



Report of Independent Auditors
and Financial Statements

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)

June 30, 2023 and 2022



Table of Contents

	Page
Official Roster	1
Report of Independent Auditors	2
Management Discussion and Analysis	6
Financial Statements	
Statements of Net Position	18
Statements of Revenues, Expenses, and Changes in Net Position	20
Statements of Cash Flows	21
Notes to Financial Statements	23
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44
Summary of Audit Results	46
Summary of Prior Audit Findings	47
Exit Conference	48

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Official Roster
Year Ended June 30, 2023

Board of Directors

Douglas Ziedonis, M.D.	Chairperson (Term expires 12/31/25, Regent appointed)
Michael Richards, M.D.	Member (Term expires 12/31/25, Regent appointed)
Christopher Guest, M.D.	Member (Term expires 12/31/23, Regent appointed)
Honorable Louis P. McDonald	Member (Term expires 12/31/25, Regent appointed)
Joanna Boothe	Member (Term expires 12/31/23, Regent appointed)
Charlotte Garcia	Member (Term expires 12/31/23, Regent appointed)
Donnie Leonard	Member (Term expires 12/31/25, Regent appointed)
Kim Hedrick	Member (Term expires 12/31/25, County appointed)
Dave Panana	Member (Term expires 12/31/23, Regent appointed)
Patricia Finn	Member (Term expires 12/31/25, Regent appointed)
Erik Lujan	Member (Term expires 12/31/25, Regent appointed)

Administrative Officers

Douglas Ziedonis, M.D.	Executive Vice President – UNM Health Sciences Center and CEO – UNM Health System
Michael Richards, M.D.	Senior Vice President for Clinical Affairs – UNM Health System
Joseph Wrobel	Interim Senior Executive Officer for Finance & Administration – UNM Health Sciences Center
Jamie Silva-Steele	Chief Executive Officer and President – Sandoval Regional Medical Center, Inc.
Matthew Wilks, M.D.	Chief Medical Officer – Sandoval Regional Medical Center
Adrian Larson	Chief Operating Officer – Sandoval Regional Medical Center, Inc.
Pamela Demarest	Chief Nursing Officer – Sandoval Regional Medical Center, Inc.
Darlene Fernandez	Chief Financial Officer – Sandoval Regional Medical Center, Inc.



Report of Independent Auditors

UNM Sandoval Regional Medical Center, Inc.
Board of Directors and
Mr. Joseph M. Maestas, P.E.
New Mexico State Auditor

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of UNM Sandoval Regional Medical Center, Inc. (the Medical Center), a component unit of the University of New Mexico, which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2023, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Medical Center for the year ended June 30, 2022 were audited by another auditor, who expressed an unmodified opinion on those statements on October 10, 2022.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Medical Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2023, 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.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Albuquerque, New Mexico
October 13, 2023

Management Discussion and Analysis

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

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, 2023, 2022, and 2021. 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, deferred outflows of resources, 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.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

Overview of entity – The Regents of the University of New Mexico (UNM) formed SRMC as a New Mexico nonprofit corporation under and pursuant to the New Mexico University Research Park and Economic Development Act (URPEDA). Under the URPEDA, research park corporations are separate and apart from the State of New Mexico and UNM. The corporation was formed to promote the social welfare of New Mexico through the advancement of healthcare. The corporation is organized for the development, construction, and operation of the Medical Center, which is a licensed general community teaching hospital located in Sandoval County, New Mexico as a component unit of the UNM Health System 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). SRMC is considered a component unit of UNM even though it is a legally separate organization under the URPEDA, because UNM is the sole member of SRMC (with the rights of a member under and pursuant to the New Mexico Nonprofit Corporation Act and as specified in the bylaws of SRMC) and the Board of Regents, as is required by the URPEDA, appoints all members of the Board of Directors of SRMC. Having said this, the long-term debt issued by SRMC as described herein is not, pursuant to the URPEDA, a debt, liability, obligation of, or a pledge of the faith and credit of either the State of New Mexico or of UNM, and is payable solely from the revenue or assets of SRMC.

The Medical Center’s mission is 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 18 exam rooms, 2 trauma rooms, and 1 triage room. Additionally, the Medical Center is equipped with 6 operating rooms, 3 minor procedure rooms, and 1 interventional radiology lab.

Outpatient care – Comprehensive offering of emergency care, family practice, behavioral health, laboratory, radiology, diagnostic services, rehabilitation services, infusion, and medical and surgical specialties.

Surgical services – Orthopaedics, anesthesia, general surgery, bariatric, podiatry, otolaryngology, urologic, gynecologic, urogynecologic, gastrointestinal, breast, spine, PM&R, and outpatient laparoscopic surgery.

Practitioner services – The Medical Center has an “open” medical staff, allowing community practitioners in addition to the UNM SOM and other employed practitioners to be members of the medical staff and who may admit patients at the Medical Center. There are currently 663 practitioners credentialed, of which 510 are UNM SOM practitioners and 153 are contracted or community practitioners.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

Financial summary

Condensed Summary of Net Position			
	June 30,		
	2023	2022	2021
Assets			
Current assets	\$ 30,839,300	\$ 38,491,814	\$ 42,011,428
Capital assets, net	94,400,791	97,729,274	94,706,913
Noncurrent assets	15,468,034	15,462,780	15,275,857
Total assets	\$ 140,708,125	\$ 151,683,868	\$ 151,994,198
Deferred outflows of resources	\$ 1,975,955	\$ 2,127,952	\$ 2,279,949
Liabilities			
Current liabilities	\$ 30,599,583	\$ 30,000,671	\$ 29,559,960
Noncurrent liabilities	92,732,195	99,146,698	100,677,206
Total liabilities	\$ 123,331,778	\$ 129,147,369	\$ 130,237,166
Net position			
Net deficiency in capital assets	\$ (2,769,952)	\$ (5,578,403)	\$ (9,398,805)
Restricted net position, expendable	15,582,654	15,573,212	15,383,735
Unrestricted	6,539,600	14,669,642	18,052,051
Total net position	\$ 19,352,302	\$ 24,664,451	\$ 24,036,981

Total Medical Center assets at June 30, 2023 decreased \$11.0 million compared with June 30, 2022, ending at \$140.7 million. Cash and cash equivalents at June 30, 2023 decreased by \$5.4 million, from \$19.7 million at June 30, 2022 to \$14.3 million at June 30, 2023. This decrease was driven by increased operating costs related to contract labor and rising pharmaceutical, supply and medical services costs. Net patient accounts receivable increased by \$1.3 million and Federal Emergency Management Agency (FEMA) receivables decreased by \$3.9 million from June 30, 2022. The Medical Center's most significant assets at June 30, 2023 were net capital assets of \$94.4 million, cash and cash equivalents of \$14.3 million, and restricted investments held by trustee for mortgage reserve fund of \$15.5 million.

Total Medical Center assets at June 30, 2022 remained in line with June 30, 2021, ending at \$151.7 million, a decrease of \$0.3 million. Cash and cash equivalents at June 30, 2022 decreased by \$8.2 million, from \$27.9 million at June 30, 2021 to \$19.7 million at June 30, 2022. This decrease was driven by increased operating costs related to contract labor and the coronavirus disease (COVID-19) pandemic. Net patient accounts receivable decreased by \$0.6 million and FEMA receivables increased by \$3.8 million from June 30, 2021. The Medical Center's most significant assets at June 30, 2022 were net capital assets of \$97.7 million, cash and cash equivalents of \$19.7 million, and restricted investments held by trustee for mortgage reserve fund of \$15.5 million.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

The Medical Center's total liabilities were \$123.3 million at June 30, 2023, compared to \$129.1 million at June 30, 2022. At June 30, 2023, current and noncurrent mortgage payable of \$94.9 million was the largest liability, followed by accounts payable of \$11.7 million, and current and noncurrent lease payable of \$4.3 million related to a lease of the UNM Health Sciences Center (HSC) Center of Excellence (COE) for Orthopaedic Surgery and Rehabilitation facility. The decrease in total liabilities is primarily due to scheduled mortgage payments of \$5.8 million, a reduction in accrued payroll of \$2.8 million and the payoff liability of Center for Medicare and Medicaid Services (CMS) Medicare Accelerated and Advance Payment Program of \$2.2 million, offset by an increase in accounts payable of \$2.4 million, and \$2.6 million recorded as due to FEMA for a reduction in previously obligated and recognized project funding. The Medical Center paid back the COVID-19 CMS Medicare Accelerated and Advance Payment by June 30, 2023.

