoperating revenue section of the statement of net position for the year ended June 30, 2017. Unrestricted net position totaled $20.3 million, with a net deficiency in capital assets of $17.6 million at June 30, 2017. Restricted net position, expendable as of June 30, 2017 increased by $3.1 million to $16.5 million, which

(Continued)

was driven by a $2.1 million increase in cash held by trustee for mortgage reserve fund and $1.0 million increase in the bond fund trust account.

Condensed summary of revenues, expenses, and changes in net position

	Year ended June 30		
	2018	**2017**	**2016**
Total operating revenues	$ 86,038,524	78,757,869	77,175,219
Total operating expenses	(80,728,183)	(83,488,864)	(79,405,472)
Operating (loss) gain	5,310,341	(4,730,995)	(2,230,253)
Net nonoperating revenues (expenses)	(4,385,923)	4,834,098	2,234,003
Total increase in net position	924,418	103,103	3,750
Net position, beginning of year	19,221,910	19,118,807	19,115,057
Net position, end of year	$ 20,146,328	19,221,910	19,118,807

Operating Revenues

The sources of operating revenues for the Medical Center are net patient service and other operating revenues, with the most significant source being net patient service revenues. Total operating revenues were $86.0 million, $78.8 million, and $77.2 million for the years ended June 30, 2018, 2017, and 2016, respectively.

Net patient service revenue comprises gross patient revenue, net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were $83.7 million, $77.4 million, and $76.6 million for the years ended June 30, 2018, 2017, and 2016, respectively. The increase of $6.3 million in 2018 is the result of an increase in case mix index, medical/surgical inpatient days, diagnostics, and emergency visits.

(Continued)

The following table summarizes key operating statistics for the years ended June 30, 2018, 2017, and 2016:

	Year ended June 30		
	2018	**2017**	**2016**
Intensive Care Units (ICU) days and Medical/Surgical days	14,514	12,887	12,466
Behavioral days	—	1,978	3,452
Total inpatient days	14,514	14,865	15,918
ICU discharges and Medical/Surgical discharges	3,126	3,333	3,194
Behavioral discharges	—	154	259
Total discharges	3,126	3,487	3,453
Inpatient surgeries	1,369	1,603	1,328
Outpatient surgeries	2,390	2,580	2,807
Total surgeries	3,759	4,183	4,135
Outpatient visits	44,048	44,242	36,224
Emergency visits	20,433	19,349	18,954

ICU and Medical/Surgical inpatient days increased by 1,627 and Psychiatric inpatient days decreased by 1,978 from fiscal year 2017 to 2018. The ICU and medical/surgical average daily census (ADC) for the year ended June 30, 2018 was 40 and increased by 5 from an ICU and Medical/Surgical ADC of 35 for the year ended June 30, 2017. There were no behavioral days in 2018. The 12 beds that were in the Senior Behavioral Health unit closed on February 24, 2017.

Net patient service revenue for the fiscal years ended June 30, 2018 and 2017 includes cost report estimates for the Medicare and Medicaid programs. Beginning July 1, 2016, the Medical Center was subject to the prospective federal capital rate. The Medical Center's cost reports have been audited through 2016 for Medicare and Medicaid. Management believes that estimated settlements accrued related to unaudited cost reports are adequate. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations.

The Medical Center offers a financial assistance program called SRMC Care for healthcare service provided by the Medical Center at no charge or at a discount to qualifying patients. This program is available to Sandoval County residents who also meet certain income and asset thresholds. Patients applying for coverage under SRMC Care must apply for coverage under Medicaid or the Health Insurance Exchange (HIX), if eligible.

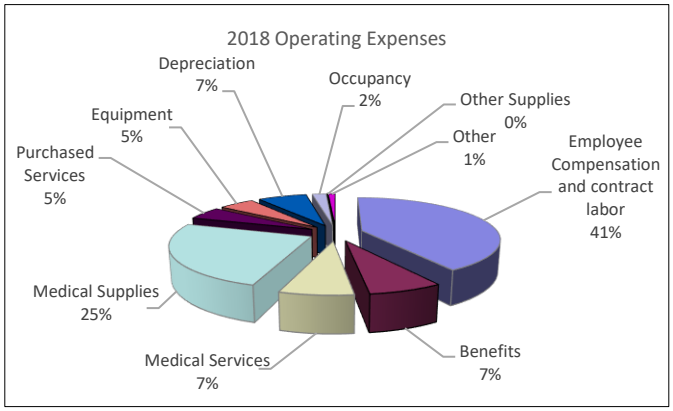
Patients may continue to receive SRMC Care until they receive Medicaid eligibility or notification of coverage under the HIX.

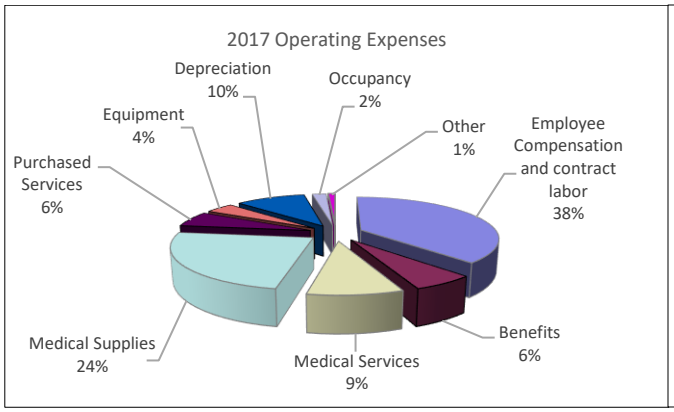
The Medical Center does not pursue collection of amounts determined to qualify as charity care. The costs of charity care provided under this program for the years ended June 30, 2018, 2017, and 2016 approximated $1.5 million, $1.3 million, and $1.8 million, respectively.

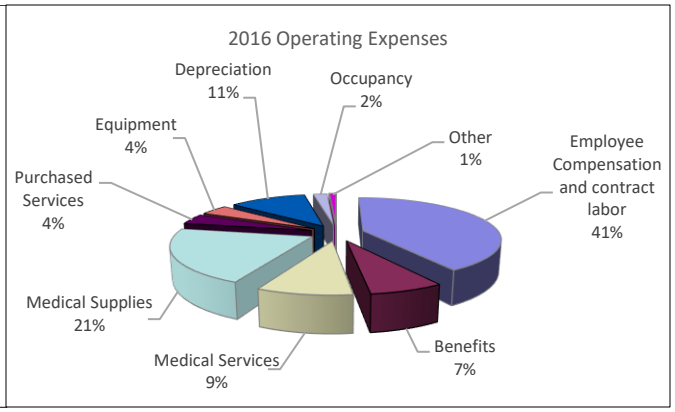
Charity care accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2018, 2017, and 2016 was $7.3 million, $6.9 million, and $1.3 million, respectively. The cost of care provided to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance for years ended June 30, 2018, 2017, and 2016 was $2.9 million, $2.8 million, and $3.4 million, respectively.

Operating Expenses

The following pie charts depict the distribution of the operating expenses for the Medical Center for the years ended June 30, 2018, 2017, and 2016:







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

For the year ended June 30, 2018, total operating expenses were $80.7 million and represent a decrease of $2.8 million from the year ended June 30, 2017. The most significant change was a decrease of $2.3 million for depreciation, related to certain assets that were placed into service when the Medical Center opened in 2012 becoming fully depreciated during the year ended June 30, 2018.

