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

FINANCIAL STATEMENTS

JUNE 30, 2013 AND 2012

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)
Official Roster
June 30, 2013

BOARD OF DIRECTORS

Paul Roth, MD Albuquerque, NM	Chairperson (Term expires 6/30/14, Regent appointed)
Carolyn Voss, MD Albuquerque, NM	Vice Chairperson (Term expires 6/30/13, Regent appointed)
Manuel Cristobol Santa Ana Pueblo, NM	Member (Term expires 6/30/2014, County appointed)
Brad Cushnyr, MD Albuquerque, NM	Member (Term expires 6/30/15, Regent appointed)
Charlotte Garcia Albuquerque, NM	Member (Term expires 6/30/15, County appointed)
Jeffrey Griffith, Ph.D. Albuquerque, NM	Member (Term expires 6/30/14, Regent appointed)
Debbie Johnson Albuquerque, NM	Member (Term expires 6/30/13, Regent appointed)
Martha McGrew, MD Albuquerque, NM	Member (Term expires 6/30/15, Regent appointed)
Steve McKernan Albuquerque, NM	Member (Term expires 6/30/13, Regent appointed)

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)
Official Roster (continued)
June 30, 2013

ADMINISTRATIVE OFFICERS

Kevin Rogols	Chief Executive Officer – Sandoval Regional Medical Center
Tony Ogborn, MD	Chief Medical Officer – Sandoval Regional Medical Center
Erica Hamilton	Chief Nursing Officer – Sandoval Regional Medical Center
Ella Watt	Interim Chief Financial Officer

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

TABLE OF CONTENTS

MOSS ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Sandoval Regional Medical Center, Inc. (SRMC), a component unit of the University of New Mexico, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise SRMC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SRMC as of June 30, 2013 and 2012, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 13 to the financial statements, the Medical Center adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* effective July 1, 2012. Upon adoption, accounting changes required by the Statement are required to be applied retroactively by restating the financial statements for all periods presented. Accordingly, the Medical Center has retroactively restated the 2012 financial statements to expense previously capitalized and amortized bond issuance costs in the period incurred.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 on our consideration of SRMC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SRMC's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
October 18, 2013

The following discussion and analysis provides an overview of the financial position and activities of UNM Sandoval Regional Medical Center (Medical Center) as of and for the fiscal years ended June 30, 2013, 2012 and 2011. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of the Medical Center's management.

Using This Annual Report

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

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

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

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

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

Overview of Entity

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

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

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

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

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

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

Physician Services - the Medical Center will have an "open" medical staff, allowing community physicians in addition to the UNM SOM providers to be members of the active medical staff and to admit and follow their patients at the Medical Center. There are currently 371 physicians credentialed of which 278 are School of Medicine physicians and the remaining 93 are community physicians.

Condensed Summary of Net Position

		As of June 30,		
Assets		**2013**	**2012**	**2011**
Current assets	$	36,983,806	71,942,268	30,748,768
Capital assets, net		136,485,863	129,759,992	39,899,863
Noncurrent assets		1,677,025	-	165,051,022
Total assets	$	175,146,694	201,702,260	235,699,653
Liabilities				
Current liabilities	$	15,362,628	24,760,374	10,048,678
Noncurrent liabilities		140,765,000	143,925,000	148,065,000
Total liabilities	$	156,127,628	168,685,374	158,113,678
Net Position				
Net investment in capital assets	$	-	2,344,125	17,598,996
Restricted net position, expendable		10,094,941	37,124,103	9,558,489
Unrestricted		8,924,125	(6,451,342)	19,679,722
Total net position	$	19,019,066	33,016,886	46,837,207

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

At June 30, 2012 total Medical Center assets were $201.7 million compared to $205.0 at June 30, 2011. The Medical Center's most significant assets were net capital assets of $129.8 million, followed by cash and cash equivalents of $70.4 million followed by due from UNMMG of $1.1 million.

At June 30, 2013, 2012 and 2011, the Medical Center's current assets of $37.0 million, $71.9 million and $30.7 million, respectively, were sufficient to cover current liabilities of $15.4 million (current ratio of 2.41), $24.8 million (current ratio of 2.91) and $10.0 million (current ratio of 3.06), respectively.

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

At June 30, 2012, the Medical Center's liabilities totaled $168.7 million compared to $158.1 million at June 30, 2011. At June 30, 2012, bonds payable of $143.4 million was the largest liability, followed by accounts payable of $17.0 million.

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

Total net position as of June 30, 2012 decreased by $13.8 million to $33.0 million, which included an operating loss of $6.3 million and net non-operating expense of $3.9 million. Unrestricted net position totaled a deficiency of $6.5 million at June 30, 2012.

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

		Year Ended June 30,		
		2013	**2012**	**2011**
Total operating revenues	$	19,198,419	-	-
Total operating expenses		(49,206,822)	(6,347,010)	(1,499,153)
Operating loss		(30,008,403)	(6,347,010)	(1,499,153)
Nonoperating revenues, expense and other revenues		16,010,583	(3,853,679)	48,727,634
Total (decrease) increase in net position		(13,997,820)	(10,200,689)	47,228,481
Net position, beginning of year (July 1, 2011 as restated)		33,016,886	43,217,575	(391,274)
Net position, end of year	$	19,019,066	33,016,886	46,837,207

Operating Revenues

As previously described, the Medical Center opened in July 2012 and received licensure in August 2012. Accordingly, there were no patient service revenues prior to fiscal year 2013.

The sources of operating revenues for the Medical Center are net patient services and other operating revenues, with the most significant source being net patient services revenues. Operating revenues were $19.2 million for the year ended 2013.

Net patient service revenue is comprised of gross patient revenue, net of contractual allowances, charity care, provision for doubtful accounts, and any third party cost report settlements. Net patient services revenues were $18.9 million for the year ended 2013 and include an estimate for the settlement of the capital component of Medicare in the amount of $1,574,229.

