UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)

Financial Statements

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Official Roster
June 30, 2020

Board of Directors

Paul Roth, MD	Chairperson (Term expires 6/30/20, Regent appointed)
Michael Richards, MD	Member (Term expires 12/31/22, Regent appointed)
Martha McGrew, MD	Member (Term expires 12/31/22, Regent appointed)
Matthew Wilks, MD	Member (Term expires 12/31/21, Regent appointed)
Joanna Boothe	Member (Term expires 12/31/21, Regent appointed)
Charlotte Garcia	Member (Term expires 12/31/21, Regent appointed)
Donnie Leonard	Member (Term expires 12/31/20, Regent appointed)
Kim Hedrick	Member (Term expires 12/31/20, County appointed)
Dave Panana	Member (Term expires 12/31/21, Regent appointed)

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

Official Roster

June 30, 2020

Administrative Officers

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

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

Table of Contents

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of UNM Sandoval Regional Medical Center, Inc. (the Medical Center), a component unit of the University of New Mexico, State of New Mexico, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2020 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
December 8, 2020

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2020 and 2019

The following discussion and analysis provides an overview of the financial position and activities of UNM Sandoval Regional Medical Center, Inc. (the Medical Center or SRMC) as of and for the years ended June 30, 2020, 2019, and 2018. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of the Medical Center's management.

Using This Annual Report

This annual report consists of financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended. The Medical Center is reporting as a special-purpose government engaged in business-type activities (BTA). In accordance with BTA reporting, the Medical Center presents management's discussion and analysis, statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. The financial statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service or goods are received, regardless of when cash is exchanged.

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

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

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

Overview of Entity

The Regents of the University of New Mexico (UNM) approved the formation of the Medical Center, a New Mexico nonprofit corporation organization under and pursuant to the New Mexico University Research Park and Economic Development Act. The corporation is formed as an instrumentality of the Regents of UNM, to promote the social welfare of New Mexico through the advancement of healthcare. The corporation is organized for the development, construction, and operation of a licensed general, community teaching hospital located in Sandoval County, New Mexico in support of and under the operating aegis of the Health Sciences Center of the University of New Mexico (UNM HSC) and, in connection therewith, to facilitate and develop the clinical and medical practices of the faculty of the University of New Mexico School of Medicine (UNM SOM). The Medical Center is a component unit of UNM.

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

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

Inpatient Care – Acute care provided by practitioners in 48 acute medical-surgical beds and 12 intensive care unit beds. The Medical Center is equipped with an emergency department with 11 exam rooms, 2 trauma rooms, and 2 triage rooms. Additionally, the Medical Center is equipped with 6 operating rooms, 3 minor procedure rooms, and 1 interventional radiology lab.

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

Surgical Services – Anesthesia, general surgery, bariatric, podiatry, otolaryngology, urologic, gynecologic, urogynecologic, gastrointestinal, breast, minimally invasive spine surgery, and outpatient laparoscopic surgery.

Physician Services – The Medical Center has an "open" medical staff, allowing community physicians in addition to the UNM SOM providers to be members of the active medical staff and to admit and follow their patients at the Medical Center. There are currently 559 physicians credentialed, of which 469 are UNM SOM physicians and 90 are community physicians.

Financial Summary

Condensed summary of net position

	June 30		
	2020	**2019**	**2018**
Assets:			
Current assets	$ 50,652,462	41,156,850	46,294,420
Capital assets, net	95,475,016	99,508,641	103,115,704
Noncurrent assets	15,083,228	13,206,575	11,329,655
Total assets	$ 161,210,706	153,872,066	160,739,779
Liabilities:			
Current liabilities	$ 31,594,271	20,278,279	23,238,451
Noncurrent liabilities	109,005,000	113,280,000	117,355,000
Total liabilities	$ 140,599,271	133,558,279	140,593,451
Net Position:			
Net deficiency in capital assets	$ (17,804,984)	(17,846,359)	(18,129,296)
Restricted net position, expendable	21,497,655	20,420,964	17,635,876
Unrestricted	16,918,764	17,739,182	20,639,748
Total net position	$ 20,611,435	20,313,787	20,146,328

Total Medical Center assets at June 30, 2020 increased $7.3 million from June 30, 2019, ending at $161.2 million. Cash and cash equivalents at June 30, 2020 increased by $9.3 million, primarily due to a Center for Medicare and Medicaid Services (CMS) advance of $7.3 million under the Medicare Accelerated and Advance Payment Program and CARES Act funding of $6.7 million, while net accounts receivable decreased by $1.9 million, primarily due to the impact of COVID-19 on patient volumes. The Medical Center's patient volumes began to decrease in March 2020 due to COVID-19 stay at home orders and limitations on elective visits and procedures in healthcare services implemented by the Governor of New Mexico in March 2020. Net capital assets decreased by $4.0 million, predominantly due to increased accumulated depreciation, and restricted investments held by trustee for mortgage reserve fund increased by $1.9 million in line with contract requirements. The Medical Center's most significant assets at June 30, 2020 were net capital assets of $95.5 million, cash and cash equivalents of $38.4 million, and restricted investments held by trustee for mortgage reserve fund of $15.1 million.