Nonoperating Revenues and Expenses

For the year ended June 30, 2018, nonoperating expenses net of nonoperating revenues was $4.4 million. For the years ended June 30, 2017, and 2016, nonoperating revenues net of nonoperating expenses were $4.8 million and $2.2 million, respectively.

The most significant nonoperating expense recorded for the years ended June 30, 2018, 2017, and 2016 was bond interest expense in the amount of $5.5 million, $5.7 million, and $5.9 million, respectively.

The largest source of nonoperating revenue for the year ended June 30, 2018 and the second largest source for the years ended June 30, 2017 and 2016 was the Federal bond subsidy in the amount of $1.9 million, $1.9 million, and $2.0 million, respectively. The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs.

The most significant nonoperating revenue for the years ended June 30, 2017 and 2016 was the Sandoval County mill levy (the mill levy) tax subsidy totaling $6.3 million and $6.2 million, respectively. This tax subsidy was provided for the general operations of the Medical Center. The Medical Center received this tax subsidy by voter endorsement for the services the Medical Center provides. Pursuant to a Health Facility Agreement with the Board of County Commissioners of Sandoval County, New Mexico, after opening, the Medical Center was entitled to receive the proceeds of a mill levy adopted by the Board of County Commissioners of Sandoval County and approved by the voters of Sandoval County. The Medical Center recognizes mill levy funds based on the fiscal year that the levy is collected by the County, and records the funds received as nonoperating revenues. In November 2016, voters in Sandoval County did not approve the mill levy for the tax period beginning January 1, 2017 and as a result, beginning in July 2017, the Medical Center no longer received mill levy proceeds.

In year ending June 30, 2017, the Medical Center received $3.3 million in mission support from related party UNM Health System. Mission support is classified as nonoperating revenue for the Medical Center. In year ending June 30, 2018, there was no Mission Support provided to the Medical Center.

Capital Assets

At June 30, 2018, the Medical Center had $103.1 million invested in capital assets, net of accumulated depreciation of $48.5 million. Depreciation charges for the year ended June 30, 2018, 2017, and 2016 totaled $6.1 million, $8.4 million, and $8.5 million, respectively.

	Year ended June 30		
	2018	**2017**	**2016**
Building and building improvements	$ 105,614,225	105,431,774	105,233,120
Building service equipment	3,961,110	3,847,741	3,670,354
Fixed equipment	4,055,147	4,055,147	4,044,135
Major moveable equipment	37,329,241	37,359,387	36,368,556
Construction in progress	616,981	97,068	165,778
	151,576,704	150,791,117	149,481,943
Less accumulated depreciation	(48,461,000)	(43,470,585)	(35,125,583)
Net property and equipment	$ 103,115,704	107,320,532	114,356,360

For the year ended June 30, 2018, total depreciable capital assets increased by $0.3 million from June 30, 2017. Major moveable equipment additions were $1.2 million, with the largest asset additions of $0.7 million for operating room equipment, such as cameras, scopes, and other operating equipment. Major moveable equipment retirements were $1.3 million, with a net book value of $0.1 million.

For the year ended June 30, 2017, total depreciable capital assets increased by $1.4 million from June 30, 2016. Major moveable equipment additions were $1.0 million, with the largest asset additions of $0.4 million for operating room equipment.

Debt Activity

The Medical Center's bonds payable totaled $121.2 million, $125.0 million, and $128.5 million at June 30, 2018, 2017, and 2016, respectively. The current portion of this debt was $3.9 million, $3.7 million, and $3.5 million at June 30, 2018, 2017, and 2016, respectively. This debt is related to the Government National Mortgage Association (GNMA) Collateralized Series 2010A and 2010B bonds.

On July 20, 2017 and on January 20, 2018, the Medical Center paid the scheduled mandatory bond redemption payments on the Series 2010A which consisted of principal payments of $1.8 million and $1.9 million, respectively, as well as interest payments of $2.6 million and $2.6 million, respectively. On July 20, 2017 and on January 20, 2018, the scheduled interest payments of $0.2 million were paid on the Series 2010B bonds. No principal payments were scheduled for either period.

There is a loan guarantee that is considered federal assistance subject to the requirements of Office of Management and Budget Uniform Guidance. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2018, 2017, and 2016 Single Audit.

Factors Impacting Future Periods

The Medical Center's future performance may differ depending on economic conditions within the healthcare industry and other factors. Among other factors that might affect future performance are changes to Medicare and Medicaid reimbursement resulting in reductions in payments. Healthcare systems nationwide are being challenged by reductions in Medicare and Medicaid payments, taking on more risk for outcome measures, and uncertainty regarding patient coverage from the Affordable Care Act.

(a) Provider Contracts

Many of the Medical Center's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not become known until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

Effective January 1, 2019, the New Mexico Human Services Department will implement changes to the New Mexico Medicaid Program, also known as Centennial Care 2.0. With this program, the State conducted an RFP for managed care organizations (MCOs) to administer this program. The awardee MCOs are Blue Cross and Blue Shield, Presbyterian Health Plan, and Western Sky. The Medical Center is in contract negotiations with all MCOs, which may result in a reduction in rates effective January 1, 2019.

(b) Affordable Care Act

The Patient Protection and Affordable Care Act (PPACA) has made significant changes to the United States healthcare system. The legislation affected multiple aspects of the healthcare system, including many provisions that change payments from Medicare, Medicaid, and insurance companies. Under this legislation, 32 states have expanded their Medicaid programs to cover previously uninsured childless adults. In addition, many uninsured individuals have had the opportunity to purchase health insurance via Health Insurance Exchange (HIX). PPACA also implemented a number of health insurance market reforms, such as allowing children to remain on their parents' health insurance until age 26 and prohibiting certain plans from denying coverage based on preexisting conditions. Nationally, these reforms have reduced the number of uninsured persons.

In light of the transition to a new presidential administration, it is unclear what changes may be made to PPACA. The Tax Cuts and Jobs Act (TCJA), passed in December 2017, eliminates the individual mandate under PPACA, effective January 1, 2019. The individual mandate was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. The extent to which the repeal of the individual mandate will impact the uninsured rate and 2019 premiums is unclear at this juncture. Future changes to PPACA and in other federal and state legislation could have a material impact on the operations of the Medical Center. The Medical Center is continuing to monitor the legislative environment for risks and uncertainties.

(c) Medicare Disproportionate Share Hospital (DSH)

Beginning in federal fiscal year 2018, CMS incorporated Cost Report Worksheet S-10 uncompensated care cost as one of three factors averaged to determine a hospital's allocation of DSH Uncompensated Care payments. In 2019, CMS will incorporate one more year of the S-10 into the uncompensated care calculation for the Medical Center. The other two factors, Medicaid days and Supplemental Security Income (SSI) Ratios, will be phased out beginning with federal fiscal year 2020.

The Medical Center received $6.2 million in additional DSH for fiscal year 2016 with the understanding that some of the dollars may be recouped by HSD in later years. The Medical Center completed an analysis to estimate the amount of DSH funding the Medical Center should recognize in revenue prior to the actual filing of the fiscal year 2016 DSH Audit Survey. Based on Safety Net Care Pool (SNCP) applications for fiscal years 2015 and 2016 it was determined $2.1 million should be recognized in DSH revenue in fiscal year 2018 and the remaining $4.1 million as estimated third-party settlements as of June 30, 2018. The recognition of the remainder of the $4.1 million DSH is contingent on the court cases to determine the inclusion or exclusion of Medicare and Commercial payment in the DSH Hospital Specific Limit, currently appealed by CMS.