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

	Year Ended June 30, 2013
Inpatient Days	6,763
Discharges	1,691
Outpatient Visits	17,300
Emergency Vists	9,238
Surgries	1,731

The average daily census has grown from ten in the month of August 2012 to 30 in the month of June 2013.

The Medical Center offers a financial assistance program to which all eligible patients are encouraged to apply. This program assigns patients primary care providers and enables them to receive care throughout the Medical Center and at all clinic locations. This program is available to Sandoval County residents who also meet certain income thresholds. The income threshold is 150% of the Federal Poverty Level (FPL) for 100% discount on services excluding copayments, and up to 250% of the FPL for a 70% discount on services. The Medical Center does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The cost of charity care provided under this program for fiscal year ended June 30, 2013 approximated $875,000.

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

Operating Expenses

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

For the year ended June 30, 2013, total operating expenses increased $42.9 million to $49.2 million. The overall increase was attributed to the opening of the Medical Center. Significant expenses included $23.4 million in employee compensation including benefits, $8.0 million in depreciation expense, $7.0 million in medical supplies, $3.9 million of purchased services, and $3.5 million of medical services.

For the year ended June 30, 2012, operating expenses increased $4.8 million to $6.3 million. The most significant expenses included $4.0 million in employee compensation including benefits, followed by $1.4 million in purchased services.

Nonoperating Revenues and Expenses

For the years ended June 30, 2013, 2012 and 2011, net nonoperating revenues (expense) was $16.0 million, ($3.9 million), and $48.7 million, respectively, in the accompanying statements of revenues, expenses, and changes in net position.

At June 30, 2013, the Sandoval County mill levy tax subsidy was the most significant non operating revenue, totaling $20.8M in 2013. This tax subsidy is provided for the general operations of the Medical Center. The Medical Center received this tax subsidy by voter endorsement for the services the Medical Center provides. Pursuant to a Health Facility Agreement with the Board of County Commissioners of Sandoval County, New Mexico, after opening, the Medical Center was entitled to receive the proceeds of a mill levy (the "Mill Levy") adopted by the Board of County Commissioners of Sandoval County and approved by the voters of Sandoval County. The Medical Center recognizes Mill Levy Funds based on the fiscal year that the levy is collected by the County, and records the funds received as Non-operating revenues; however, during fiscal year 2013, the Medical Center recognized as revenue the Sandoval County proceeds of the Mill Levy accumulated prior to opening in the amount of $13.8 million. The Medical Center will receive, on an ongoing basis, an amount equal to 20% of the total proceeds of the Mill Levy for the inpatient behavioral health services it provides, and then will split 50% of the remaining proceeds of the Mill Levy with Presbyterian Hospital. The amount of the mill levy funds recognized associated with fiscal year 2013 is $7.0 million.

The next largest source of nonoperating revenue in 2013, 2012 and 2011 was the Federal Bond Subsidy in the amount of $2.2 million, $2.3 million and $1.7 million, respectively. The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs. The Medical Center is eligible to receive cash subsidy payments from the United States Department of Treasury equal to 35% of the interest payable on the Build America Bonds (Series 2010A), and 45% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B). Pursuant to the Budget Control Act of 2011, as postponed by the American Taxpayer Relief Act of 2012, the budget sequestration impact was a reduction of 8.7%, effective March 1, 2013. This had the effect of changing the subsidy payment from the United States Department of Treasury equal to 31.96% of the interest payable on the Build America Bonds (Series 2010A), and 41.09% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B).

The largest non operating expense recorded in 2013 and 2012 was $6.5 million and $6.2 million, respectively, for bond interest expense.

Capital Assets

At June 30, 2013, the Medical Center had $136.5 million invested in capital assets, net of accumulated depreciation of $8.0 million. Depreciation charges for the year totaled $8.0 million.

		2013	2012	2011
Land, building and improvements	$	105,435,945	-	-
Building service equipment		2,651,112	-	-
Fixed equipment		2,395,668	-	-
Major moveable equipment		33,961,464	-	-
Construction in progress		-	129,759,992	39,899,863
		144,444,189	129,759,992	39,899,863
Less accumulated depreciation		(7,958,326)	-	
Net property and equipment	$	136,485,863	129,759,992	39,899,863

During 2013, the largest capital increases were within building and improvements ($105.4 million), moveable equipment ($34.0 million), building service equipment ($2.7 million) and fixed equipment ($2.4 million). These capital assets moved from construction in progress in 2013 upon completion of construction. Some of the major equipment purchases included an MRI, a DaVinci surgical robot, a mammography unit, two CT Scanners, and a radiographic-fluoroscopic unit. The DaVinci surgical robot allows surgeons to operate through a few small incisions and features a magnified 3D high-definition vision system and enhanced dexterity, precision and control. The fluoroscopic unit is an imaging technique that uses X-rays to obtain real time moving images of the internal structures.

Debt Activity

The Medical Center's bonds payable totaled $143.4 million at June 30, 2013 and 2012 and 2011, respectively. The current portion of this debt was $4.7 million and $1.5 million at June 30, 2013 and 2012, respectively. This debt is related to GNMA Collateralized Series 2010A and 2010B bonds. The current portion of the debt is expected to be paid upon final endorsement which is anticipated to occur prior to December 31, 2013.

In January 2010, the Medical Center submitted a mortgage insurance application to the U.S. Department of Housing and Urban Development (HUD) for an insured mortgage loan to be funded with the proceeds of bonds, to finance the construction of a 200,000 square foot Medical Center and 40,000 square foot connected medical office building. In September 2010, HUD issued its commitment to insure, under the provisions of Section 242 of the National Housing Act, a mortgage note in the amount of $143,425,000.