The Medical Center's total liabilities were \$129.1 million at June 30, 2022, compared to \$130.2 million at June 30, 2021. At June 30, 2022, current and noncurrent mortgage payable of \$100.7 million was the largest liability, followed by accounts payable of \$9.3 million, and current and noncurrent lease payable of \$4.8 million related to a new lease of the UNM HSC COE for Orthopaedic Surgery and Rehabilitation facility. The decrease in total liabilities is primarily due to scheduled mortgage payments of \$5.7 million and repayment of CMS Medicare Accelerated and Advance Payment Program of \$4.5 million, offset by an increase in lease liabilities related to the new lease.

At June 30, 2023, 2022, and 2021, the Medical Center's current assets of \$30.8 million, \$38.5 million, and \$42.0 million, respectively, were sufficient to cover current liabilities of \$30.6 million (current ratio of 1.01), \$30.0 million (current ratio of 1.28), and \$29.6 million (current ratio of 1.42), respectively.

Total net position (assets plus deferred outflows 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 mortgage trust indenture.

Total net position as of June 30, 2023 decreased by \$5.3 million to \$19.4 million, which included an operating loss of \$10.3 million, driven by increased contract labor costs and rising pharmaceutical, supply and medical services costs. The operating loss was offset by net nonoperating revenues of \$5.0 million. Unrestricted net position totaled \$6.5 million and expendable restricted net position totaled \$15.6 million at June 30, 2023. Net deficiency in capital assets as of June 30, 2023 decreased by \$2.8 million to \$2.8 million, which was driven by depreciation expense on capital assets, offset by capital asset purchases.

Total net position as of June 30, 2022 increased by \$0.6 million to \$24.7 million, which included an operating loss of \$9.2 million, which was driven by increased contract labor costs and the COVID-19 pandemic. The operating loss was offset by net nonoperating revenues of \$9.8 million. Unrestricted net position totaled \$14.7 million and expendable restricted net position totaled \$15.6 million at June 30, 2022. Net deficiency in capital assets as of June 30, 2022 decreased by \$3.8 million to \$5.6 million, which was driven by depreciation expense on capital assets, offset by capital asset purchases and an increase in right-to-use asset associated with the new lease.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

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

	Years Ended June 30,		
	2023	2022	2021
Total operating revenues	\$ 106,641,269	\$ 102,467,208	\$ 86,495,929
Total operating expenses	(116,955,783)	(111,672,606)	(94,563,411)
Operating loss	(10,314,514)	(9,205,398)	(8,067,482)
Net nonoperating revenues	5,002,365	9,832,868	11,493,028
Total (decrease) increase in net position	(5,312,149)	627,470	3,425,546
Net position, beginning of year	24,664,451	24,036,981	20,611,435
Net position, end of year	<u>\$ 19,352,302</u>	<u>\$ 24,664,451</u>	<u>\$ 24,036,981</u>

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 \$106.6 million, \$102.5 million, and \$86.5 million for the years ended June 30, 2023, 2022, and 2021, respectively.

Net patient service revenue comprises gross patient revenues, net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were \$104.5 million, \$100.3 million, and \$84.9 million for the years ended June 30, 2023, 2022, and 2021, respectively. The increase of \$4.2 million from 2022 to 2023 is primarily the result of increased surgeries. The increase of \$15.4 million from 2021 to 2022 is primarily the result of the increased patient days, patient increased acuity related to COVID-19, and increased average length of stay (ALOS). The following table summarizes key operating statistics for the years ended June 30, 2023, 2022, and 2021:

	Years Ended June 30,		
	2023	2022	2021
Total inpatient days	16,077	15,260	13,371
Total discharges	3,382	3,152	2,911
Surgeries			
Inpatient surgeries	634	518	532
Outpatient surgeries	2,965	2,759	2,480
Total surgeries	<u>3,599</u>	<u>3,277</u>	<u>3,012</u>
Outpatient visits	46,923	43,557	45,556
Emergency visits	23,018	21,520	18,327

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

Intensive care unit (ICU) and medical/surgical inpatient days increased by 817 from fiscal year 2022 to 2023 primarily due to an increase in the medical and surgical patient volumes. The ICU and medical/surgical average daily census (ADC), without observation days, for the year ended June 30, 2023 was 44 and increased by 2.2 from an ICU and medical/surgical ADC of 41.8 for the year ended June 30, 2022. ICU and medical/surgical inpatient days increased by 1,889 from fiscal year 2021 to 2022 primarily due to increased inpatient days for COVID-19 patients and higher acuity patients. The ICU and medical/surgical average daily census (ADC) for the year ended June 30, 2022 was 41.8 and increased by 5.2 from an ICU and medical/surgical ADC of 36.6 for the year ended June 30, 2021. The ADC increase was primarily due to COVID-19 patients and higher acuity patients.

Net patient service revenues for the fiscal years ended June 30, 2023 and 2022 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 June 30, 2020 for Medicare and through June 30, 2021 for 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 once audited. 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.

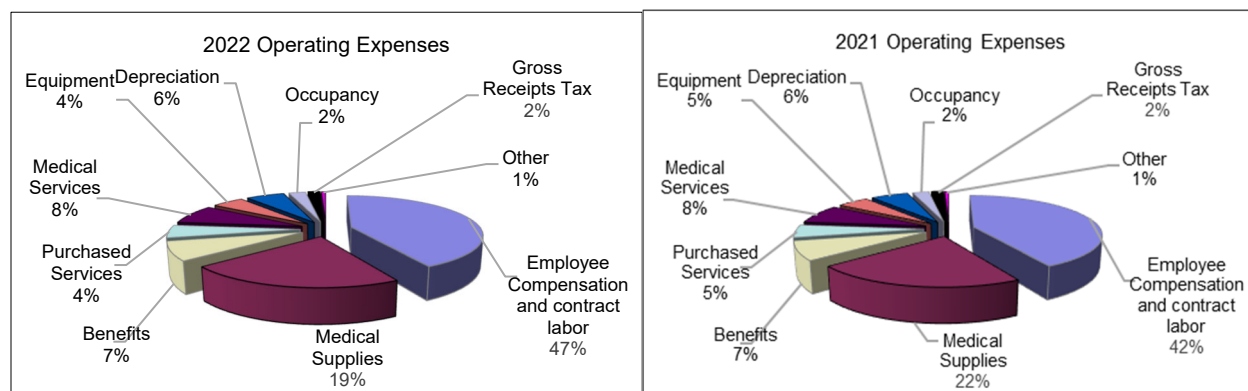
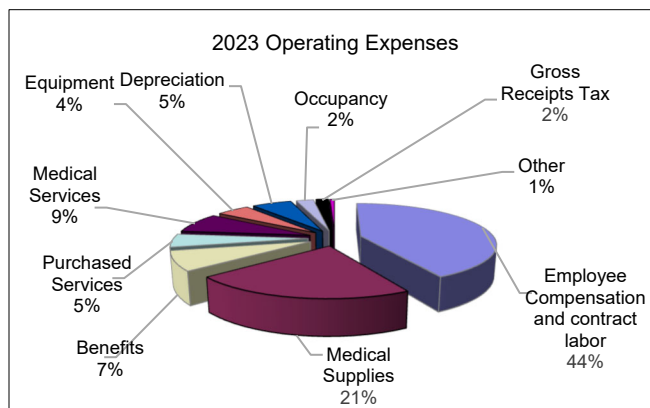
The Medical Center is committed to providing quality healthcare, regardless of one's ability to pay or citizenship status. The Medical Center offers a financial assistance program called SRMC Care for healthcare services provided by the Medical Center. This program is only available to Sandoval County residents. Patients who meet the criteria of this charity care policy receive services at no charge or at amounts less than established rates. The criteria for charity care consider household income in relation to the federal poverty guidelines, as well as asset thresholds. Patients with adjusted gross income equal to or less than 200% of federal poverty guidelines receive services at no charge. For uninsured patients with adjusted gross income at 201% to 300% of federal poverty guidelines, a discount is applied. 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, 2023, 2022, and 2021 were approximately \$1.1 million, \$1.4 million, and \$0.9 million, respectively. The costs incurred are estimated based on the cost-to-charge ratio for the Medical Center as applied to the charity care charges.