(d) Sandoval County Mill Levy

On November 6, 2018, voters approved a 1.9 mill levy on property owned within Sandoval County. The mill levy will fund expansion of outpatient behavioral health services and an increase in staffing to raise the Medical Center's trauma center to a level III designation. Behavioral health services could include opening an outpatient clinic in fall of 2019, expansion of behavioral health services via telemedicine, behaviorists in the emergency department, and social workers in primary care. A level III trauma center would help keep patients in the community or get them to a higher level of care at another hospital, provide for the prompt availability of general surgeon, orthopedists, and anesthesiologists, and add prevention efforts.

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 3001 Broadmoor Blvd., NE, Rio Rancho, NM 87144.

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

Statements of Net Position

June 30, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	$ 26,850,558	22,860,739
Restricted cash and cash equivalents:		
Held by trustee for debt service	6,227,171	6,973,824
Total cash and cash equivalents	33,077,729	29,834,563
Receivables:		
Patient (net of allowance for doubtful accounts of $17,709,264 in 2018 and $27,087,946 in 2017)	8,834,152	9,902,199
Due from related parties	190,950	39,114
Estimated third-party settlements	723,500	1,087,669
Sandoval County mill levy	—	66,695
Interest receivable – bond subsidy proceeds	820,147	—
Other	184,449	132,645
Total net receivables	10,753,198	11,228,322
Prepaid expenses	379,368	364,789
Inventories	2,084,125	2,471,328
Total current assets	46,294,420	43,899,002
Noncurrent assets:		
Restricted investments:		
Held by trustee for mortgage reserve fund	11,329,655	9,505,792
Capital assets, net	103,115,704	107,320,532
Total noncurrent assets	114,445,359	116,826,324
Total assets	$ 160,739,779	160,725,326
Liabilities		
Current liabilities:		
Accounts payable	$ 4,004,490	5,474,982
Accrued payroll	1,594,307	1,578,294
Due to University of New Mexico	1,395,949	240,121
Due to University of New Mexico Health System	724,326	1,625,884
Due to UNM Medical Group	34,946	176,136
Estimated third-party settlements	6,839,242	2,807,228
Bonds payable – current	3,890,000	3,715,000
Interest payable bonds	2,752,362	2,835,950
Accrued compensated absences	2,002,829	1,804,821
Total current liabilities	23,238,451	20,258,416
Noncurrent liabilities:		
Bonds payable	117,355,000	121,245,000
Total noncurrent liabilities	117,355,000	121,245,000
Total liabilities	140,593,451	141,503,416
Net Position		
Net deficiency in capital assets	(18,129,296)	(17,639,468)
Restricted, expendable:		
Expendable bequests and contributions	79,050	82,508
In accordance with the trust indenture and debt agreement	17,556,826	16,479,616
Unrestricted	20,639,748	20,299,254
Total net position	20,146,328	19,221,910
Total liabilities and net position	$ 160,739,779	160,725,326

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, 2018 and 2017

	2018	2017
Operating revenues:		
Net patient service revenue	$ 83,720,445	77,423,291
Other operating revenues	2,318,079	1,334,578
Total operating revenues	86,038,524	78,757,869
Operating expenses:		
Employee compensation and contract labor	33,391,569	31,685,353
Medical and other supplies	20,606,880	20,433,142
Depreciation	6,105,586	8,360,558
Medical services	5,626,282	7,460,107
Benefits	5,460,271	5,436,059
Purchased services	3,698,870	4,962,185
Equipment	3,902,753	3,237,473
Occupancy	1,463,353	1,524,870
Other	472,619	389,117
Total operating expenses	80,728,183	83,488,864
Operating income (loss)	5,310,341	(4,730,995)
Nonoperating revenues (expenses):		
Sandoval County mill levy	182,721	6,271,254
Health System mission support	—	3,323,728
Federal bond subsidy	1,858,808	1,911,061
Interest income, net	82,970	31,128
Interest on bonds	(5,547,025)	(5,712,288)
Bequests and contributions	7,695	4,760
Other nonoperating expense	(971,092)	(995,545)
Net nonoperating (expenses) revenues	(4,385,923)	4,834,098
Increase in net position	924,418	103,103
Net position, beginning of year	19,221,910	19,118,807
Net position, end of year	$ 20,146,328	19,221,910

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, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from patient services	$ 90,095,373	80,466,779
Cash payments to employees	(29,816,316)	(28,985,440)
Cash payments to suppliers and contractors	(42,944,072)	(40,147,941)
Cash payments to University of New Mexico Health System	(2,855,811)	(819,085)
Cash payments to UNM Medical Group	(598,811)	(265,001)
Cash payments received from University of New Mexico	1,155,828	173,808
Other receipts	869,559	1,272,504
Net cash provided by operating activities	15,905,750	11,695,624
Cash flows from noncapital financing activities:		
Cash received from Sandoval County mill levy	249,416	6,278,593
Cash received from contributions	7,695	4,760
Net cash provided by noncapital financing activities	257,111	6,283,353
Cash flows from capital financing activities:		
Purchases of capital assets	(2,041,260)	(1,326,460)
Cash received from federal bond subsidy	1,038,661	2,884,824
Interest payments on bonds	(5,630,613)	(5,791,938)
Cash payments into mortgage reserve fund	(1,823,863)	(2,094,246)
Principal payments on bonds	(3,715,000)	(3,540,000)
Cash payments for mortgage-related activities (Mortgage servicing, MIP, GNMA guaranty)	(884,590)	(1,001,817)
Other receipts	54,000	8,002
Net cash used in capital financing activities	(13,002,665)	(10,861,635)
Cash flows from investing activities:		
Interest on investments	82,970	31,128
Net cash provided by investing activities	82,970	31,128
Net increase in cash and cash equivalents	3,243,166	7,148,470
Cash and cash equivalents, beginning of year	29,834,563	22,686,093
Cash and cash equivalents, end of year	$ 33,077,729	29,834,563

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Reconciliation of operating loss to net cash used in operating activities:			
Operating gain (loss)	$	5,310,341	(4,730,995)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense		6,105,586	8,360,558
Provision for doubtful accounts		7,279,260	6,932,244
Health System Mission Support		—	3,323,728
Change in assets and liabilities:			
Patient receivables		(6,211,213)	(5,233,788)
Due from related parties		(151,836)	8,453
Estimated third-party settlements		4,396,183	1,345,032
Other receivables and prepaid expenses		(66,383)	349,460
Inventories		387,203	(70,244)
Accounts payable		(1,470,492)	613,726
Due to University of New Mexico Health System		(901,558)	347,553
Due to University of New Mexico		1,155,828	173,808
Due to UNM Medical Group		(141,190)	(21,668)
Accrued payroll		16,013	100,039
Accrued compensated absences		198,008	197,718
Net cash provided by operating activities	$	15,905,750	11,695,624

See accompanying notes to financial statements.

(1) Description of Business

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

The healthcare related education, research, and clinical programs and services offered by UNM and/or provided in UNM's facilities and those of certain of its URPEDA subsidiaries are designated as the UNM Health Sciences Center (UNM HSC), which is a component unit of UNM. The clinical elements of UNM HSC are intended to be a fully integrated, academic health center and healthcare delivery system and are collectively administered as the UNM Health System. As part of ongoing operations, the Medical Center engages in certain related-party transactions as described further in note 12.