In November 2010, the Medical Center issued bonds totaling $143,425,000, including $133,425,000 in aggregate principal amount of its Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized - UNM Sandoval Regional Medical Center Project) Series 2010A with a maturity date of July 20, 2036 and $10,000,000 in aggregate principal amount of its Taxable Revenue Recovery Zone Economic Development Bonds (Direct Pay) (GNMA Collateralized - UNM Sandoval Regional Medical Center Project) Series 2010B with a maturity date of July 20, 2037. The Bonds were issued pursuant to a Trust Indenture, dated October 1, 2010, by and between the Medical Center and Wells Fargo Bank, National Association, as trustee for the purpose of financing the Medical Center's facility and to pay certain costs associated with the issuance of the bonds. Additionally, UNM made an equity contribution of $46 million to the Medical Center of which $32,484,850 were to be used to sustain the pre-opening operational costs and working capital needs of the Medical Center.

The remaining $13,515,150 was the Medical Center's equity capital contribution toward the overall capital costs of the project. The ending balance of the operating equity contribution for fiscal years ended June 30, 2013, 2012 and 2011 was $2.8 million, $26.5 million and $30.6 million, respectively. The ending balance of the capital equity contribution for fiscal years ended June 30, 2013, 2012 and 2011 was $0, $4.6 million and $13.5 million, respectively.

The loan guarantee is considered federal assistance subject to the requirements of Office of Management and Budget (OMB) Circular A-133 and the Single Audit Act. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2013, 2012 and 2011 Single Audit.

Change in Net Position

Total net position as of June 30, 2013 decreased by $14.0 million to $19.0 million, which included an operating loss of $30.0 million partially offset by net non-operating revenues of $16.0 million. Unrestricted net position totaled $8.9 million at June 30, 2013. Total net position as of June 30, 2012 decreased by $13.8 million to $33.0 million, which included an operating loss of $6.3 million plus net non-operating expenses $3.9 million. At June 30, 2012, the unrestricted net position was negative $6.5 million. Total net position (assets minus liabilities) is classified by the Medical Center's ability to use these assets to meet operating needs. Unrestricted net position may be used to meet all operating needs of the Medical Center. A portion of the Medical Center's net position is restricted by the trust indenture and debt agreement.

Factors Impacting Future Periods

On August 2, 2013, the Centers for Medicare & Medicaid Services (CMS) released the fiscal year 2014 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates will increase by a market basket increase of 2.5%, less a 0.8% market basket reduction mandated under the Patient Protection and Affordable Care Act (PPACA), less a 0.8% documentation and coding reduction mandated by the American Taxpayer Relief Act of 2012, and less a 0.2% reduction to offset projected increases associated with new admission and medical review criteria for inpatient services. The impact of this reduction is expected to be minimal. The IPPS Final Rule implements PPACA changes to Medicare Disproportionate share hospital (DSH) payments that will shift 25% of the DSH payment previously received using the traditional formula to be included in the "base" DRG payments for each Medicare inpatient discharge. Remaining DSH funding will be redistributed based on each DSH-eligible hospital's ratio of uncompensated care relative to the total for all DSH-eligible hospitals. Low-income patient days will be used to determine the uncompensated care ratios. This portion of the Medicare DSH funding will be paid as a flat amount on each Medicare inpatient discharge. At this time, it is not known whether the Medical Center will qualify as a DSH provider. The IPPS Final Rule also allows hospitals to bill Medicare Part B, after receiving a claim denial, for hospital services that were previously billed under Part A. Hospitals have one year from the date of admission to bill Part B for admission on or after October 1, 2013.

On July 8, 2013, CMS issued the proposed calendar year 2014 Outpatient Prospective Payment rule. CMS proposed to raise the base OPPS Payment rate by a market basket increase of 2.5%, less a productivity adjustment of 0.4% and reductions required under PPACA. The proposed rule includes packaging certain of services and supplies into payment for other supportive services. These include packaging of drugs, biologicals and radiopharmaceuticals that function as supplies when used in diagnostic tests or procedures; drugs and biologicals that function as supplies or devices in a surgical procedure; laboratory tests; procedures described by add-on codes; certain ancillary services and device removal procedures. CMS also proposes to collapse the current five levels of evaluation and management (E&M) codes for outpatient visits into a single code. The impact of the E&M coding change on the Medical Center is unknown.

The Patient Protection and Affordable Care Act (PPACA) was enacted on March 23, 2010. PPACA expands Medicaid eligibility provisions, Medicare and Medicaid reforms, and private insurance market reforms. Medicaid expansion under PPACA includes new eligibility criteria establishing a minimum floor for Medicaid coverage to 133% of the Federal Poverty Level (FPL), (with the 5% income disregard allowed in section 2002 of PPACA, the effective rate is 138% FPL), eliminating other non-income-based criteria (such as age, disability, or asset testing). The population most impacted by the new optional eligibility criteria is expected to be childless adults. States are also prohibited from reducing Medicaid or Children's Health Insurance Program (CHIP) eligibility that was in place on the date of PPACA enactment. PPACA provides additional federal financing through the Federal Medical Assistance Percentage (FMAP) for newly eligible Medicaid patients beginning in 2014.

PPACA includes legislation on Health Exchanges. Health Exchanges are expected to facilitate the purchase of health insurance for qualified individuals and small employers. A qualified individual is a lawful resident with income between 133% and 400% of the FPL. Federal subsidies for premiums under Health Exchanges become available beginning 2014. Health Exchanges are designed to be "one-stop-shopping" where participants can compare and purchase insurance coverage. Insurance coverage will have essential health benefits that cover benefit costs ranging from 60% to 90% with out-of-pocket limits equal to health savings account current law limits.

