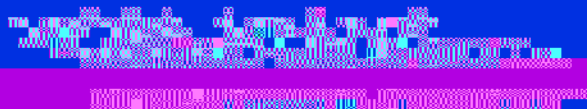




UNM SANDOVAL REGIONAL
MEDICAL CENTER, INC.
(A Component Unit of the
University of New Mexico)
FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015



UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

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

ADMINISTRATIVE OFFICERS

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

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

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

Opinions

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

Emphasis of Matter

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

Other Matters

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

Other Reporting Required by ***Government Auditing Standards***

In accordance with _____, we have also issued our report dated October 21, 2016 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts,

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016 AND 2015

Financial Summary

Condensed Summary of Net Position

| | Assets | 2016 | 2015 | 2014 |
|------------------------|-------------------|----------------|-------------|-------------|
| Current assets | | \$ 39,456,579 | 35,382,906 | 40,841,685 |
| Capital assets, net | | 114,356,360 | 121,779,060 | 128,091,305 |
| Noncurrent assets | | 7,411,546 | 5,404,485 | 3,480,942 |
| | Total assets | \$ 161,224,485 | 162,566,451 | 172,413,932 |
| | Liabilities | | | |
| Current liabilities | | \$ 17,145,678 | 14,951,394 | 24,079,883 |
| Noncurrent liabilities | | 124,960,000 | 128,500,000 | 131,880,000 |
| | Total liabilities | \$ 142,105,678 | 143,451,394 | 155,959,883 |
| | Net Position | | | |

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016 AND 2015

Condensed Summary of Revenues,

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

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016 AND 2015

the Medical Center will be subject to the prospective federal capital rate. Net patient service revenue for the fiscal years ended June 30, 2016 and 2015 includes cost report estimates for the Medicare and Medicaid programs. At June 30,

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY)

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

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016 AND 2015

For the year ended June 30, 2016, total depreciable capital assets increased by \$1.1 million from June 30, 2015. Major moveable equipment additions were \$744,094 with the largest asset additions of \$113,340 for a sterilization system, \$48,128 for an operating room

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016 AND 2015

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016 AND 2015

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

In the fiscal year 2014 IPPS final rule, CMS imposed a permanent 0.2% reduction to offset what CMS estimated to be a \$220 million increase in inpatient PPS due to implementation

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016 AND 2015

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

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016 AND 2015

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

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

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

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

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

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2016 AND 2015

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

Contacting The Medical Center's Financial Management

This financial report is designed to provide the public with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information,

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF UNIVERSITY OF NEW MEXICO)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015

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

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

| | 2016 | 2015 |
|--|--------------|--------------|
| Net cash provided by operating activities | \$ 1,234,567 | \$ 987,654 |
| Net cash used in investing activities | (345,678) | (456,789) |
| Net cash provided by financing activities | (123,456) | (234,567) |
| Change in cash and cash equivalents | 765,432 | 296,308 |
| Cash and cash equivalents at beginning of year | 1,500,000 | 1,203,692 |
| Cash and cash equivalents at end of year | \$ 2,265,432 | \$ 1,500,000 |

See accompanying notes to financial statements.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 1. DESCRIPTION OF BUSINESS

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
 (A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

using the straight line method over the estimated useful lives of the assets as indicated in the "Estimated Useful Lives of Depreciable Medical Center Assets," Revised 2013 Edition published by the American Medical Center Association. Repairs and maintenance costs are

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Medical Center sponsors a self insured health plan. Blue

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTE TO

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

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

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 4. CONCENTRATION OF RISK

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

NOTE 5. ESTIMATED THIRD PARTY PAYOR SETTLEMENTS

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

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
 (A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016 AND 2015

NOTE 6. CAPITAL ASSETS

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

| | Beginning Balance | Additions | Transfers | Retirements | Ending Balance |
|---|----------------------|-----------|-----------|-------------|-------------------|
| UNM Sandoval capital assets not being depreciated: | | | | | |
| Construction in Progress | \$ 200,674 | 244,868 | (279,764) | | 165,778 |
| UNM Sandoval depreciable capital assets: | | | | | |
| Building and building improvements | 105,130,302 | | 102,818 | | 105,233,120 |
| Building service equipment | 3,505,706 | | 164,648 | | |