SRMC operates as a licensed acute care hospital along with numerous onsite clinics located in Rio Rancho, New Mexico. The Medical Center is a community-teaching component unit of UNM HSC and provides primary and specialty health services in Sandoval County, New Mexico. SRMC, together with UNM Hospitals (UNMH), operates the clinical settings through which the UNM School of Medicine (SOM) educates medical and graduate students, trains residents and clinical fellows, and supports faculty and community clinicians.

SRMC consists of an approximately 200,000 square foot community-teaching Medical Center, with 48 acute medical/surgical beds and 12 intensive care unit beds. There is also an onsite 40,000 square foot medical office building. The Medical Center is adjacent to the City Center in Rio Rancho, New Mexico. UNM owns the land upon which the Medical Center is located. The Medical Center is a blended component unit of UNM and is reported as such in the basic financial statements of UNM. The Medical Center has no component units.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

- Management's discussion and analysis

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

GASB Statement No. 34, as amended by GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

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

(b) Recent Accounting Pronouncements

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. Statement No. 83 addresses the accounting and financial reporting for certain asset retirement obligations, with the establishment of criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. Statement No. 83 is effective for reporting periods beginning after June 15, 2018. The Medical Center is evaluating the impact the standard with have on its financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 addresses the accounting and financial reporting for leases, establishing a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Statement No. 87 is effective for reporting periods beginning after December 15, 2019. The Medical Center is evaluating the impact the standard will have on its financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Statement No. 88 addresses the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The Statement also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 is effective for reporting periods beginning after June 15, 2018. The Medical Center is evaluating the impact the standard will have on its financial statements.

(c) Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statement dates, and the reported amount of revenues and expenses during the reporting periods. Due to uncertainties inherent in the estimation process, actual results could differ from those estimates.

(d) Operating Revenues and Expenses

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

(e) Nonoperating Revenues and Expenses

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as government levies and subsidies, and gifts or income not directly related to the provision of patient care, such as investment income. These revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Investment income is recognized in the period when it is earned. The mill levy is recognized in the period it is collected by the Sandoval County. Bequests and contributions are recognized when all applicable eligibility or contingent requirements have been met. Nonoperating expenses also include interest expense on bonds, mortgage servicing fees, mortgage insurance premium, GNMA guaranty fees, and other.

(f) Mission Support

SRMC incurred an operating loss for the year ended June 30, 2017. In 2017, UNM Health System contributed $3.3 million in support of the UNM HSC mission, which is carried out at the Medical Center.

(g) Cash and Cash Equivalents

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

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

(h) Restricted Cash and Cash Equivalents

The balance of restricted cash and cash equivalents is cash held by trustee for debt service and is used for the principal and interest components of debt service.

(i) Net Patient Accounts Receivables

The Medical Center records patient receivables at the estimated net realizable value after deducting contractual discounts and allowances, free service, and allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Medical Center analyzes its past history and identifies trends for each of the major payor sources of revenue to estimate the appropriate allowance for doubtful accounts. Management regularly reviews data for each of the major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

(j) Inventories

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

(k) Restricted Investments Noncurrent

The Medical Center has established a mortgage reserve fund in accordance with the requirements and conditions of the Federal Housing Administration (FHA) Regulatory Agreement. Notwithstanding any other provision in the Regulatory Agreement, the mortgage reserve fund may be used by Housing and Urban Development if the Medical Center is unable to make a mortgage note payment on the due date. The Medical Center is required to make contributions to the fund based on the mortgage reserve fund schedule.

(l) Capital Assets

Capital assets are stated at cost or at estimated fair value on date of acquisition. The Medical Center's capitalization policy for assets includes all items with a unit cost of more than $5,000, as well as for the first year of capitalization, items in the aggregate whose total cost is more than $5,000. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets as indicated in the *Estimated Useful Lives of Depreciable Medical Center Assets*, Revised 2013 Edition published by the American Medical Center Association. Repairs and maintenance costs are charged to expense as incurred. On an annual basis, the Medical Center assesses long-lived assets in order to determine whether or not it is necessary to retire, replace, or impair based on condition of the assets and their intended use.

(m) Net Deficiency in Capital Assets

Net deficiency in capital assets represents the Medical Center's total investment in capital assets, net of outstanding debt related to those capital assets. Since the outstanding debt at June 30, 2018 and 2017 is greater than the investment in capital assets, this category of net position is reported as a negative amount in the statements of net position.

(n) Net Patient Service Revenues

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

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

(o) Charity Care

The Medical Center provides care to all patients, regardless of ability to pay for needed services. A patient classified as a charity care patient in accordance with the Medical Center's charity care policy is provided care without charge or at amounts less than 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 co-payments.

(p) Sandoval County Mill Levy Taxes

The amount of the property tax levy is assessed annually on January 1 on the valuation of property as determined by the County Assessor and is due in equal semiannual 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. In November 2016, voters in Sandoval County voted not to approve the mill levy for the tax period beginning January 1, 2017. On November 6, 2018, voters approved a 1.9 mill levy on property owned within Sandoval County, effective January 1, 2019.

Any taxes remitted to the Medical Center by the County Treasurer are paid after any potential impacts related to GASB Statement No. 77, *Tax Abatement Disclosures*. Foregone mill levy proceeds resulting from Sandoval County tax abatements are not included in any mill levy proceeds received by the Medical Center, and the financial impacts are the responsibility of the taxing agency to disclose. The proceeds of the levy were reduced by $0.1 million in aggregate during the year ended June 30, 2017 as a result of the exemptions and abatements granted.

(q) Federal Bond Subsidy

The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs. These sources of funds are accounted for as nonoperating revenues and recorded as they are earned. Under the program, the Medical Center applies for subsidy funds commensurate with each bond payment, so the application for the subsidy is made semiannually. For each of the years ended June 30, 2018 and 2017, the Medical Center recognized $1.9 million in federal bond subsidy revenue.

(r) Income Taxes

The Medical Center has received a determination letter from the Internal Revenue Service (IRS) that it is an organization described in Internal Revenue Code Section 501(c)(3). As such, it is exempt from federal income tax on income generated from activities related to its exempt function. The Medical Center previously received a discretionary ruling from the IRS under Revenue Procedure 95-48, excluding it from the requirement to file certain information returns. Changes made by the Pension Protection Act removed the IRS's discretionary authority to waive these filing requirements. However, subsequent to these changes, the Medical Center requested and was granted status as a 509(a)(2)

entity rather than a 509(a)(3) entity. This current status exempts the Medical Center from having to file an IRS Form 990. Accordingly, no provision for income taxes has been made.

(s) Risk Management

The Medical Center sponsors a self-insured health plan for employees. Blue Cross and Blue Shield of New Mexico (BCBS NM) and HMO New Mexico provide administrative claim payment services for the Medical Center's plan. Liabilities are based on an estimate of claims that have been incurred but not reported (IBNR) and claims received but not yet paid. At June 30, 2018 and 2017, the estimated amounts of the Medical Center's IBNR and accrued claims were $200,000 and $263,865, respectively, which are included in accrued payroll. The liability for IBNR was based on actuarial analysis calculated using information provided by BCBS NM and management estimates.