Bad debt accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2023, 2022, and 2021 was \$5.8 million, \$5.6 million, and \$5.0 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, 2023, 2022, and 2021 was \$2.6 million, \$2.5 million, and \$2.1 million, respectively.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

Operating expenses – The following pie charts depict the distribution of the operating expenses for the Medical Center for the years ended June 30, 2023, 2022, and 2021:



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

For the year ended June 30, 2023, total operating expenses were \$117.0 million and represent an increase of \$5.3 million from the year ended June 30, 2022. The most significant changes were increases of \$3.2 million in medical and other supplies, \$1.1 million in medical services, and \$1.0 million in purchased services.

For the year ended June 30, 2022, total operating expenses were \$111.7 million and represent an increase of \$17.1 million from the year ended June 30, 2021. The most significant changes were increases of \$12.8 million in employee compensation and contract labor of which \$9.3 million was contract labor, \$2.0 million in medical services of which \$1.2 million was related to Tricare Lab, and \$0.8 million in depreciation and amortization expense of which \$0.4 was due to amortization of the right-to-use asset associated with the UNM HSC COE building lease.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

Nonoperating revenues and expenses – For the years ended June 30, 2023, 2022, and 2021, the Medical Center recorded nonoperating revenues net of nonoperating expenses of \$5.0 million, \$9.8 million, and \$11.5 million, respectively.

Net nonoperating revenues decreased by \$4.8 million from 2022 to 2023. The decrease is primarily due to a \$3.1 million decrease in FEMA and Coronavirus Aid, Relief, and Economic Security (CARES) Act funding for the COVID-19 public health emergency. The largest source of nonoperating revenues for the year ended June 30, 2023 was the Sandoval County mill levy tax subsidy totaling \$8.1 million. The second largest source of nonoperating revenues for the year ended June 30, 2023 was \$2.2 million from FEMA funding, net of a \$2.6 million recovery for project funds previously obligated and recognized, for a net recovery of \$400 thousand. Net nonoperating revenues decreased by \$1.7 million from 2021 to 2022. The decrease is primarily due to a \$5.9 million decrease in CARES Act funding, which was partially offset by an increase in FEMA funding of \$4.0 million. The largest source of nonoperating revenues for the year ended June 30, 2022 was the Sandoval County mill levy tax subsidy totaling \$7.3 million. The second largest source of nonoperating revenues for the year ended June 30, 2022 was \$4.2 million from FEMA funding.

The most significant nonoperating expense recorded for the year ended June 30, 2023 and June 30, 2022 was mortgage interest and insurance in the amount of \$2.6 million and \$2.8 million, respectively.

Capital assets – At June 30, 2023, the Medical Center had \$94.4 million invested in capital assets, net of accumulated depreciation and amortization of \$68.5 million. Depreciation and amortization expense totaled \$6.2 million and \$6.3 million for the years ended June 30, 2023 and 2022, respectively.

	Years Ended June 30,		
	2023	2022	2021
Building and building improvements	\$ 106,376,549	\$ 106,208,315	\$ 105,702,629
Building service equipment	6,481,505	5,812,239	4,950,674
Fixed equipment	4,369,347	4,310,682	4,223,199
Major moveable equipment	39,164,649	38,898,004	34,658,158
Construction in progress	1,505,480	1,571,312	3,787,279
Right-to-use asset	5,038,779	5,038,779	-
	162,936,309	161,839,331	153,321,939
Less accumulated depreciation/amortization	<u>(68,535,518)</u>	<u>(64,110,057)</u>	<u>(58,615,026)</u>
Net property and equipment	<u>\$ 94,400,791</u>	<u>\$ 97,729,274</u>	<u>\$ 94,706,913</u>

For the year ended June 30, 2023, total depreciable capital assets increased by \$1.2 million from June 30, 2022. Total additions were \$2.9 million offset by retirements of \$1.8 million. Additions were primarily for major movable equipment. Retired assets had a net book value of \$34 thousand resulting in a loss on assets of \$34 thousand. Construction in process decreased \$0.7 million due primarily to prior year emergency department renovations of \$0.9 million that were placed into service in fiscal year 2023.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

For the year ended June 30, 2022, total depreciable capital assets increased by \$10.5 million from June 30, 2021, due primarily to \$5.0 million right-to-use lease asset related to the new UNM HSC lease, and \$4.2 million of major movable equipment additions. Construction in process decreased \$2.2 million due to prior year pharmacy renovations of \$1.1 million and CT scanner of \$1.4 million that were placed into service in fiscal year 2022.

Debt activity – In July 2020, the Medical Center entered into an agreement and mortgage with KeyBank National Association to refinance the Medical Center’s mortgage from an annual percentage rate (APR) of 4.86% (3.33% net of Build America Bonds (BAB) Subsidy) to an APR of 1.98%. In connection with the mortgage refinance, in July 2020 \$118.3 million was placed into irrevocable trust to make the mandatory bond redemption payments on the Government National Mortgage Association (GNMA) Collateralized Series 2010A and Series 2010B bonds through the bond callable date in January 2021. The Medical Center was released from all obligations related to the bonds in July 2020. A loss on defeasance of \$2.4 million was recorded as a deferred outflow at the July 2020 defeasance date. The Medical Center entered into this refinance transaction to reduce the Medical Center’s mortgage interest expense.

The Medical Center had mortgage liability of \$94.9 million at June 30, 2023 and \$100.7 million at June 30, 2022. The current portion of mortgage liability at June 30, 2023 and 2022 was \$5.9 million and \$5.8 million, respectively.

The Medical Center paid \$5.8 million in mortgage principal and \$1.9 million in mortgage interest expense in fiscal year 2023 and \$5.7 million in mortgage principal and \$2.0 million in mortgage interest expense in fiscal year 2022.

There is a loan guarantee associated with the mortgage 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, 2023, 2022, and 2021 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 (ACA).

Provider contracts – Many of the Medical Center’s payor 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.

On August 1, 2023, CMS released the federal fiscal year 2024 Inpatient Prospective Payment (IPPS) Final Rule. The Medical Center’s IPPS rate is estimated to decrease 11.43% or a total of \$929,000 as a result of the IPPS final rule. This decrease is primarily due to a 1.74% decrease to the finalized wage index and a 11.93% decrease in the Hospital’s Medicare Fee-For-Service average case mix index. The national labor and non-labor components of the DRG rate increased 1.91%.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

The Medical Center's payment rate is expected to have a 1.69% negative impact under the Hospital Readmission Reduction Program and a 0.16% negative impact under the Value-Based Purchasing Program. The Hospital will not be impacted by the Hospital Acquired Condition Penalty Program. The estimated impact of these quality pay-for-performance programs is a decrease of 1.85% or \$133 thousand for federal fiscal year 2024.