Health Plan reforms under PPACA include a set of required essential benefits including, but not limited to, emergency services, hospitalization, maternity and newborn care, mental health and substance use disorder services, preventative and wellness services, and pediatric services, including oral and vision care. Plans must also not require copayment or deductible on preventative services. For plan years beginning after September 23, 2010, existing plans must provide coverage to dependent children until age 26 (unless eligible for other coverage), eliminate lifetime aggregate dollar limits and annual dollar limits on essential benefits, eliminate pre-existing condition exclusions for children up to age 19, and prohibit rescinding of coverage except in cases of fraud, intentional misrepresentation, and nonpayment of premium. Effective in 2014, existing insurance plans must eliminate annual aggregate benefit limits, provide coverage of dependents to age 26 regardless of eligibility for other coverage, eliminate pre-existing condition limitations for adults, and eliminate waiting periods of greater than 90 days.

On June 28, 2012, the US Supreme Court ruled on certain provisions of PPACA. They declared that the "individual mandate" requiring individuals to buy insurance or to pay a fine amounted to a tax and that the government has the ability to impose such a tax. The ruling also declared that states have the ability to not participate in Medicaid expansion and to avoid the penalties described in PPACA. PPACA also reduced the annual market basket increase for Medicare inpatient and outpatient hospital services for services rendered on or after October 1, 2010.

Medicare has put a program in place to review healthcare claims in order to identify and recover inappropriate payments made to providers for fee-for-service Medicare. This program is called the Recovery Audit Contract (RAC) program and was created through the Medicare Modernization Act of 2003 (MMA). The three-year demonstration program identified over $1 billion in overpayments. In 2006, Congress mandated expansion of the RAC program to all 50 states. The RAC program encompassing New Mexico became effective in March 2009. Connolly Consulting Associates, Inc. is the contractor for this region. The RAC contractor can request up to 399 records every 45 days and can review claims from June 2008 and forward.

The New Mexico Health and Human Services Department (NMHSD) will implement the revised New Mexico Medicaid program "Centennial Care" beginning January 1, 2014. New Mexico will provide coverage based on household size with income below 138% of the federal poverty limits (FPL). NMHSD projects approximately 170,000 people will be eligible for this expanded coverage. The Medical Center estimates that a substantial portion of its current county indigent enrollment and 90% of UNM SCI patients will be eligible for Medicaid under Centennial Care. The State's SCI program will be eliminated with Centennial Care and enrollees are expected to enroll in Centennial Care or purchase insurance on the New Mexico Health Insurance Exchange. The Medicaid expansion will provide coverage for patients that are currently provided care under financial assistance or as self pay. However, there are likely to be implementation risks associated with Centennial Care that could cause delays in Medicaid eligibility. The NMHSD is implementing new eligibility software that will not be fully functional until January 2014, which may cause a backlog in patient enrollment for the first half of calendar year 2014. Centennial Care will blend long term care, acute care services, and behavioral health into a single delivery system. The managed care organizations participating in Centennial Care will be reduced to four that will cover all services covered under Centennial Care. There may be delays in coverage as this change in participating MCOs may cause delays in enrollment and patient to physician assignment.

The New Mexico Health Insurance Exchange (NMHIX) will be available to people with incomes above 138% FPL and will provide subsidized health insurance up to 400% FPL. NMHIX estimates approximately 187,000 adults will qualify for exchange coverage. Exchange enrollment will begin in October 2014. Due to the costs of health insurance offered, individuals may choose to opt out of coverage. There is also the risk that employer groups may reduce or eliminate existing coverage in favor of sending employees to the exchange to purchase health insurance.

The Deficit Reduction Act of 2005 established the Medicaid Integrity Program (MIP) to identify, collect, and prevent overpayments made under fee-for-service Medicaid. The two operational functions of MIP are 1) to review the actions of those providing Medicaid services and 2) to provide support and assistance to the states to combat Medicaid fraud, waste and abuse.

The mill levy is based on property values. Given the state of the economy, it is possible that the amount of the mill levy may remain flat or potentially decrease as the result of reduced property values and slowdowns in the building construction industry.

Contacting The Medical Center's Financial Management

This financial report is designed to provide the public with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Medical Center's Controller's office at 3001 Broadmoor Blvd NE, Rio Rancho, NM 87144.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF UNIVERSITY OF NEW MEXICO)
STATEMENTS OF NET POSITION
June 30, 2013 and 2012

Assets		2013	2012
Current assets:			
Cash and cash equivalents	$	6,143,766	1,055,438
Restricted cash and cash equivalents:			
Held by trustee for operations		2,823,188	26,457,015
Held by trustee for debt service		5,593,869	6,085,123
Held by trustee for capital acquisition		4,739,611	36,827,999
Receivables:			
Patient (net of allowance for doubtful accounts and contractual allowance of approximately $30,108,400 in 2013 and $0 in 2012)		6,016,748	-
Due from University of New Mexico Hospital		1,298,586	-
Due from UNM Medical Group		2,498,459	1,055,369
Estimated third party settlements		1,574,229	-
Sandoval County Treasurer		126,280	-
Other		633,977	-
Total net receivables		12,148,279	1,055,369
Prepaid expenses		1,224,545	406,231
Prepaid mortgage payments		2,760,569	-
Inventories		1,549,979	55,093
Total current assets		36,983,806	71,942,268
Noncurrent assets:			
Restricted investments:			
Held by trustee for mortgage reserve fund		1,677,025	-
Total restricted investments		1,677,025	-
Capital assets:			
Nondepreciable assets:			
Construction in progress		-	129,759,992
Depreciable capital assets, net		136,485,863	-
Capital assets, net		136,485,863	129,759,992
Total noncurrent assets		138,162,888	129,759,992
Total assets	$	175,146,694	201,702,260
Liabilities			
Current liabilities:			
Accounts payable	$	4,573,118	16,980,320
Accrued payroll		735,842	299,289
Due to University of New Mexico Hospital		863,209	208,055
Due to UNM Medical Group		36,266	2,600,000
Bonds payable – current		4,700,000	1,540,000
Interest payable bonds		3,252,063	2,892,719
Accrued compensated absences		1,202,130	239,991
Total current liabilities		15,362,628	24,760,374
Noncurrent liabilities:			
Bonds payable		138,725,000	141,885,000
Due to UNM Medical Group		2,040,000	2,040,000
Total noncurrent liabilities		140,765,000	143,925,000
Total liabilities		156,127,628	168,685,374
Net Position			
Net investment in capital assets		-	2,344,125
Restricted, expendable			
For expendable bequests, and contributions		858	-
In accordance with the trust indenture and debt agreement		10,094,083	37,124,103
Unrestricted		8,924,125	(6,451,342)
Total net position	$	19,019,066	33,016,886