	Balance at beginning of fiscal year	Claims and changes in estimates	Claim payments	Balance at fiscal year-end
2017–2018	$ 263,865	2,573,672	(2,637,537)	200,000
2016–2017	239,884	2,591,046	(2,567,065)	263,865

(3) Cash and Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

(i) Deposits

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

The carrying amounts of the Medical Center's deposits with financial institutions at June 30, 2018 and 2017 are $26.8 million and $22.9 million, respectively.

Bank balances are categorized at June 30 as follows:

	2018	2017
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 377,217	281,738
Other cash	27,688,971	23,774,187
	$ 28,066,188	24,055,925

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

(b) Restricted Cash and Cash Equivalents

In connection with the 2010 Financing Transaction, as a requirement of the trust indenture and the Financing Agreement, the Medical Center was required to establish trust funds for debt service. The Debt Service Fund collects the interest income and necessary funds to make the semiannual coupon payments for the bonds. This fund also includes a depository account for the proceeds received from the Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond payments.

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Currently, the Medical Center does not have a specific policy to limit its exposure to interest rate risk. The Medical Center holds no investments that are subject to interest rate risk.

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investments or collateral that is in the possession of an outside party. As of June 30, 2018 and 2017, there were no investments or cash and cash equivalents subject to custodial credit risk.

The Medical Center's custodial risk policy for the bond proceeds conforms to the trust indenture, and the trustee holds the investments in safekeeping.

(iii) Credit Risk – Debt Investments – Cash and Cash Equivalents

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

A summary of the debt investments – cash and cash equivalents at June 30, 2018 and 2017 and their exposure to credit risk is as follows:

	June 30, 2018		June 30, 2017	
	Rating	Fair value	Rating	Fair value
Items subject to credit risk:				
Money market fund	Not rated	$ 6,227,171	Not rated	$ 6,973,824
Total items subject to credit risk		6,227,171		6,973,824
Total debt investments – cash and cash equivalents		$ 6,227,171		$ 6,973,824

(Continued)

(c) Long-Term Investments

(i) Interest Rate Risk – Debt Investments – Long-Term Investments

Currently, the Medical Center does not have a specific policy to limit its exposure to interest rate risk. The Medical Center holds no investments that are subject to interest rate risks. All of the Medical Center's investments have a maturity of less than one year.

(ii) Custodial Credit Risk – Debt Investments – Long-Term Investments

As of June 30, 2018 and 2017, the Medical Center held no U.S. government obligations for long-term investment purposes.

The Medical Center's custodial risk policy for the bond proceeds conforms to the trust indenture, and the trustee holds the investments in safekeeping.

(iii) Credit Risk – Debt Investments – Long-Term Investments

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

A summary of the long-term investments at June 30, 2018 and 2017 and their exposure to credit risk is as follows:

	June 30, 2018		June 30, 2017	
	Rating	**Fair value**	**Rating**	**Fair value**
Items subject to credit risk:				
Money market fund	Not rated	$ 11,329,655	Not rated	$ 9,505,792
Total items subject to credit risk		11,329,655		9,505,792
Total long-term investments		$ 11,329,655		$ 9,505,792

(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:

	2018		2017	
Medicare	$ 11,206,358	32 %	$ 16,770,808	42 %
Medicaid	5,057,555	14	10,145,868	26
Other third-party payors	11,104,184	32	7,023,327	17
Others	7,740,917	22	5,838,364	15
Total patient accounts receivable	35,109,014	100 %	39,778,367	100 %
Less allowance for uncollectible accounts and contractual adjustments	(26,274,862)		(29,876,168)	
Patient accounts receivable, net	$ 8,834,152		$ 9,902,199	

(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. The Medical Center is subject to the prospective federal capital rate. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

In fiscal year 2018, the Medical Center received $6.2 million of the fiscal year 2016 disproportionate share payments from the Medicare program. The Medical Center's best estimate is that $4.1 million of this amount is refundable to the Medicare program, and this amount has been included in estimated third party settlements payable at June 30, 2018 in the accompanying statement of net position.

(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, 2018				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
SRMC capital assets not being depreciated:					
Construction in progress	$ 97,068	815,733	(295,820)	—	616,981
SRMC depreciable capital assets:					
Building and building improvements	105,431,774	—	182,451	—	105,614,225
Building service equipment	3,847,741	—	113,369	—	3,961,110
Fixed equipment	4,055,147	—	—	—	4,055,147
Major moveable equipment	37,359,387	1,225,527	—	(1,255,673)	37,329,241
Total depreciable capital assets	150,694,049	1,225,527	295,820	(1,255,673)	150,959,723
Less accumulated depreciation for:					
Building and building improvements	(13,191,082)	(2,681,036)	—	—	(15,872,118)
Building service equipment	(1,486,924)	(283,342)	—	—	(1,770,266)
Fixed equipment	(1,642,542)	(261,086)	—	—	(1,903,628)
Major moveable equipment	(27,150,037)	(2,880,122)	—	1,115,171	(28,914,988)
Total accumulated depreciation	(43,470,585)	(6,105,586)	—	1,115,171	(48,461,000)
SRMC depreciable capital assets, net	107,223,464	(4,880,059)	295,820	(140,502)	102,498,723
SRMC capital assets, net	$ 107,320,532	(4,064,326)	—	(140,502)	103,115,704

(Continued)

	Year ended June 30, 2017				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
SRMC capital assets not being depreciated:					
Construction in progress	$ 165,778	307,331	(376,041)	—	97,068
SRMC depreciable capital assets:					
Building and building improvements	105,233,120	—	198,654	—	105,431,774
Building service equipment	3,670,354	—	177,387	—	3,847,741
Fixed equipment	4,044,135	11,012	—	—	4,055,147
Major moveable equipment	36,368,556	1,008,117	—	(17,286)	37,359,387
Total depreciable capital assets	149,316,165	1,019,129	376,041	(17,286)	150,694,049
Less accumulated depreciation for:					
Building and building improvements	(10,460,158)	(2,730,924)	—	—	(13,191,082)
Building service equipment	(1,144,366)	(342,558)	—	—	(1,486,924)
Fixed equipment	(1,296,341)	(346,201)	—	—	(1,642,542)
Major moveable equipment	(22,224,718)	(4,940,875)	—	15,556	(27,150,037)
Total accumulated depreciation	(35,125,583)	(8,360,558)	—	15,556	(43,470,585)
SRMC depreciable capital assets, net	114,190,582	(7,341,429)	376,041	(1,730)	107,223,464
SRMC capital assets, net	$ 114,356,360	(7,034,098)	—	(1,730)	107,320,532

(7) Compensated Absences

Qualified Medical Center employees are entitled to accrue sick, holiday, and annual leaves as one inclusive paid time off (PTO) bank based on their full-time equivalent status.

Full-time employees with zero to seven years of service accrue 11.07 hours of PTO each pay period (36 days per annum), up to a maximum of 500 hours to be used for sick, holiday, and annual leaves. Full-time employees with years of service in excess of seven years accrue 12.61 hours of PTO each pay period (41 days per annum), up to a maximum of 500 hours to be used for sick, holiday, and annual leaves. Part-time employees earn PTO leave on a prorated basis each pay period. When publicized by the Medical Center each year, employees have the opportunity to exchange PTO for cash at 80% of their hourly rate. At termination, employees are eligible for payment of unused accumulated hours at 100% of their regular

(Continued)

hourly rate. Accrued PTO as of June 30, 2018 and 2017 of $2.0 million and $1.8 million, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

For the years ended June 30, 2018 and 2017, the following changes occurred in accrued compensated absences, which includes annual leave, sick leave, and holiday.