Operating cash increased by $10.1 million during the year ended June 30, 2020, from $21.9 million at June 30, 2019 to $32.0 million at June 30, 2020. This increase was driven by the CARES Act funding of $6.7 million, CMS advance payment of $7.3 million, and mill levy funds of $6.4 million. The CARES Act funding and CMS advance payment programs were in response to COVID-19.

(Continued)

Total Medical Center assets at June 30, 2019 decreased $6.9 million from June 30, 2018, ending at $153.9 million. Cash and cash equivalents at June 30, 2019 decreased by $4.0 million, net accounts receivable decreased by $1.3 million, and net capital assets decreased $3.6 million, predominantly due to increased accumulated depreciation. These decreases were offset by an increase of $1.9 million in the restricted investments held by trustee for mortgage reserve fund. The Medical Center's most significant assets at June 30, 2019 were net capital assets of $99.5 million, cash and cash equivalents of $29.1 million, and restricted investments held by trustee for mortgage reserve fund of $13.2 million.

Operating cash decreased by $5.0 million during the year ended June 30, 2019, from $26.9 million at June 30, 2018 to $21.9 million at June 30, 2019. This decrease was driven largely by reduced patient cash payments of $10.4 million in fiscal year 2019, of which $6.2 million was related to a fiscal year 2016 disproportionate share payment received in fiscal year 2018. The decrease in cash from patient services was offset by a $4.2 million reduction in payments to suppliers.

The Medical Center's total liabilities were $140.6 million at June 30, 2020, compared to $133.6 million at June 30, 2019. At June 30, 2020, current and noncurrent bonds payable of $113.3 million was the largest liability, followed by CMS advance payment of $7.3 million, and accounts payable of $6.0 million. The increase in total liabilities is primarily due to the CMS advance of $7.3 million and CARES Act funding liability of $3.6 million. There were also increases in accrued payroll of $1.4 million and in related-party liabilities of $0.9 million. These increases were offset by a decrease in bonds payable resulting from the payments of the scheduled mandatory bond redemptions of $4.1 million during the year ended June 30, 2020. There was also a decrease in liabilities from estimated third-party settlements of $2.2 million, primarily related to a determination that liabilities recorded for a prior year disproportionate share receipt were no longer needed.

The Medical Center's total liabilities were $133.6 million at June 30, 2019, compared to $140.6 million at June 30, 2018. At June 30, 2019, current and noncurrent bonds payable of $117.4 million was the largest liability, followed by accounts payable of $6.1 million. The decrease in total liabilities is primarily due to a decrease in bonds payable resulting from the payments of the scheduled mandatory bond redemptions of $3.9 million during the year ended June 30, 2019 and a decrease from estimated third-party settlements of $3.6 million, related to a determination that liabilities recorded from prior year disproportionate share payments were no longer needed. These increases were offset by an increase in accounts payable of $2.0 million.

At June 30, 2020, 2019, and 2018, the Medical Center's current assets of $50.7 million, $41.2 million, and $46.3 million, respectively, were sufficient to cover current liabilities of $31.6 million (current ratio of 1.60), $20.3 million (current ratio of 2.03), and $23.2 million (current ratio of 2.00), respectively.

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

Total net position as of June 30, 2020 increased by $0.3 million to $20.6 million, which included an operating loss of $4.6 million and net nonoperating revenues of $4.9 million. Unrestricted net position totaled $16.9 million, with a net deficiency in capital assets of $17.8 million at June 30, 2020. Restricted net position, expendable as of June 30, 2020 increased by $1.1 million to $21.5 million, which was driven by a $1.1 million increase in the bond fund trust account.

Total net position as of June 30, 2019 increased by $0.2 million to $20.3 million, which included operating income of $4.1 million and net nonoperating expenses of $4.0 million. Unrestricted net position totaled $17.8 million, with a net deficiency in capital assets of $17.9 million at June 30, 2019. Restricted net position, expendable as of June 30, 2019 increased by $2.8 million to $20.4 million, which was driven by a $2.8 million increase in the bond fund trust account.