See accompanying notes to financial statements.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF UNIVERSITY OF NEW MEXICO)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

		2013	2012
Operating revenues:			
Net patient service revenue	$	18,927,175	-
Other operating revenues		271,244	-
Total operating revenues		19,198,419	-
Operating expenses:			
Employee compensation		19,314,403	3,128,773
Depreciation		7,958,326	-
Medical and other supplies		7,036,820	437,641
Benefits		4,049,759	868,578
Purchased services		3,943,527	1,350,156
Medical services		3,516,365	-
Equipment		2,061,880	342,335
Occupancy		874,951	104,371
Other		450,791	115,156
Total operating expenses		49,206,822	6,347,010
Operating loss		(30,008,403)	(6,347,010)
Nonoperating revenues (expenses):			
Sandoval County mill levy		20,832,519	-
Federal bond subsidy		2,225,243	2,326,495
Interest income, net		604,479	48,120
Interest on bonds		(6,504,125)	(6,228,294)
Bequests and contributions		1,083	-
Other nonoperating expense		(1,148,616)	-
Net nonoperating revenues (expenses)		16,010,583	(3,853,679)
Decrease in net position		(13,997,820)	(10,200,689)
Net position, beginning of year (2012 as restated - see Note 13)		33,016,886	43,217,575
Net position, end of year	$	19,019,066	33,016,886

See accompanying notes to financial statements.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF UNIVERSITY OF NEW MEXICO)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from Medicare and Medicaid	$ 2,854,165	-
Cash received from insurance and patients	7,645,951	-
Cash payments to employees	(17,915,711)	(2,589,493)
Cash payments to suppliers	(35,934,744)	(2,728,088)
Cash payments to University of New Mexico Hospital	(571,385)	(81,686)
Cash payments to UNM Medical Group	(1,996,517)	(1,451,440)
Other receipts	271,244	-
Net cash used in operating activities	(45,646,997)	(6,850,707)
Cash flows from noncapital financing activities:		
Cash received from Sandoval County mill levy	20,706,239	-
Cash received from contributions	1,083	-
Net cash provided by noncapital financing activities	20,707,322	-
Cash flows from capital financing activities:		
Purchases of capital assets	(14,684,197)	(76,501,429)
Cash received from federal bond subsidy	2,225,243	2,326,444
Cash payments to UNM Medical Group for negative arbitrage fund	(2,600,000)	(3,800,000)
Interest payments on bonds	(6,504,125)	(6,504,125)
Cash payments for mortgage reserve fund	(1,677,025)	-
Principal payments on mortgage	(2,760,569)	-
Cash payments for mortgage-related activities (Mortgage servicing, MIP, GNMA guaranty)	(789,272)	-
Net cash used in capital financing activities	(26,789,945)	(84,479,110)
Cash flows from investing activities:		
Interest on investments	604,479	324,002
Net cash provided by investing activities	604,479	324,002
Net (decrease) in cash and cash equivalents	(51,125,141)	(91,005,815)
Cash and cash equivalents, beginning of year	70,425,575	161,431,390
Cash and cash equivalents, end of year	$ 19,300,434	70,425,575

See accompanying notes to financial statements.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF UNIVERSITY OF NEW MEXICO)
STATEMENTS OF CASH FLOWS (CONTINUED)
Years ended June 30, 2013 and 2012

		2013	2012
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(30,008,403)	(6,347,010)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense		7,958,326	-
Provision for doubtful accounts		9,478,955	-
Change in assets and liabilities:			
Patient receivables		(15,495,703)	-
Due from University of New Mexico Hospital		(1,298,586)	-
Due from UNM MG		(1,443,090)	(1,055,369)
Estimated third party payer settlements		(1,574,229)	-
Other receivables and prepaid expenses		(1,452,291)	(406,231)
Inventories		(1,494,886)	(55,093)
Due to University of New Mexico		655,154	126,369
Due to UNM Medical Group		36,266	(396,071)
Accrued payroll		436,553	299,289
Accrued compensated absences		962,139	239,991
Accounts payable		(12,407,202)	743,418
Net cash used in operating activities	$	(45,646,997)	(6,850,707)

NOTE 1. DESCRIPTION OF BUSINESS

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

The Medical Center is located in Rio Rancho, New Mexico. The Medical Center is a community teaching Medical Center having completed the final stages of construction and opened and began to provide patient care on July 16, 2012. The Medical Center provides inpatient and outpatient services primarily to the residents of Sandoval County, New Mexico.