	Balance June 30, 2018	Balance June 30, 2017	Increase
$	2,002,829	1,804,821	198,008

	Balance June 30, 2017	Balance June 30, 2016	Increase
$	1,804,821	1,607,103	197,718

The portion of accrued compensated absences due after one year is not material and, therefore, is not presented separately.

(8) Bonds Payable

In November 2010, the Medical Center issued $133,425,000 in aggregate principal amount of its Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized – UNM Sandoval Regional Medical Center Project) Series 2010A with a maturity date of July 20, 2036 and $10,000,000 in aggregate principal amount of its Taxable Revenue Recovery Zone Economic Development Bonds (Direct Pay) (GNMA Collateralized – UNM Sandoval Regional Medical Center Project) Series 2010B with a maturity date of July 20, 2037. The bonds were issued pursuant to a trust indenture, dated as of October 1, 2010, by and between the Medical Center and Wells Fargo Bank, National Association, as trustee for the purpose of financing the Medical Center facility and to pay certain costs associated with the issuance of the bonds.

The bonds were issued as special limited obligations of the Medical Center and are secured primarily by fully modified mortgage-backed securities in the aggregate principal amount of $127,164,027 (the GNMA Securities), issued by Prudential Huntoon Paige Associates, Ltd. (the Lender), guaranteed as to principal and interest by GNMA, with respect to the mortgage note.

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

of the bondholders and any and all payments received with respect to the GNMA Securities are solely for the benefit of the bondholders.

The Medical Center entered into a Financing Agreement with the Lender and the trustee effective October 1, 2010, under which the Lender agreed to originate a mortgage note in favor of the Lender and secured by a leasehold mortgage on the medical center facility. The mortgage note is insured by the FHA pursuant to Section 242 of the National Housing Act of 1934 and to provide security for the bonds, the trustee used the proceeds of the bonds to purchase from the Lender GNMA Securities. The Medical Center used the proceeds of the mortgage note to acquire, construct, and equip the medical center facility.

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, 2018 and 2017, the balance of the mortgage note equaled the balance of the GNMA securities.

The terms of the bonds issued are as follows:

Bond	Maturity date	Original principal	Interest rate
Series 2010A	July 20, 2036	$ 133,425,000	4.50 %
Series 2010B	July 20, 2037	10,000,000	5.00

The Medical Center is eligible to receive cash subsidy payments from the U.S. Department of Treasury equal to 35% 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 receipts lower the overall true cost of the bonds to 3.33%. Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the subsidy is subject to sequestration. For federal fiscal year 2018, beginning October 1, 2017, the sequestration percentage was 6.6%. This had the overall effect of changing the subsidy payment from the U.S. Department of Treasury equal to 32.69% of the interest payable on the Build America Bonds (Series 2010A) and 42.03% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B). For federal fiscal year 2017, beginning October 1, 2016, the sequestration percentage was 6.9%. This had the overall effect of changing the subsidy payment from the U.S. Department of Treasury equal to 32.59% of the interest payable on the Build America Bonds (Series 2010A), and 41.90% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B).

Bond payable activity consists of the following:

	Year ended June 30, 2018				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
Bond Series 2010A	$ 115,220,000	—	(3,715,000)	111,505,000	3,890,000
Bond Series 2010B	9,740,000	—	—	9,740,000	—
Total	$ 124,960,000	—	(3,715,000)	121,245,000	3,890,000

The following schedule summarizes the special and scheduled mandatory redemption requirements of the Series 2010A and Series 2010B bonds as of June 30, 2018:

	Series 2010A bonds		Series 2010B bonds		Total	
Fiscal year	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 3,890,000	4,974,525	—	487,000	3,890,000	5,461,525
2020	4,075,000	4,797,338	—	487,000	4,075,000	5,284,338
2021	4,275,000	4,611,713	—	487,000	4,275,000	5,098,713
2022	4,475,000	4,417,200	—	487,000	4,475,000	4,904,200
2023	4,695,000	4,213,350	—	487,000	4,695,000	4,700,350
2024–2028	27,075,000	17,647,988	—	2,435,000	27,075,000	20,082,988
2029–2033	34,240,000	10,861,988	—	2,435,000	34,240,000	13,296,988
2034–2038	28,780,000	2,621,361	9,740,000	2,054,250	38,520,000	4,675,611
	$ 111,505,000	54,145,463	9,740,000	9,359,250	121,245,000	63,504,713

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 as a result of mandatory prepayments being made on the mortgage note.

The mortgage note bears interest at 4.61%. The initial mortgage note had 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. 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 default on scheduled payments or the receipt of any mortgage insurance proceeds.

(9) Net Patient Service Revenues

The majority of the Medical Center's revenue is generated through agreements with third-party payors that provide for reimbursement to the Medical Center at amounts different from its established gross charges. Approximately 35% and 26% of the Medical Center's gross patient revenue for the year ended June 30,

2018 was derived from the Medicare and Medicaid programs, respectively, the continuation of which are dependent upon governmental policies and government funding. For the year ended June 30, 2017, the approximate gross patient revenue was 29% and 27% respectively, for income derived from the Medicare and Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. The implementation of the Affordable Care Act on January 1, 2014 profoundly affected not only the proportion of patients covered by Medicaid, but it also affected the reimbursement rates paid by Medicaid for hospital services. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at established charges for services and amounts reimbursed by third-party payors. A summary of payment arrangements with major third-party payors follows:

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

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

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

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

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

		2018	2017
Charges at established rates	$	204,506,925	194,632,678
Charity care		(3,905,871)	(3,106,363)
Contractual adjustments		(109,601,349)	(107,170,780)
Provision for doubtful accounts		(7,279,260)	(6,932,244)
Net patient service revenues	$	83,720,445	77,423,291

(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:

		2018	2017
Charges foregone, based on established rates	$	3,905,871	3,106,363
Estimated costs and expenses incurred to provide charity care		1,542,819	1,332,630
Equivalent percentage of charity care charges foregone to total gross revenue		1.9 %	1.6 %

The estimated cost of providing charity care is based on a calculation, which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Medical Center's total operating expenses divided by gross patient service charges.

(11) Malpractice Insurance

Under the terms of the URPEDA, the Medical Center has governmental immunity from tort liability except as set forth in the New Mexico Tort Claims Act, Sections 41-4-1 et seq. NMSA 1978, as amended (NMTCA). In this connection, the New Mexico Legislature waived the state's and the Medical Center's immunity for tort claims arising out of negligence of Medical Center employees in the operation of its hospital, the negligent treatment of the Medical Center's patients by Medical Center employees, and the negligence of Medical Center employees in providing healthcare services. Additionally, as described below, consistent with the provisions of URPEDA, the Medical Center elected to purchase its medical malpractice, professional, and general liability coverage from the Risk Management Division of the State of New Mexico General Services Department (RMD), who administers the Public Liability Fund established under the NMTCA.