On July 27, 2023, CMS issued the proposed calendar year (CY) 2024 Outpatient Prospective Payment System (OPPS) rule. CMS proposes to raise the base OPPS payment rate by 2.8% or \$162,000.

CY2024 OPPS proposed rule would maintain full Medicare Part B drug payment to hospitals in the 340B Drug Pricing Program at Average Sale Price (ASP) plus 6%. Novitas began paying the Hospital at this rate in June 2023.

Medicare Disproportionate Share Hospital (DSH) – The Medical Center's Uncompensated Care (UC) DSH payments are estimated to decrease \$0.15 million in fiscal year 2024. Under the 2024 Final IPPS Rule, CMS finalized to use three years of UC data from worksheet S-10 of the Medicare cost report to calculate each hospital's share of UC in the DSH calculation. For fiscal year 2024 UC-based DSH payments, CMS finalized to use federal fiscal year 2018, 2019, and 2020 cost report data, which is the Medical Center's fiscal year ending June 30, 2019, 2020, and 2021 which CMS has audited.

COVID-19 Pandemic – In response to the economic impact of COVID-19, the CARES Act was enacted by Congress and was subsequently signed into law on March 27, 2020. The Medical Center suspended non-emergent or non-critical surgeries, procedures and appointments from mid-March 2020 through various times in fiscal year 2021 and 2022. The CARES Act authorized \$100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (PHSSEF). Payments from the PHSSEF were intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and were not required to be repaid provided the recipients attested to and complied with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources were obligated to reimburse. In 2022 and 2021, the Medical Center received approximately \$1.1 million and \$3.4 million, respectively, in payments from the CARES Act. The Medical Center recognized a total of \$5.3 million, and \$7.3 million in the years ended June 30, 2022 and 2021, respectively, from CARES Act, other provider relief funding, and FEMA funding related to the COVID-19 pandemic. In the year ended June 30, 2023, the Medical Center recognized \$2.2 million of FEMA funding and a reduction of previously obligated and recognized FEMA funding of \$2.6 million due to an unfavorable Applicant Review performed by FEMA, for a net FEMA recovery of \$400 thousand.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Management Discussion and Analysis
June 30, 2023 and 2022

Under the CARES Act, the Medical Center also received \$7.3 million in advance payment from CMS in fiscal year 2020 to increase cash flow to Medicare providers impacted by the COVID-19 pandemic. Inpatient acute care hospitals could request accelerated payments of up to 100% of the Medicare payment amount for a 6-month period (not including Medicare Advantage payments). CMS-based payment amounts for inpatient acute care hospitals were based on the provider's Medicare Fee-For-Service reimbursements in the last 6 months of 2019. Such accelerated payments were interest free for inpatient acute care hospitals for 18 months, and the program required CMS to recoup the payments. As of June 30, 2023, CMS has recouped all of the Medical Center's Medicare Advance. The Medicare Accelerated and Advance Payment Program liability was \$2.2 million and \$6.7 million as of June 30, 2022 and 2021 respectively. The advance payments were made for services a healthcare entity provided or would provide to its Medicare patients and were therefore considered exchange transactions that were recognized in patient service revenue, net, once services were provided.

Lastly, the CARES Act provided for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Medical Center began deferring the employer portion of social security taxes in mid-April 2020. The Medical Center had a deferred liability of \$0.5 million and \$0.6 million in social security taxes as of June 30, 2022 and June 30, 2021, respectively, included in accrued payroll on the statements of net position.

Sandoval County mill levy – On November 6, 2018, voters approved a new eight-year tax levy at 1.9 mill on property owned within Sandoval County. The mill levy funds expansion of outpatient behavioral health services and an increase in staffing to achieve a level III trauma center designation at the Medical Center. The mill levy contract with Sandoval County was effective July 1, 2019.

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.

Financial Statements

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Statements of Net Position
June 30, 2023 and 2022

	2023	2022
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,347,917	\$ 19,719,255
Receivables		
Patient (net of allowance for uncollectible accounts and contractual adjustments of \$18,339,311 in 2023 and \$17,652,730 in 2022)	10,595,994	9,277,420
Due from related parties	2,358,262	902,037
Estimated third-party settlements	319,145	1,164,117
Due from FEMA	33,828	3,924,076
Other	15,232	15,000
Total net receivables	13,322,461	15,282,650
Prepaid expenses	476,441	603,000
Inventories	2,692,481	2,886,909
Total current assets	30,839,300	38,491,814
NONCURRENT ASSETS		
Restricted investments		
Held by trustee for mortgage reserve fund	15,468,034	15,462,780
Capital assets, net	94,400,791	97,729,274
Total noncurrent assets	109,868,825	113,192,054
Total assets	140,708,125	151,683,868
DEFERRED OUTFLOWS		
Deferred outflows of resources - loss on bond defeasance	1,975,955	2,127,952
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 142,684,080	\$ 153,811,820

See accompanying notes.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Statements of Net Position
June 30, 2023 and 2022

	2023	2022
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 11,671,603	\$ 9,273,707
Accrued payroll	1,403,235	4,232,207
Due to related parties	3,812,516	3,139,322
Due to FEMA	2,600,000	-
Estimated third-party settlements	2,449,337	2,644,170
Mortgage payable – current	5,938,858	5,822,520
Lease liability – current	475,645	466,410
Medicare Accelerated and Advance Payment Program	-	2,245,243
Accrued compensated absences	2,248,389	2,177,092
	30,599,583	30,000,671
NONCURRENT LIABILITIES		
Mortgage payable	88,915,828	94,854,686
Lease liability	3,816,367	4,292,012
	92,732,195	99,146,698
	123,331,778	129,147,369
NET POSITION		
Net deficiency in capital assets	(2,769,952)	(5,578,403)
Restricted, expendable		
Expendable bequests and contributions	114,620	110,432
In accordance with the trust indenture and debt agreement	15,468,034	15,462,780
Unrestricted	6,539,600	14,669,642
	19,352,302	24,664,451
TOTAL LIABILITIES AND NET POSITION	\$ 142,684,080	\$ 153,811,820

See accompanying notes.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022
OPERATING REVENUE		
Net patient service revenues	\$ 104,508,036	\$ 100,348,942
Other operating revenues	2,133,233	2,118,266
Total operating revenues	<u>106,641,269</u>	<u>102,467,208</u>
OPERATING EXPENSES		
Employee compensation and contract labor	51,986,390	52,641,300
Medical and other supplies	24,484,856	21,301,352
Medical services	10,537,165	9,470,487
Benefits	8,415,928	7,893,074
Depreciation and amortization	6,187,485	6,251,115
Purchased services	5,559,763	4,601,985
Equipment	4,908,247	4,454,742
Occupancy	2,295,223	2,531,416
Gross receipts tax	1,873,839	1,824,379
Other	706,887	702,756
Total operating expenses	<u>116,955,783</u>	<u>111,672,606</u>
Operating loss	<u>(10,314,514)</u>	<u>(9,205,398)</u>
NONOPERATING REVENUES (EXPENSES)		
Sandoval County mill levy	8,098,795	7,335,396
Interest income, net	78,524	4,614
Interest expense on lease	(94,217)	(60,692)
Mortgage interest and insurance	(2,638,723)	(2,752,782)
Bequests and contributions	17,178	14,544
CARES Act funding	-	1,134,200
FEMA (recovery) revenue, net	(425,355)	4,167,760
Other nonoperating expense	(33,837)	(10,172)
Net nonoperating revenues	<u>5,002,365</u>	<u>9,832,868</u>
(Decrease) increase in net position	(5,312,149)	627,470
NET POSITION		
Beginning of year	<u>24,664,451</u>	<u>24,036,981</u>
End of year	<u>\$ 19,352,302</u>	<u>\$ 24,664,451</u>