The Medical Center consists of an approximately 200,000 square foot, 72 acute bed, community teaching Medical Center and corresponding 40,000 square foot medical office building on a site located adjacent to the new City Center in Rio Rancho, New Mexico. In 2006, UNM acquired the land upon which the Medical Center is located and owns it fee simple. The Medical Center is a component unit of the UNM and is reported as such in the basic financial statements of UNM. The Medical Center has no component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Changes in Accounting Policies and Statements. Effective July 1, 2012, the Medical Center adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The primary effects of implementing GASB statement No. 63 was to change all previous references from "net assets" to "net position," change the line item for "invested in capital assets, net of related debt" to "net investment in capital assets," and to classify certain assets and liabilities as "deferred inflows" and "deferred outflows." At June 30, 2013, the Medical Center had no items meeting the criteria of "deferred inflows" or "deferred outflows." In accordance with GASB Statement No. 65, the Medical Center restated the Net Position as of July 1, 2011 to remove bond issuance costs (see Note 13).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Restricted Cash and Cash Equivalents. The Medical Center has three types of restricted cash and cash equivalents. The first type is held by the trustee for operations and is the remaining balance of the equity contributed by UNM. The held by trustee for debt service is used for the principal component of debt service. The held by trustee for capital acquisitions consists of remaining proceeds from the Series 2010 bond in the amount of $4,739,611 and $32,246,034 as of June 30, 2013 and 2012, respectively, as well as other cash balances held by trustee that are restricted for capital acquisition, of none and $4,581,964, respectively.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Capital Assets. Capital assets are stated at cost or at estimated fair value on date of acquisition. The Medical Center's capitalization policy for assets includes all items with a unit cost of more than $5,000 as well as for the first year of capitalization, items in the aggregate whose total cost is more than $5,000. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets as indicated in the "Estimated Useful Lives of Depreciable Medical Center Assets," Revised 2008 Edition published by the American Medical Center Association. Repairs and maintenance costs are charged to expense as incurred. On a quarterly basis, the Medical Center assesses long-lived assets in order to determine whether or not it is necessary to retire, replace, or impair based on condition of the assets and their intended use.

Net Investment in Capital Assets. Net investment in capital assets represents the Medical Center's total investment in capital assets, net of outstanding debt related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. There are $4,739,611 and $32,246,034 in unspent bond proceeds at June 30, 2013, and 2012, respectively

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Nonoperating Revenues and Expenses. Nonoperating revenue includes activities that have the characteristics of non-exchange transactions, such as investment income, government levies, and gifts. These revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*. Investment income is recognized in the period when it is earned. The mill levy is recognized in the period it is collected by the County. Bequests and contributions are recognized when all applicable eligibility requirements have been met. Nonoperating expenses also include interest on bonds, mortgage servicing fees and the GNMA guaranty fees.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Bond Subsidy. The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs. These sources of funds are accounted for as non-operating revenues and recorded as they are received. Under the program, the Medical Center applies for subsidy funds commensurate with each bond payment, so the application for the subsidy is made semiannually. For the years ended June 30, 2013 and 2012, the Medical Center recognized $2,225,243 and $2,326,495 in federal bond subsidy revenue, respectively.

Income Taxes. The Medical Center has received a determination letter from the Internal Revenue Service (IRS) that it is an organization described in Internal Revenue Code section 501(c)(3). As such it would be exempt from federal income tax on income generated from activities related to its exempt function. Furthermore, the Medical Center previously received a discretionary ruling from the IRS under Revenue Procedure 95-48, excluding it from the requirement to file certain information returns. Changes made by the Pension Protection Act removed the IRS's discretionary authority to waive these filing requirements. Subsequent failures to file would result in automatic revocation of exempt status. The IRS is expected to issue further guidance to assist organizations with Rev. Proc. 95-48 rulings in maintaining exempt status. The Medical Center intends to monitor and comply with this guidance. Accordingly, no provision for income taxes has been made.

Classification. Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

NOTE 3. CASH AND CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

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

The carrying amounts of the Medical Center's deposits with financial institutions at June 30, 2013 and 2012 are $6,141,966 and $1,054,088, respectively.

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

Bank balances are categorized at June 30, as follows:

		2013	2012
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$	250,000	250,000
Other cash		5,988,820	804,088
	$	6,238,820	1,054,088

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

Restricted Cash and Cash Equivalents

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

		Year Ended June 30,	
		2013	2012
Operating capital escrow fund	$	2,823,188	26,457,015
Debt service fund		5,593,869	6,085,123
Capital acquisition fund		4,739,611	36,827,999
Total restricted cash and cash equivalents	$	13,156,668	69,370,137

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

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

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

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

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

A summary of the restricted cash and cash equivalents at June 30, 2013 and 2012 and their exposure to interest rate risk is as follows:

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

	June 30, 2012	
	Fair Value	Less than 1 Year
Items not subject to interest rate risk:		
Money market fund	$ 69,370,137	69,370,137
Items not subject to interest rate risk	69,370,137	69,370,137
Total restricted cash and cash equivalents	$ 69,370,137	69,370,137

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

Custodial Credit Risk – Debt Investments. As of June 30, 2013 and 2012, the Medical Center debt investments that are subject to custodial credit risk.

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

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

	2013		2012	
	Rating	**Fair Value**	**Rating**	**Fair Value**
Items subject to credit risk:				
Money market fund	Not rated	$ 13,156,668	Not rated	69,370,137
Total items subject to credit risk		13,156,668		69,370,137
Total restricted cash and cash equivalents		$ 13,156,668		69,370,137

Long-Term Investments

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

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

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

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

As of June 30, 2012, the Medical Center did not hold any long term investments.

Custodial Credit Risk – Debt Investments. As of June 30, 2013 and 2012, the Medical Center held no U.S. government obligations for long-term investment purposes.

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

Credit Risk – Debt Investments. The Medical Center is required to disclose credit ratings of its debt investments in order to assess credit risk. U.S. obligations, investments explicitly

guaranteed by the U.S. government, and non-debt investments are excluded from this requirement. Currently, the Medical Center does not have a specific policy to limit its exposure to credit risk.