The NMTCA limits, as an integral part of this waiver of immunity, the amount of damages that can be assessed against the Medical Center on any tort claim, including medical malpractice, professional, or

general liability claims. The NMTCA provides that total liability for all claims that arise out of a single occurrence shall not exceed $750,000 set forth as follows: (a) $200,000 for real property; (b) up to $300,000 for past and future medical and medically related expenses; and (c) up to $400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. While the language of the NMTCA does not expressly provide for claims of loss of consortium, New Mexico appellate court decisions have allowed claimants to seek loss of consortium. As a result, if loss of consortium claims are presented, those claims cannot exceed $350,000 in the aggregate. Thus, it appears that if a claim presents both direct claims and third-party claims, the maximum exposure of the Public Liability Fund and, therefore, the Medical Center, cannot exceed $1,050,000. The NMTCA prohibits the award of punitive or exemplary damages against the Medical Center. These limitations of liability are subject to adjustment by the New Mexico Legislature.

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

(12) Related-Party Transactions

The Medical Center is a separately incorporated but UNM-affiliated entity, which is the basis for intercompany or related-party transactions between SRMC and any UNM or UNM-affiliated entity. The clinical elements of UNM HSC are a fully integrated, academic health center and healthcare delivery system and are collectively administered as the UNM Health System. The UNM Health System consists of SRMC, UNMH, UNM Cancer Center, and UNMMG.

The Medical Center enters into intercompany transactions with UNM and other entities associated with UNM, which includes UNM Health System and UNMMG, for the cost of various medical services and centralized administrative personnel, malpractice insurance, liability insurance, safety and risk services, and physician coverage incurred on behalf of the Medical Center. The Medical Center incurred expenses, included in total expenses in the accompanying statements of revenues, expenses, and changes in net position related to the following entities during the years ended June 30:

		2018	2017
UNM	$	1,532,787	1,095,472
UNM Hospital		3,030,784	2,169,270
UNM Medical Group		322,481	1,140,000
	$	4,886,052	4,404,742

(Continued)

In addition, UNMH provides management oversight for centralized administrative personnel and support with analytics, cost reports, and audit. The support is not an incremental cost to UNMH; therefore, it is not charged to the Medical Center. UNM Health System overhead is also not charged to the Medical Center. The estimated cost for the noncharged support and overhead is $1.6 million for year ended June 30, 2018. The estimation management oversight and centralized support is based on various units of measure such as gross revenue, FTEs, purchase orders issued, and AP invoices keyed. The cost for such contributed services in fiscal year 2017 has not been calculated.

The Medical Center provides medical services and leases equipment to UNM and other entities associated with UNM. SRMC received payment from UNM HSC for services provided to UNM West campus, including building maintenance, housekeeping, and security. SRMC received payment from UNMH for data and equipment leases, from UNMMG for prior year collections of physician services, and from UNMH for medical services provided to UNM Care patients. In addition, as stated in note 2, in 2017 UNM Health System contributed $3.3 million in support of the UNM SOM mission, which is carried out at the Medical Center. The Medical Center included the following amounts in the accompanying statements of revenues, expenses, and changes in net position for services rendered during the years ended June 30:

		2018	2017
UNM Hospital	$	307,755	1,907,553
UNM Medical Group		322,576	910,646
UNM		410,785	830,822
	$	1,041,116	3,649,021

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

(13) Benefit Plans

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

(Continued)

Contributions to the plan are made through employee deferrals on earned compensation. Participants may contribute, on a tax-deferred basis, up to the annual limitations as prescribed by the IRS. Participants may designate all or a portion of 403(b) elective deferral contributions as Roth elective deferral contributions. Participants may also make rollover contributions representing distributions from other qualified plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers various mutual funds and an insurance investment contract as investment options for participants. The Medical Center may make matching contributions equal to a percentage of participant contributions. If matching contributions are made, the percentage contributed is determined by the Medical Center. The Medical Center may also make a discretionary contribution each plan year. Contributions are subject to regulatory limitations. The expense for the defined-contribution plan was $0.7 million in each of the years ended June 30, 2018 and 2017. Total employee contributions under this plan were $1.1 million and $1.0 million for the years ended June 30, 2018 and 2017, respectively.

(14) Contingencies

The Medical Center is subject to asserted and unasserted legal claims arising during the ordinary course of business. The Medical Center makes provisions for a liability when it is both probable that a liability has been incurred and the amount of the loss of liability can be reasonable estimated. Management and legal counsel periodically assess whether losses have been incurred related to pending or threatened litigation, claims, and assessments. Loss estimates are continually monitored and reviewed. While the outcome of legal claims cannot be determined at this time, management is of opinion that the liability, if any, from these actions will not have a material effect on SRMC’s financial position.

Schedule 1

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

Indigent Care Cost and Funding Report

	For the year ended June 30		
	2018	**2017**	**2016**
			Unaudited
Funding for indigent care:			
State appropriations specified for indigent care – Out of County Indigent Fund	$ —	—	—
County indigent funds received	—	—	—
Out of county indigent funds received	40	—	—
Payments and copayments received from uninsured patients qualifying for indigent care	4,443	1,505	—
Reimbursement received for services provided to patients qualifying for coverage under EMSA	1,129	2,897	6,714
Charitable contributions received from donors that are designated for funding indigent care	—	—	—
Other sources:			
Other source	—	—	—
Total funding for charity care	5,612	4,402	6,714
Cost of providing indigent care:			
Total cost of care for providing services to:			
Uninsured patients qualifying for indigent care	546,021	381,614	329,265
Patients qualifying for coverage under EMSA	24,644	36,953	63,000
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	996,798	951,016	1,391,103
Direct costs paid to other providers on behalf of patients qualifying for indigent care	—	—	—
Total cost of providing indigent care	1,567,463	1,369,583	1,783,368
Excess (shortfall) of funding for charity care to cost of providing indigent care	$ (1,561,851)	(1,365,181)	(1,776,654)
Patients receiving indigent care services (unaudited):			
Total number of patients receiving indigent care	8,745	10,023	2,348
Total number of patient encounters receiving indigent care	14,600	16,136	3,316

See accompanying independent auditors' report.

Schedule 2

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

Calculations of Cost of Providing Indigent Care

	For the year ended June 30,		
	2018	**2017**	**2016**
			Unaudited
Uninsured patients qualifying for indigent care:			
Charges for these patients	$ 1,382,331	889,543	721,692
Ratio of cost to charges	39.5 %	42.9 %	45.6 %
Cost for uninsured patients qualifying for indigent care	$ 546,021	381,614	329,265
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA):			
Charges for these patients	$ 62,391	86,137	138,085
Ratio of cost to charges	39.5 %	42.9 %	45.6 %
Cost for Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	$ 24,644	36,953	63,000
Cost of care related to patient portion of bill for insured patients qualifying for indigent care:			
Indigent/charity care adjustments for these patients	$ 2,523,540	2,216,820	3,049,053
Ratio of cost to charges	39.5 %	42.9 %	45.6 %
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	$ 996,798	951,016	1,391,103
Direct costs paid to other providers on behalf of patients qualifying for indigent care:			
Payments to other providers for care of these patients	$ —	—	—
	$ —	—	—

See accompanying independent auditors' report.

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

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

The Board of Directors
UNM Sandoval Regional Medical Center, Inc. and
Mr. Wayne Johnson, New Mexico State Auditor:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of UNM Sandoval Regional Medical Center, Inc. (the Medical Center), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2018.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

NMSA 1978 that we have described in the accompanying schedule of findings and responses as item 2018-002.