See accompanying notes.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patient services	\$ 101,594,358	\$ 95,492,789
Cash payments to employees	(40,252,722)	(36,911,613)
Cash payments to suppliers and contractors	(61,161,095)	(57,588,332)
Cash payments to related parties	(6,876,176)	(4,828,638)
Cash payments to Department of Revenue	(1,893,043)	(1,798,550)
Other receipts	1,664,714	1,650,355
Net cash from operating activities	<u>(6,923,964)</u>	<u>(3,983,989)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from Sandoval County mill levy	8,098,795	7,381,981
Cash received from CARES Act funding	-	1,134,200
Cash received from FEMA	5,126,095	343,352
Cash received from contributions	17,178	14,544
Net cash from noncapital financing activities	<u>13,242,068</u>	<u>8,874,077</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Purchases of capital assets	(2,892,839)	(4,244,870)
Principal payments on mortgage	(5,822,520)	(5,708,461)
Payments for mortgage interest and insurance	(2,486,726)	(2,600,785)
Payments into mortgage reserve fund	-	(182,309)
Principal and interest payments on lease	(560,627)	(341,048)
Net cash from capital financing activities	<u>(11,762,712)</u>	<u>(13,077,473)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	73,270	-
Net cash from investing activities	<u>73,270</u>	<u>-</u>
Net change in cash and cash equivalents	(5,371,338)	(8,187,385)
CASH AND CASH EQUIVALENTS		
Beginning of year	19,719,255	27,906,640
End of year	<u>\$ 14,347,917</u>	<u>\$ 19,719,255</u>

See accompanying notes.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (10,314,514)	\$ (9,205,398)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation and amortization expense	6,187,485	6,251,115
Provision for doubtful accounts	5,759,639	5,606,781
Change in assets and liabilities		
Patient receivables	(7,078,213)	(4,970,225)
Due from related parties	(517,427)	(626,929)
Estimated third-party settlements	650,139	(995,234)
Other receivables and prepaid expenses	126,327	(77,548)
Inventories	194,428	(305,918)
Accounts payable	2,397,896	1,970,025
Accrued payroll	(2,828,972)	970,035
Due to related parties	673,194	1,908,819
Medicare Accelerated and Advance Payment Program	(2,245,243)	(4,497,475)
Accrued compensated absences	71,297	(12,037)
	<u>\$ (6,923,964)</u>	<u>\$ (3,983,989)</u>

See accompanying notes.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 1 – Description of Business

UNM Sandoval Regional Medical Center Inc. (SRMC or the Medical Center) is a corporation formed 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. SRMC 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 (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 14.

The Medical Center 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 of UNM HSC and provides primary and specialty health services in Sandoval County, New Mexico. SRMC, together with UNM Hospital (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.

The Medical Center facility consists of an approximately 200,000 square foot community-teaching medical center, with 48 acute medical/surgical beds and 12 intensive care unit beds. SRMC also owns an onsite 40,000 square foot medical office building. The Medical Center is adjacent to the City Center in Rio Rancho, New Mexico. The Medical Center is located on land owned by UNM and is next to the UNM Health Sciences Rio Rancho campus. The Medical Center leases approximately 35,599 square feet of medical office building space located in the UNM HSC Center of Excellence for Orthopedic Surgery and Rehabilitation facility. 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.

Note 2 – Summary of Significant Accounting Policies

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

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

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 statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows
- 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, and related deferred outflows of resources, attributable to the acquisition, construction, or improvement of those assets.

Restricted net position, expendable – Assets whose use by the Medical Center is 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.

Recent accounting pronouncements – The Medical Center adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, in the year ended June 30, 2023, with retrospective application to all periods presented. GASB 96 requires recognition of an intangible right-to-use subscription asset and a corresponding subscription liability for all contracts with a term in excess 12 months that meet certain criteria of the type of subscription and control of the underlying SBITAs. The Medical Center identified no agreements which met the criteria of SBITAs per GASB 96.

GASB Statement No. 101, *Compensated Absences*, was issued in June 2022 and provides guidance on the accounting and financial reporting for compensated absences for government end users. This statement is effective for fiscal years beginning after December 15, 2023, and requires recognition of a liability for compensated absences to reflect when the obligation is incurred. The Medical Center is evaluating the impact this standard will have on future financial statements.

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.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Operating revenues and expenses – The Medical Center’s statements of revenues, expenses, and changes in net position distinguish 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.

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 in accordance with 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 Sandoval County. Coronavirus Aid, Relief and Economic Stimulus (CARES) Act funding, Federal Emergency Management Agency (FEMA) funding, and bequests and contributions are recognized when all applicable eligibility or contingent requirements have been met. Nonoperating expenses include mortgage interest and servicing fees, mortgage insurance premium, interest expense on lease, and other.

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.

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 allowances for uncollectible accounts. In evaluating the collectability of accounts receivable, the Medical Center analyzes historical 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.

Inventories – Inventories consisting of medical and surgical supplies and pharmaceuticals are stated at the lower of cost or market. Cost is determined using the first-in, first-out valuation method.

Restricted investments – 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.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

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 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 2018 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 to determine whether it is necessary to retire, replace, or impair any assets based on condition of the assets and their intended use. Capital assets include right-of-use assets associated with long-term leases. Amortization on right-to-use assets is calculated using the straight-line method over the shorter of the estimated useful life of the assets or the term of the lease.

Net deficiency in capital assets – Net deficiency in capital assets represents the Medical Center’s total investment in capital assets, net of outstanding debt and related deferred outflows of resources related to those capital assets. Since the outstanding debt at June 30, 2023 and 2022 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.

Leases – The Medical Center accounts for leases under GASB Statement No. 87, *Leases*, as follows:

Short-term leases – For leases with a maximum possible term of 12 months or less at commencement, the Medical Center recognizes expense based on the provisions of the lease contract.

Leases other than short-term – For all other leases, the Medical Center recognizes a lease liability and an intangible right-to-use lease asset. The Medical Center initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If the Medical Center is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

The Medical Center uses its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor charges is known. The Medical Center’s incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease under similar terms at the commencement or remeasurement date. The lease term includes the noncancellable period of the lease, plus any additional periods covered by either a Medical Center or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the Medical Center and the lessor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease term. Payments are evaluated by the Medical Center to determine if they should be included in the measurement of the lease liabilities.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

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 are adjusted in future periods as final settlements are determined.

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

Charity care – The Medical Center provides care to 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.

Sandoval County mill levy taxes – On November 6, 2018, voters approved a new eight-year, 1.9 mill tax levy on property owned within Sandoval County. The mill levy is intended to fund expansion of outpatient behavioral health services and an increase in staffing to provide a level III trauma center designation at the Medical Center. The mill levy contract with Sandoval County was effective July 1, 2019. Mill levy revenues recognized in during the years ended June 30, 2023 and 2022 were \$8.1 million and \$7.3 million, respectively.

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.

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 approximately \$65 thousand and \$48 thousand during the years ended June 30, 2023 and 2022, respectively, as a result of the exemptions and abatements granted. Throughout the course of the mill levy period, distribution of mill levy proceeds by the County Treasurer is contingent on existence of a Health Facilities Contract between the County and the Medical Center.

Income taxes – The Medical Center received a determination letter from the Internal Revenue Service (IRS) in April 2010 that it is an organization described in Internal Revenue Code (IRC) Section 501(c)(3) and further classified as an organization described in IRC Section 509(a)(c). As such, it would be exempt from federal income tax on income generated from activities related to its exempt function. However, the Medical Center is subject to income taxes on any net income that is derived from a trade or business regularly carried on and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

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, 2023 and 2022, the estimated amount of the Medical Center’s IBNR and accrued claims is \$0.3 million, which is included in accrued payroll. The liability for IBNR is based on actuarial analysis calculated using information provided by BCBS NM and management estimates.