	2013		2012	
	Rating	**Fair Value**	**Rating**	**Fair Value**
Items subject to credit risk:				
Money market fund	Not rated	$ 1,677,025	Not rated	—
Total items subject to credit risk		1,677,025		—
Total long term investments		$ 1,677,025		—

NOTE 4. CONCENTRATION OF RISK

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

		2013	
Medicare and Medicaid	$	12,609,943	35%
Other third party payors		13,750,828	38%
Others		9,764,377	27%
Total patient accounts receivable		36,125,148	100%
Less allowance for uncollectible accounts and contractual adjustments		(30,108,400)	
Patient accounts receivable, net	$	6,016,748	

NOTE 5. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

The Medical Center is reimbursed by the Medicare and Medicaid programs on a prospective payment basis for hospital services, with certain items reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Medical Center. The annual cost reports are subject to audit by the Medicare Administrative Contractor and the Medicaid audit agent. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The estimated settlement for 2013 is a receivable of $1,574,299.

NOTE 6. CAPITAL ASSETS

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

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

	Year Ended June 30, 2012				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
UNM Medical Center Capital Assets not being depreciated:					
Land	$ -				
Construction in Progress	39,899,863	89,860,129	-	-	129,759,992
	39,899,863	89,860,129	-	-	129,759,992

NOTE 7. COMPENSATED ABSENCES

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

Full-time employees with zero to seven years of service accrue 11.07 hours of PTO each pay period (36 days per annum) up to a maximum of 500 hours to be used for sick, holiday and annual leave. Full-time employees with years of service in excess of seven years accrue 12.61 hours of PTO each pay period (41 days per annum) up to a maximum of 500 hours to be used for sick, holiday and annual leave. Part-time employees earn PTO leave on a prorated basis each pay period. When publicized by the Medical Center each year, employees have the opportunity to exchange for cash at 80% of their hourly rate all hours accumulated in excess of 80 hours. At termination, employees are eligible for payment of unused accumulated hours at 100% of their regular hourly rate. Accrued PTO as of June 30, 2013 and 2012 of $1,202,130 and $239,991, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

During the years ended June 30, 2013 and 2012, the following changes occurred in accrued compensated absences:

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

Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012
$ -	286,330	(46,339)	$ 239,991

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

NOTE 8. BONDS PAYABLE

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

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

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

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

NOTE 8. BONDS PAYABLE (CONTINUED)

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

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

The terms of the Bonds Issued are as follows:

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

The Medical Center is eligible to receive cash subsidy payments from the United States Department of Treasury equal to 35% of the interest payable on the Build America Bonds (Series 2010A), and 45% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B), payable on or about each respective interest payment date, which payments lower the overall true cost of the bonds to 3.33%. Pursuant to the Budget Control Act of 2011, as postponed by the American Tax Payer Relief Act of 2012, the budget sequestration impact was a reduction of 8.7%, effective March 1, 2013. This had the effect of changing the subsidy payment from the United States Department of Treasury equal to 31.96% of the interest payable on the Build America Bonds (Series 2010A), and 41.09% of the interest payable on the Recovery Zone Economic Development Bonds (Series 2010B).

NOTE 8. BONDS PAYABLE (CONTINUED)

The following schedule summarizes the scheduled mandatory redemption requirements of the Series 2010A and Series 2010B bonds as of June 30, 2013:

	Series 2010A Bonds		Series 2010B Bonds		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2014	$ 4,700,000	5,899,726		500,000	4,700,000	6,399,726
2015	3,310,000	5,755,838		500,000	3,310,000	6,255,838
2016	3,470,000	5,605,088		500,000	3,470,000	6,105,088
2017	3,635,000	5,447,138		500,000	3,635,000	5,947,138
2018	3,815,000	5,281,538		500,000	3,815,000	5,781,538
2019-2023	21,985,000	23,630,965		2,500,000	21,985,000	26,130,965
2024-2028	27,800,000	18,121,166		2,500,000	27,800,000	20,621,166
2029-2033	35,160,000	11,153,365		2,500,000	35,160,000	13,653,365
2034-2038	29,550,000	2,691,676	10,000,000	2,109,125	39,550,000	4,800,801
	$ 133,425,000	83,586,500	10,000,000	12,109,125	143,425,000	95,695,625

The bonds are subject to various redemption provisions as set forth in the Trust Indenture, including Special Mandatory Redemption, Scheduled Mandatory Redemption, and Optional Redemption. The Special Mandatory Redemption provisions are contingent on various events, including but not limited to circumstances that result in the trust estate receiving early payments on the GNMA Securities, or in the event the balance of GNMA Securities after completion of the construction are less than the amount of outstanding bonds. As of June 30, 2013, the Medical Center has a balance of $4.7 million left from the original bond proceeds. The Medical Center is estimated to complete final endorsement of the project prior to December 31, 2013 upon which any remaining balance unspent from the original bond proceeds will be used for a Special Mandatory Redemption. The Optional Redemption provision allows an early redemption of the bonds in whole or in part on or after January 20, 2021.