The Medical Center's Responses to the Findings

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

Purpose of this Report

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

KPMG LLP

Albuquerque, New Mexico
December 11, 2018

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
June 30, 2018

2018-001. Related Party Transaction Policies and Procedures – Significant Deficiency

Condition

We did not identify adjustments to the reported financial results in our testing of related party transactions. However, the organization does not have specific written policies and procedures governing related party transactions, including associated internal controls. Although existing procurement controls are applied to related party transactions, such procurement controls are not designed to comprehensively address related party transactions. For example, third-party procurements are transacted on an arms-length basis with outside entities. However, such market checks and balances are not always present in related party transactions because the parties to the transactions are, by definition, interrelated and in many cases are dependent on one another. To compensate for this, the organization should have written policies and procedures that address the topics in the following "Criteria" section, and such policies and procedures should incorporate methods for allocating revenues and expenses among entities, expectations about documentation standards for and timeliness of related party agreements, and contributed services.

Criteria

Management should design, implement and maintain controls to:

- Identify, account for, and disclose related party relationships and transactions.
- Authorize and approve significant transactions and arrangements with related parties including appropriate segregation of duties.
- Authorize and approve any significant transactions or arrangements outside the normal course of business, should they arise.
- Ensure compliance with applicable federal and state rules and regulations, as applicable.

Effect

Related party transactions may not be consistently identified and appropriately accounted for and disclosed. Additionally, the lack of written policies and procedures may create challenges in understanding the nature and business rationale of the entity's related party relationships and transactions.

Cause

Written policies and procedures have not been developed for related party transactions.

Recommendation

We recommend that management develop a written policy which expands on and enhances existing practices to:

- Identify, account for, and disclose related party relationships and transactions.
- Authorize and approve significant transactions and arrangements with related parties including appropriate segregation of duties.
- Authorize and approve any significant transactions or arrangements outside the normal course of business, should they arise.

(Continued)

- Ensure compliance with applicable federal and state rules and regulations, as applicable.

The policy should also address methods for allocating revenues and expenses among entities, expectations about documentation standards for and timeliness of related party agreements, and contributed services.

Management Response

We appreciate the comprehensive audit that was performed in regards to related party transactions. It is gratifying that no specific findings or adjustments were identified as a result of this audit.

The organization has entered into related party transactions as a part of our fully integrated Academic Medical Center. Full integration allows us to maximize efficiency of operations and achieve economies of scale. This is essential in a diverse community like New Mexico's where poverty and the lack of healthcare resources are contributing factors in determining health and disease.

These transactions and exchange of funds are widely used in the United States by academic health systems similar to ours. This is especially true of a School of Medicine, whose faculty are the Physicians and whose post-doctoral learners are the Residents and Fellows who provide the patient care in the hospitals and clinics.

For the consolidated financial statements of the University of New Mexico, this exchange of funds, or related party transactions, is completely eliminated and has no financial impact to the UNM system.

Although the procurement of related party goods and services currently follow our policies regarding the issuance of purchase orders and authorization based on dollar limits, including segregation of duties, our policies do not specifically address procurement from related parties. Our policies do currently require compliance with applicable federal and state rules and regulations.

Management will develop a policy to specifically address transactions between UNM entities where standalone financial statements are issued. The Chancellor for Health Sciences will be responsible for this policy, with a completion date of April 30, 2019.

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

2018-002. User Access Review – Findings That Do Not Rise To The Level Of A Significant Deficiency

Condition

Our testwork revealed that controls over user access reviews are not operating sufficiently effectively.

This was validated in two components of our testwork:

1 A cloud migration process performed by vendors created Lawson accounts for employees that were terminated, leaving them active. UNMH IT identified these employees and manually disabled these accounts. However, three terminated users had active accounts as of the date of testwork. We verified that these employees did not record any activity in Lawson subsequent to their termination.

2 For the Millennium, Soarian, and Lawson systems, we noted documentation supporting various components of management's FY 2018 user access review was not sufficient to evidence the control is operating effectively. For example, the documentation of the review of the complete population of users and the actions resulting from management's review (user access changes or removals) was not maintained to evidence that the control process took place such that it could be re-performed.

Criteria

The entity's system processes, records, and stores information that is vital to its daily operations and certain systems contain protected health information of its patients. It is critical that access to this system is properly maintained to prevent inappropriate transactions from occurring, data from being lost, and to prevent protected health information from being released. The applicable entities have a formal policy to periodically review user access to ensure active employees have the proper level of access in the applicable systems, and that terminated employees have been timely deactivated. Based on industry standards, the appropriate disabling of access within IT systems would occur within a reasonable time, or five working days of termination.

Effect

There is an increased risk that a terminated or unauthorized employee has continued access to IT systems and the data contained therein subsequent to termination or change of employment terms or responsibilities, potentially resulting in a breach of data or protected health information.

Cause

The user access review process was not operating effectively and aspects of its performance could not be evidenced through documentation retained.

Recommendation

We recommend that the disabling of user access within IT systems should take place within a reasonable time, or five working days of termination of employment. Management should continue to enhance its review of user access, which should occur periodically during the year. A departmental manager or individual responsible for the functional data should perform the review. Evidence of the performance of the review, including remedial action taken, should be maintained.

(Continued)

Management Response

1. Infor (Lawson) accounts that were disabled were re-created during migration from on-premise to Cloud by a third party vendor. Several hundred re-created accounts were identified and manually disabled after go-live. The manual process missed 3 accounts out of over 700. The 3 accounts identified have since been disabled. Past Infor account reviews were for elevated access, which excluded employee level access to their own information. The Infor elevated access reviews will continue with the addition of an annual 100% account review for non-elevated accounts.

2. The Soarian account review does include the complete population of users; however, it hasn't historically included a summary of changes as a result of the audit. Going forward, the Patient Financial Services department will document any access changes and removals as a result of these audits.

Due to the volume of Millennium accounts and the many organizations that sponsor the accounts, the Millennium account review is based on a random selection of accounts that are individually audited. The current process is to maintain a summary of these audit results. Going forward, the randomly selected accounts reviewed and the subsequent actions from the review will also be maintained and documented.

The Chancellor for Health Sciences will be responsible for this policy, with a completion date of April 30, 2019.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings
June 30, 2018

Finding 2017-001. Terminated Employee Documentation Process – Findings That Do Not Rise To The Level Of A Significant Deficiency

Current Status: Repeated and modified as finding 2018-002

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Exit Conference
June 30, 2018

An exit conference was conducted on September 24, 2018, with members of the board of directors and members of SRMC management. During this meeting, the contents of this report were discussed with the following board members, management personnel, and KPMG LLP representatives present:

Jerry Geist	Board Member
Michael Richards	Vice Chancellor of Clinical Affairs, UNM Health System
Ava Lovell	Senior Executive Officer for Finance and Administration, UNM Health Sciences Center
Jamie Silva-Steele	President and CEO, SRMC
Darlene Fernandez	Chief Financial Officer, SRMC
Pam Demarest	Chief Nursing Officer, SRMC
Purvi Mody	Health System Compliance and Internal Audit Officer
Robin Cole	Controller, Finance, SRMC
Robb McLean	Chief Medical Officer, SRMC
Emilee Soto	Associate University Counsel
Matthew Wilks	Chief of Medical Staff, SRMC
Manu Patel	Director of Internal Audit, UNM
Mark McComb	Partner, KPMG LLP
Jaime Cavin	Senior Manager, KPMG LLP
Ruth Senior	Manager, KPMG LLP

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