	Balance at Beginning of Year	Claims and Changes in Estimates	Claim Payments	Balance at Year End
2022–2023	\$ 283,752	\$ 3,702,227	\$ (3,700,677)	\$ 285,302
2021–2022	\$ 339,724	\$ 3,412,572	\$ (3,468,544)	\$ 283,752

Note 3 – Cash and Cash Equivalents and Long-Term Investments

Cash and cash equivalents

Deposits – The Medical Center’s deposits are held in demand accounts and repurchase agreements with a financial institution. The carrying amounts of the Medical Center’s deposits with financial institutions at June 30, 2023 and 2022 are \$14.3 million and \$19.7 million, respectively.

Bank balances are categorized at June 30 as follows:

	2023	2022
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	\$ 250,000	\$ 250,000
Amount collateralized with securities held in the Medical Center's name	8,659,647	10,663,075
Uncollateralized cash	6,664,041	9,760,342
Total	\$ 15,573,688	\$ 20,673,417

Custodial credit risk – deposits – Custodial credit risk is the risk that, in the event of a bank failure, the Hospital’s deposits may not be returned to it. The Medical Center has a custodial risk policy for deposits that requires collateral in an amount greater than or equal to 50% of the deposit not insured by the FDIC. A greater amount of collateral is required when the Medical Center determines it is prudent. As of June 30, 2023 and 2022, \$6.7 million and \$9.8 million, respectively, of the Medical Center’s bank deposits were exposed to custodial credit risk.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Long-term investments

Interest rate risk – debt investments – long-term investments – Currently, the Medical Center does not have a specific policy to limit its exposure to interest rate risk. The Medical Center holds no investments that are subject to interest rate risk.

Custodial credit risk – debt investments – long-term investments – As of June 30, 2023 and 2022, there are no investments subject to custodial credit risk.

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

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

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

	2023		2022	
	Rating	Fair Value	Rating	Fair Value
Items subject to credit risk				
Money market fund	Not rated	\$ 43,896	Not rated	\$ 15,462,780
US Treasury notes		<u>15,424,138</u>		<u>-</u>
Total items subject to credit risk		<u>15,468,034</u>		<u>15,462,780</u>
Total long-term investments		<u>\$ 15,468,034</u>		<u>\$ 15,462,780</u>

The Medical Center accounts for investments in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 requires the use of valuation techniques for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

- Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.
- Level 2** Inputs to the valuation methodology include the following: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Level 3 Inputs to the valuation methodology are unobserved and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

Money market funds – Money market funds are valued at the daily closing price as reported by the fund (Level 1).

US Treasury notes – U.S. Treasury notes are recorded at fair value using quoted market prices (Level 1).

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:

	2023		2022	
Medicare	\$ 8,900,209	31%	\$ 7,595,545	28%
Medicaid	5,394,752	19%	4,025,042	15%
Other third-party payors	9,313,005	32%	10,418,483	39%
Others	5,327,339	18%	4,891,080	18%
Total patient accounts receivable	28,935,305	100%	26,930,150	100%
Less allowance for uncollectible accounts and contractual adjustments	(18,339,311)		(17,652,730)	
Patient accounts receivable, net	\$ 10,595,994		\$ 9,277,420	

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 5 – Federal Legislative Relief Funds

Congress appropriated funds to reimburse eligible healthcare providers for healthcare expenses incurred and/or loss in revenue due to the COVID-19 pandemic. The Health Resources and Services Administration administered the distribution of the payments, which were funded through the CARES Act (P.L. 116-136). These distributions are not subject to repayment, provided management is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. The Federal Government declared the COVID-19 pandemic a federal emergency, which allowed the FEMA to issue monetary assistance for COVID-19 expenses. FEMA funding is for specific projects submitted for reimbursement and is recognized in revenues once fully obligated. For the year ended June 30, 2022, the Medical Center recognized nonoperating revenue for FEMA funding of \$4.2 million. The Medical Center recognized \$1.1 million of CARES Act relief for the year ended June 30, 2022.

In July 2023, the Medical Center received a notice of Applicant Review from FEMA that identified \$2.6 million of recommended reductions to previously obligated projects due to potential duplication of benefits. The Medical Center is in the process of defending their eligibility to FEMA. However, having determined that recovery of the funding is probable, the Medical Center has accrued the \$2.6 million as due to FEMA at June 30, 2023 on the accompanying statement of net position. During the year ended June 30, 2023, the Medical Center recognized FEMA funding of \$2.2 million, net of the potential recovery of \$2.6 million, for net FEMA recovery of \$400 thousand.

The methodology used to recognize CARES Act relief funding was based on COVID-19 costs to prevent, prepare for, and respond to COVID-19 and for lost patient revenue from March 2020 through June 2022.

In April 2020, the Medical Center received \$7.3 million in accelerated Medicare payments as provided for in legislation passed by Congress and the Center for Medicare and Medicaid Services (CMS), which allowed eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers. Under the Continuing Appropriations Act, 2021 and Other Extensions Act, recoupments of 25% of Medicare payments began one year after the advance and continued for 11 months, at which time the recoupment increased to 50% for 6 months with any remaining balance due within 30 days. The Medical Center recoupments began in April 2021. Recoupments of \$2.2 million and \$4.5 million were recorded for years ended June 30, 2023 and 2022, respectively, resulting in a liability on the statements of net position of \$0 and \$2.2 million as of June 30, 2023 and 2022, respectively.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 6 – 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. During the years ended June 30, 2023 and 2022, the Medical Center recognized \$1.8 million and \$0.9 million of net patient service revenues, respectively, related to prior year settlements.

Note 7 – 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, 2023				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
SRMC capital assets not being depreciated:					
Construction in progress	\$ 1,571,312	\$ 1,269,959	\$ (1,335,791)	\$ -	\$ 1,505,480
SRMC depreciable capital assets					
Building and building improvements	106,208,315	-	168,234	-	106,376,549
Building service equipment	5,812,240	65,227	604,038	-	6,481,505
Fixed equipment	4,310,682	6,615	52,050	-	4,369,347
Major moveable equipment	38,898,004	1,551,038	511,469	(1,795,862)	39,164,649
	<u>155,229,241</u>	<u>1,622,880</u>	<u>1,335,791</u>	<u>(1,795,862)</u>	<u>156,392,050</u>
Less accumulated depreciation for					
Building and building improvements	(26,658,786)	(2,784,741)	-	-	(29,443,527)
Building service equipment	(3,116,323)	(316,110)	-	-	(3,432,433)
Fixed equipment	(2,840,313)	(250,314)	-	-	(3,090,627)
Major moveable equipment	(31,188,110)	(2,332,442)	-	1,762,025	(31,758,527)
Total accumulated depreciation	<u>(63,803,532)</u>	<u>(5,683,607)</u>	<u>-</u>	<u>1,762,025</u>	<u>(67,725,114)</u>
SRMC depreciable capital assets excluding lease assets	<u>91,425,709</u>	<u>(4,060,727)</u>	<u>1,335,791</u>	<u>(33,837)</u>	<u>88,666,936</u>
Right-to-use lease assets, net (Note 10)	<u>4,732,253</u>	<u>(503,878)</u>	<u>-</u>	<u>-</u>	<u>4,228,375</u>
SRMC capital assets, net	<u>\$ 97,729,274</u>	<u>\$ (3,294,646)</u>	<u>\$ -</u>	<u>\$ (33,837)</u>	<u>\$ 94,400,791</u>