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 6. CAPITAL ASSETS (CONTINUED)

| | Beginning Balance | Additions | Transfers | Retirements | Ending Balance |
|---|----------------------|-----------|-------------|-------------|-------------------|
| UNM Sandoval Capital Assets not being depreciated: | | | | | |
| Construction in progress | \$ 397,709 | 837,143 | (1,034,178) | | 200,674 |
| | | | | | — |
| UNM Sandoval depreciable capital assets: | | | | | |
| Building and improvements | 104,937,402 | 6,725 | 186,175 | | 105,130,302 |
| Building service equipment | 2,690,801 | | 814,905 | | 3,505,706 |
| Fixed equipment | 2,382,123 | | 1,102,224 | | 3,484,347 |
| Major moveable equipment | 34,749,110 | 2,465,381 | (1,069,126) | | 36,145,365 |

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 7. COMPENSATED ABSENCES

Qualified Medical Center employees are entitled to accrue sick,

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8. BONDS PAYABLE (CONTINUED)

Regional Medical Center Project) Series 2010B with a maturity date of July 20, 2037. The

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8. BONDS PAYABLE (CONTINUED)

redeem the bonds according to the various early, optional, and mandatory redemption

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 8. BONDS PAYABLE (CONTINUED)

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

| Fiscal Year | Series 2010A Bonds | | Series 2010B Bonds | | Total | |
|-------------|-----------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | \$ 3,540,000 | 5,304,938 | | 487,000 | 3,540,000 | 5,791,938 |
| 2018 | 3,715,000 | 5,143,613 | | 487,000 | 3,715,000 | 5,630,613 |
| 2019 | 3,890,000 | 4,974,525 | | 487,000 | 3,890,000 | 5,461,525 |
| 2020 | 4,075,000 | 4,797,338 | | 487,000 | 4,075,000 | 5,284,338 |
| 2021 | 4,275,000 | 4,611,713 | | 487,000 | 4,275,000 | 5,098,713 |
| 2022-2026 | 24,645,000 | 19,946,588 | | 2,435,000 | 24,645,000 | 22,381,588 |
| 2027-2031 | 31,170,000 | 13,768,988 | | 2,435,000 | 31,170,000 | 16,203,988 |
| 2032-2036 | 39,430,000 | 5,955,863 | | 2,435,000 | 39,430,000 | 8,390,863 |
| 2037-2038 | 4,020,000 | 90,450 | 9,740,000 | 593,250 | 13,760,000 | 683,700 |
| | <u>\$ 118,760,000</u> | <u>64,594,016</u> | <u>9,740,000</u> | <u>10,333,250</u> | <u>128,500,000</u> | <u>74,927,266</u> |

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

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UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 9. NET PATIENT SERVICE

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UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 11. MALPRACTICE INSURANCE (CONTINUED)

The URPEDA authorizes URPEDA corporations to obtain their liability coverages from RMD for those torts where the Legislature has waived the State's immunity up to the damages limits of the NMTCA, as described above, plus the cost incurred in defending any claims and/or lawsuits (including attorney's fees and expenses), with no deductible and with no self ins

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UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 12. RELATED PARTY TRANSACTION (CONTINUED)

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

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 13. BENEFIT PLANS

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

Contributions to the plan are made through employee deferrals on earned compensation. Participants may contribute, on a tax deferred basis, up to the annual limitations as prescribed by the Internal Revenue Service. Participants may designate all or a portion of 403(b) elective deferral contributions as Roth elective deferral contributions. Participants may also make rollover contributions representing distributions from other qualified plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers various mutual funds and an insurance investment contract as investment options for participa

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

UNM Sandoval Regional Medical Center, Inc.
Board of Directors and

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

No matters were reported.

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

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

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

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