Mortgage Note

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

NOTE 8. BONDS PAYABLE (CONTINUED)

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

NOTE 9. NET PATIENT SERVICE REVENUES

The majority of the Medical Center's revenue is generated through agreements with third-party payers that provide for reimbursement to the Medical Center at amounts different from its established charges. Approximately 27% and 28% of the Medical Center's gross patient revenue for the fiscal year ended June 30, 2013, was derived from the Medicare and Medicaid programs, respectively, the continuation of which are dependent upon governmental policies. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at established charges for services and amounts reimbursed by third-party payers. A summary of the basis of reimbursement from major third-party payers follows:

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

NOTE 9. NET PATIENT SERVICE REVENUES (CONTINUED)

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

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

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

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

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

	2013
Charges at established rates	$ 59,249,376
Charity care	(1,053,561)
Contractual adjustments	(29,789,685)
Provision for doubtful accounts	(9,478,955)
Net patient service revenues	$ 18,927,175

NOTE 10. CHARITY CARE

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

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

NOTE 11. MALPRACTICE INSURANCE

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

The NMTCA limits, as an integral part of this waiver of immunity, the amount of damages that can be assessed against UNM Sandoval Regional Medical Center, Inc. on any tort claim including medical malpractice, professional or general liability claims. The NMTCA provides that total liability for all claims that arise out of a single occurrence shall not exceed $700,000 set forth as follows: (a) $200,000 for real property; (b) up to $300,000 for past and future medical and medically related expenses; and (c) up to $400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. While the language of the NMTCA does not expressly provide for claims of

NOTE 11. MALPRACTICE INSURANCE (CONTINUED)

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

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

NOTE 12. RELATED PARTY TRANSACTIONS

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

	2013	2012
UNM Hospital	$ 836,082	-
UNM Department of Orthopaedics	1,119	-
	$ 837,201	-

NOTE 12. RELATED PARTY TRANSACTIONS (CONTINUED)

The Medical Center reimburses UNM Hospital and UNM Medical Group for primarily professional service incurred on behalf of the Medical Center. The Medical Center incurred expenses, included in total expenses in the accompanying statements of revenues, expenses, and changes in net position, related to the following entities during the years ended June 30:

	2013	2012
UNM Hospital	$ 776,725	$ 297,526
UNM Medical Group	596,950	3,619,974
	$ 1,373,675	$ 3,917,500

Additionally, UNMMG extended funds to the Medical Center for the funding of the Negative Arbitrage Account fund as required by the bond rating agencies. UNMMG advanced the Medical Center $10,125,000 in November of 2010. During years ended June 30, 2013, 2012 and 2011 the Medical Center repaid $2,600,000, $3,800,000, and $1,685,000, respectively. As the required funds balance is recalculated every six months, up until the final endorsement from HUD, all funds authorized to be released are remitted to UNMMG.

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

NOTE 13. RESTATEMENT FOR ADOPTION OF GASB STATEMENT NO. 65

Effective July 1, 2012, the Medical Center adopted GASB statement No. 65, which required bond issuance costs to be expensed through a restatement of net position as of the earliest period presented. Accordingly, the Medical Center has restated net position as of July 1, 2011 to remove bond issuance costs as of that date and to also remove the previously reported amortization of bond issuance costs in the 2012 statement of revenues, expenses, and changes in net position. The following summarizes the impact of the restatement to previously reported balances:

	2012 as Previously Reported	2012 as Restated
2012 Statement of Revenues, Expenses and Changes in Net Position		
Amortization of bond issuance costs	$ 214,246	-
Net non-operating revenues	(4,067,925)	(3,853,679)
Decrease in net position	(10,419,935)	(10,200,689)
Net position, beginning of year	46,837,207	43,217,575
2012 Statement of Net Position		
Bond issuance costs	3,405,386	-
Total net position	36,422,272	33,016,886

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Sandoval Regional Medical Center, Inc. (SRMC) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise SRMC's basic financial statements, and have issued our report thereon dated October 18, 2013.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SRMC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 13-01.

Purpose of this Report

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

Moss Adams LLP

Albuquerque, New Mexico
October 18, 2013

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

Condition: We noted that the Medical Center is still in the process of placing identification numbers on fixed assets and a complete physical inventory has not been performed.

Criteria: An adequately designed and implemented system of internal controls over equipment and real property includes the conduct of periodic observations of equipment, and the proper reconciliation and adjustment of inventory records to reflect counts and the physical condition of the equipment.

Effect: The lack of identification numbers for the assets, as well as the lack of a physical inventory, poses the risk that the Medical Center's records of assets are inaccurate, and that misappropriation of equipment is not timely identified and investigated.

Cause: Internal controls over labeling and inventorying fixed assets had not been implemented as of June 30, 2013.

Recommendation: We recommend that the Medical Center complete the physical inventory and labeling of fixed assets according to funding source, ensuring those assets purchased with the FHA-insured mortgage loan proceeds are separately tracked for reporting to the U.S. Department of Housing and Urban Development. Additionally, the annual physical inventory should be reconciled to the capital assets module.

Management Response: During July 2013, management established a process to conduct the physical inventory and label the fixed assets. The Medical Center plans to have the physical inventorying and labeling of assets completed by mid-October 2013.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
Year Ended June 30, 2013

Prior Year Audit Finding:

12-01 – Capitalization of Interest (Material Weakness)

The finding has been resolved as of June 30, 2013.

12-02 –Cutoff of Accounts Payable and Accrued Liabilities (Significant Deficiency)

The finding has been resolved as of June 30, 2013.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
EXIT CONFERENCE
JUNE 30, 2013

An exit conference was conducted on October 10, 2013, with members of the board of directors and members of SRMC management. During this meeting, the contents of this report were discussed with the following board members, management personnel, and Moss Adams LLP representatives present:

Steve McKernan	Board Member
Dick Mason	Board Member
Thomas Williams	Board Member
Kevin Rogols	President and Chief Executive Officer
Ella Watt	Chief Financial Officer, UNM Health System
Jaime Silva-Steele	Interim COO, Sandoval Regional Medical Center
Erica Hamilton	Vice President of Patient Services
Rosalyn Nguyen	Assistant University Counsel
Darlene Fernandez	Interim Executive Director of Finance
Tony Ogburn	CMO, Sandoval Regional Medical Center
Purvi Mody	Executive Director of Compliance and Audit
Ava Lovell	Senior Executive Officer for Finance and Administration, UNM HSC
Brandon Fryar	Engagement Partner, Moss Adams LLP
Sandy Schwank	Manager, Moss Adams LLP

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