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

	Year Ended June 30, 2022				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
SRMC capital assets not being depreciated:					
Construction in progress	\$ 3,787,279	\$ 1,145,519	\$ (3,316,975)	\$ (44,511)	\$ 1,571,312
SRMC depreciable capital assets:					
Building and building improvements	105,702,629	126,074	379,612	-	106,208,315
Building service equipment	4,950,674	194,384	667,181	-	5,812,239
Fixed equipment	4,223,199	38,390	241,252	(192,159)	4,310,682
Major moveable equipment	34,658,158	2,785,014	2,028,930	(574,098)	38,898,004
	<u>149,534,660</u>	<u>3,143,862</u>	<u>3,316,975</u>	<u>(766,257)</u>	<u>155,229,240</u>
Less accumulated depreciation for					
Building and building improvements	(23,897,359)	(2,761,427)	-	-	(26,658,786)
Building service equipment	(2,721,864)	(394,459)	-	-	(3,116,323)
Fixed equipment	(2,768,511)	(263,960)	-	192,158	(2,840,313)
Major moveable equipment	(29,227,292)	(2,524,743)	-	563,926	(31,188,109)
Total accumulated depreciation	<u>(58,615,026)</u>	<u>(5,944,589)</u>	<u>-</u>	<u>756,084</u>	<u>(63,803,531)</u>
SRMC depreciable capital assets excluding lease assets	<u>90,919,634</u>	<u>(2,800,727)</u>	<u>3,316,975</u>	<u>(10,173)</u>	<u>91,425,709</u>
Right-to-use lease assets, net (Note 10)	<u>-</u>	<u>4,732,253</u>	<u>-</u>	<u>-</u>	<u>4,732,253</u>
SRMC capital assets, net	<u>\$ 94,706,913</u>	<u>\$ (1,655,208)</u>	<u>\$ -</u>	<u>\$ (54,684)</u>	<u>\$ 97,729,274</u>

Note 8 – 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, and to accrue extended illness leave into an extended illness bank (EIB).

As of June 30, 2023 and 2022, full-time and part-time employees accrue PTO every pay-period based on hours worked and number of years of service up to a maximum of 328 to 401 hours, based on years of service.

At termination, employees are eligible for payment of unused accumulated hours at 100% of their regular hourly rate. Accrued PTO as of June 30, 2023 and 2022 of \$2.2 million is computed by multiplying each employee's current hourly rate by the number of hours accrued.

EIB hours are accrued per pay period for all employees up to 64 hours a year or at a minimum of one hour per 30 hours worked. EIB hours are not eligible for payment at termination therefore they are not reflected as a liability in the Medical Center financial statements.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

For the years ended June 30, 2023 and 2022, the following changes occurred in accrued compensated absences, which includes annual leave, sick leave, and holiday:

Balance June 30, 2023	Balance June 30, 2022	Decrease
\$ 2,248,380	\$ 2,177,092	\$ 71,288
Balance June 30, 2022	Balance June 30, 2021	Decrease
\$ 2,177,092	\$ 2,189,129	\$ (12,037)

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

Note 9 – Debt

In July 2020, the Medical Center entered into an agreement and mortgage with KeyBank National Association to refinance the Medical Center's mortgage from an APR of 4.86% (3.33% net of BAB Subsidy) to an APR of 1.98%. In connection with the mortgage refinance, in July 2020 the outstanding principal of the Series 2010A and Series 2010B bonds, net of the original issue discount, totaling \$113.3 million, along with \$5.1 million for interest payments due in fiscal year 2021 through the January 2021 bond call date, were placed in an irrevocable trust from which the remaining debt service payments for bond defeasance were paid in January 2021. The Medical Center was released from all obligations related to the bonds in July 2020. A loss on defeasance of \$2.4 million was recorded as a deferred outflow at the July 2020 defeasance date. The deferred outflow is being amortized over the life of the mortgage, which is the same as the life of the defeased bonds. The Medical Center completed the mortgage refinance to reduce its total debt service payments over the next 16 years by \$17.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$13.7 million.

The mortgage note with KeyBank National Association has an original outstanding principal amount of \$111.5 million with monthly principal payments of \$0.6 million until July 2037, for a total of 204 installments. The note is insured by the United States Department of Housing and Urban Development and is collateralized by the Medical Center building.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Mortgage payable activity consists of the following:

	Year Ended June 30, 2023				
	Beginning Balance	Principal Additions	Principal Payments	Ending Balance	Amounts Due Within One Year
Mortgage payable	\$ 100,677,206	\$ -	\$ (5,822,520)	\$ 94,854,686	\$ 5,938,858
Total	\$ 100,677,206	\$ -	\$ (5,822,520)	\$ 94,854,686	\$ 5,938,858
	Year Ended June 30, 2022				
	Beginning Balance	Principal Additions	Principal Payments	Ending Balance	Amounts Due Within One Year
Mortgage payable	\$ 106,385,667	\$ -	\$ (5,708,461)	\$ 100,677,206	\$ 5,822,520
Total	\$ 106,385,667	\$ -	\$ (5,708,461)	\$ 100,677,206	\$ 5,822,520

The following schedule summarizes the required future principal and interest mortgage payments as of June 30, 2023:

Years Ending June 30,	Principal	Interest
2024	\$ 5,938,858	\$ 1,824,420
2025	6,057,520	1,705,758
2026	6,178,553	1,584,724
2027	6,302,005	1,461,273
2028	6,427,923	1,335,354
2029–2033	34,118,230	4,698,159
2034–2037	29,831,597	1,221,515
Total	\$ 94,854,686	\$ 13,831,203

Note 10 – Leases

At June 30, 2023, the Medical Center is a lessee for a lease, from UNM HSC, of the UNM HSC Center of Excellence for Orthopaedic Surgery and Rehabilitation facility. The Medical Center leases 35,599 square feet of clinic space from UNM, with payments of \$46,719 due monthly. The lease has a noncancellable term of 10 years and is discounted at the Medical Center's incremental borrowing rate of 1.98%.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

A summary of lease asset activity during the years ended June 30 is as follows:

	Year Ended June 30, 2023			
	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Right-to-use asset	\$ 5,038,779	\$ -	\$ -	\$ 5,038,779
Less accumulated amortization	(306,526)	(503,878)	-	(810,404)
Total lease assets, net	\$ 4,732,253	\$ (503,878)	\$ -	\$ 4,228,375
	Year Ended June 30, 2022			
	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Right-to-use asset	\$ -	\$ 5,038,779	\$ -	\$ 5,038,779
Less accumulated amortization	-	(306,526)	-	(306,526)
Total lease assets, net	\$ -	\$ 4,732,253	\$ -	\$ 4,732,253

A summary of changes in the related lease liability during the years ended June 30 is as follows:

	Year Ended June 30, 2023				
	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Amounts Due Within One Year
Lease liability	\$ 4,758,422	\$ -	\$ (466,410)	\$ 4,292,012	\$ 475,645
Total lease liability	\$ 4,758,422	\$ -	\$ (466,410)	\$ 4,292,012	\$ 475,645
	Year Ended June 30, 2022				
	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Amounts Due Within One Year
Lease liability	\$ -	\$ 5,038,779	\$ (280,357)	\$ 4,758,422	\$ 466,410
Total lease liability	\$ -	\$ 5,038,779	\$ (280,357)	\$ 4,758,422	\$ 466,410

The following schedule summarizes the future annual lease payments as of June 30, 2023:

Years Ending June 30,	Principal	Interest
2024	\$ 475,645	\$ 84,982
2025	485,063	75,564
2026	494,667	65,960
2027	504,462	56,165
2028	514,450	46,177
2029–2032	1,817,725	78,252
Total	\$ 4,292,012	\$ 407,100

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

The Medical Center has no leases with variable payments or residual value guarantees. As of June 30, 2023, the Medical Center has no significant commitments for leases that have not yet commenced. No impairment of leases has been recorded at June 30, 2023 or 2022.

Note 11 – 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 40% and 23% of the Medical Center's gross patient revenue for the year ended June 30, 2023 was derived from the Medicare and Medicaid programs, respectively, the continuation of which is dependent upon governmental policies and government funding. For the year ended June 30, 2022, the approximate gross patient revenue was 39% and 23%, 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. 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 is as follows:

Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These Medicare 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 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.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Normal estimation differences between subsequent cash collections on patient accounts receivable and patient accounts receivable estimated in the prior year are reported as adjustments to patient services revenue in the current period. These differences increased net patient service revenues by approximately \$2.6 million and \$2.7 million during the years ended June 30, 2023 and 2022, respectively.

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

	<u>2023</u>	<u>2022</u>
Charges at established rates	\$ 259,021,743	\$ 246,956,776
Charity care	(2,328,749)	(3,134,954)
Contractual adjustments	(146,425,319)	(137,866,099)
Provision for doubtful accounts	<u>(5,759,639)</u>	<u>(5,606,781)</u>
Net patient service revenues	<u>\$ 104,508,036</u>	<u>\$ 100,348,942</u>

Note 12 – 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:

	<u>2023</u>	<u>2022</u>
Charges foregone, based on established rates	\$ 2,328,749	\$ 3,134,954
Estimated costs and expenses incurred to provide charity care	1,052,595	1,416,999
Equivalent percentage of charity care charges foregone to total gross revenue	0.9%	1.3%

The estimated cost of providing charity care is based on a calculation that 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.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 13 – 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 is 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 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.

Note 14 – 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, UNM Hospital, UNM Behavioral Health Operations, UNM Cancer Center, and UNM Medical Group, Inc. (UNMMG).

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

The Medical Center enters into intercompany transactions with UNM and other entities associated with UNM, which includes UNMH (a division of UNM) and UNMMG (a separately incorporated but UNM-affiliated entity). These costs include, but are not limited to, medical services, payroll and employee benefits, 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:

	<u>2023</u>	<u>2022</u>
UNM (excluding UNM Hospital)	\$ 3,746,537	\$ 3,017,635
UNM Hospital	3,482,731	3,439,942
UNM Medical Group	<u>1,736,911</u>	<u>990,553</u>
Total	<u>\$ 8,966,179</u>	<u>\$ 7,448,130</u>

The statements of net position include the following payables to related parties at June 30:

	<u>2023</u>	<u>2022</u>
UNM (excluding UNM Hospital)	\$ 1,352,239	\$ 827,032
UNM Hospital	1,906,139	1,833,113
UNM Medical Group	<u>554,138</u>	<u>479,177</u>
Total	<u>\$ 3,812,516</u>	<u>\$ 3,139,322</u>

In addition, UNMH and UNM Health System provide overhead support and some management oversight for centralized administrative personnel, and support with analytics, cost reports, and audit. The support is not an incremental cost to UNMH or UNM Health System; therefore, it is not reimbursed by the Medical Center. The estimated value of the support and overhead is \$680 thousand and \$1.0 million for the years ended June 30, 2023 and 2022, respectively. The value of the support is estimated based on various units of measure that are standard to the industry's practice, such as gross revenue, full-time equivalent employees, purchase orders issued, and accounts payable invoices keyed.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

The Medical Center provides medical services and leases equipment to UNM and other entities associated with UNM. SRMC receives payment from UNM HSC for services provided to UNM Health Sciences Rio Rancho campus and UNM HSC Center of Excellence for Orthopaedic Surgery and Rehabilitation facility, including building maintenance, housekeeping, and security. SRMC receives payment from UNMH for data and equipment leases, from UNMMG for collections of certain physician services, and from UNMH for medical services provided to UNM Cares financial assistance patients. The Medical Center earned the following amounts, included in total revenues in the accompanying statements of revenues, expenses, and changes in net position, for services rendered during the years ended June 30:

	2023	2022
UNM Hospital	\$ 908,702	\$ 737,554
UNM Medical Group	386,306	100,261
UNM (excluding UNM Hospital)	953,724	746,556
Total	\$ 2,248,732	\$ 1,584,371

The statements of net position include the following receivables from related parties at June 30:

	2023	2022
UNM Hospital	\$ 1,132,989	\$ 552,904
UNM Medical Group	121,625	16,164
UNM (excluding UNM Hospital)	1,103,648	332,969
Total	\$ 2,358,262	\$ 902,037

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.

UNM and the Medical Center are parties to a building lease for the UNM HSC Center of Excellence for Orthopaedic Surgery and Rehabilitation building (Note 10).

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 15 – 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.

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 Medical Center's expense for the Plan was \$1.0 million for each of the years ended June 30, 2023 and 2022. Total employee contributions under the Plan were \$1.9 million and \$2.1 million for the years ended June 30, 2023 and 2022, respectively.

Note 16 – Contingencies

The Medical Center is currently a party to various claims and legal proceedings. 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 can be reasonably estimated. The Medical Center believes it has adequate provisions for potential liability in litigation matters. The Medical Center reviews these provisions on a periodic basis and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. The Medical Center, as a URPEDA corporation enjoys certain immunities from tort liability as set forth in the New Mexico Tort Claims Act and, in this regard, is provided occurrence-based liability coverage through the Public Liability Fund, created under the New Mexico Tort Claims Act, administered by the State Risk Management Division of the New Mexico General Services Department. That occurrence-based coverage is "first dollar" coverage, with no self-insured retention, and is subject to certain damage limitations as set forth in the New Mexico Tort Claims Act.

Based on the above and information that is currently available to the Medical Center, the Medical Center believes that the ultimate outcome of litigation matters, individually and in aggregate, will not have a material adverse effect on its results of operations or financial position. However, loss contingencies associated with litigation are inherently unpredictable and, in most cases, not readily subject to estimation.

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 17 – Subsequent Events

The Medical Center has evaluated subsequent events from the date of the statement of net position through October 13, 2023, the date at which the financial statements were available to be issued. No additional matters requiring adjustment to the financial statements have been identified.

On April 18, 2023, the UNM Board of Regents approved the Health Sciences Center proposal to integrate UNM Sandoval Regional Medical Center, Inc. (SRMC) with UNM Hospitals (UNMH) effective January 1, 2024. UNMH will acquire all assets and assume all liabilities of SRMC under a zero-dollar purchase agreement. The agreement has been filed with the United States Department of Housing and Urban Development (HUD) and debt holders were notified as of June 26, 2023. Conditional approval from HUD was received as of July 25, 2023, subject to completion of Intercreditor Agreement, the Amended and Restated Regulatory Agreement, and Loan Modification documents.



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

UNM Sandoval Regional Medical Center, Inc.
Board of Directors and
Mr. Joseph M. Maestas, P.E.
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), a component unit of the University of New Mexico, which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated October 13, 2023.

Report on 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) as a basis for designing 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in cursive script that reads "Moss Adams LLP".

Albuquerque, New Mexico
October 13, 2023

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Summary of Audit Results
Year Ended June 30, 2023

Type of auditor report issued: Unmodified

Fiscal year 2023 findings and responses:

Material weaknesses: No matters to report

Significant deficiencies: No matters to report

Material noncompliance: No matters to report

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Summary of Prior Audit Findings
Year Ended June 30, 2023

None

UNM Sandoval Regional Medical Center, Inc.
(A Component Unit of the University of New Mexico)
Exit Conference
Year Ended June 30, 2023

An exit conference was conducted on September 25, 2023, with members of the Board 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:

UNM Sandoval Regional Medical Center, Inc.

Jamie Silva-Steele	Chief Executive Officer and President, SRMC
Darlene Fernandez	Chief Financial Officer, SRMC
Adrian Larson	Chief Operating Officer, SRMC
Erik Lujan	Board Member
Kim Hedrick	Board Member
Hon. Louis McDonald	Board Member
Robin Cole	Controller, SRMC
Angela Vigil	Executive Director of Compliance, UNM Hospital

Moss Adams LLP

Josh Lewis, Partner
Lauren Kistin, Senior Manager