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

	Year ended June 30		
	2020	**2019**	**2018**
Total operating revenues	$ 78,203,988	84,180,161	86,038,524
Total operating expenses	(82,806,019)	(80,037,405)	(80,728,183)
Operating gain (loss)	(4,602,031)	4,142,756	5,310,341
Net nonoperating (expenses) revenues	4,899,679	(3,975,297)	(4,385,923)
Total increase in net position	297,648	167,459	924,418
Net position, beginning of year	20,313,787	20,146,328	19,221,910
Net position, end of year	$ 20,611,435	20,313,787	20,146,328

Operating Revenues

The sources of operating revenues for the Medical Center are net patient service and other operating revenues, with the most significant source being net patient service revenues. Total operating revenues were $78.2 million, $84.2 million, and $86.0 million for the years ended June 30, 2020, 2019, and 2018, respectively.

Net patient service revenue comprises gross patient revenue, net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were $76.5 million, $83.0 million, and $83.7 million for the years ended June 30, 2020, 2019, and 2018, respectively. The decrease of $6.5 million from 2019 to 2020 is primarily the result of canceling all nonessential healthcare services from mid-March to the beginning of June in compliance with the New Mexico Governor's Executive Order due to the COVID-19 pandemic. The decrease of $0.7 million from 2018 to 2019 is the result of a decrease in reimbursement, case mix index, and a shift from inpatient volume to outpatient volume.

(Continued)

The following table summarizes key operating statistics for the years ended June 30, 2020, 2019, and 2018:

	Year ended June 30		
	2020	**2019**	**2018**
Total inpatient days	10,453	11,951	14,514
Total discharges	2,575	2,950	3,126
Inpatient surgeries	686	977	1,369
Outpatient surgeries	2,184	2,516	2,390
Total surgeries	2,870	3,493	3,759
Outpatient visits	42,426	48,257	44,048
Emergency visits	19,520	21,045	20,433

ICU and medical/surgical inpatient days decreased by 1,498 from fiscal year 2019 to 2020 due to canceling nonessential services from mid-March to June. The ICU and medical/surgical average daily census (ADC) for the year ended June 30, 2020 was 28.6 and decreased by 4.2 from an ICU and Medical/Surgical ADC of 32.8 for the year ended June 30, 2019.

Net patient service revenue for the fiscal years ended June 30, 2020 and 2019 includes cost report estimates for the Medicare and Medicaid programs. Beginning July 1, 2016, the Medical Center was subject to the prospective federal capital rate. The Medical Center's cost reports have been audited through June 30, 2017 for Medicare and Medicaid. Management believes that estimated settlements accrued related to unaudited cost reports are adequate. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations.

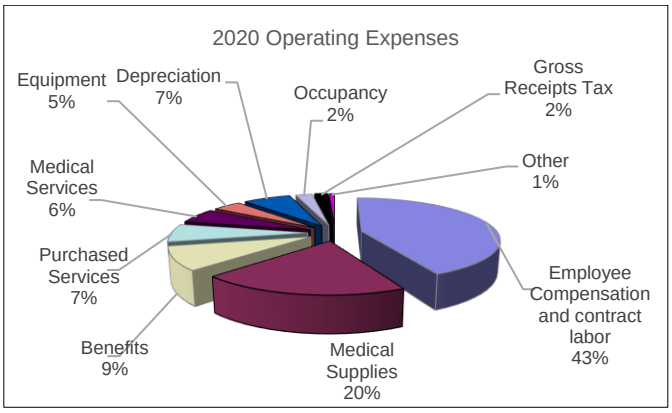
The Medical Center is committed to providing quality healthcare to all, regardless of one's ability to pay. The Medical Center offers a financial assistance program called SRMC Care for healthcare services provided by the Medical Center. This program is only available to Sandoval County residents. Patients who meet the criteria of this charity care policy receive services at no charge or at amounts less than established rates. The criteria for charity care consider the household income in relation to the federal poverty guidelines, as well as asset thresholds. Patients with adjusted gross income equal to or less than 200% of federal poverty guidelines receive services at no charge. For uninsured patients with adjusted gross income at 201-300% of federal poverty guidelines, a discount is applied. Patients applying for coverage under SRMC Care must apply for coverage under Medicaid or the Health Insurance Exchange (HIX), if eligible. Patients may continue to receive SRMC Care until they receive Medicaid eligibility or notification of coverage under the HIX.

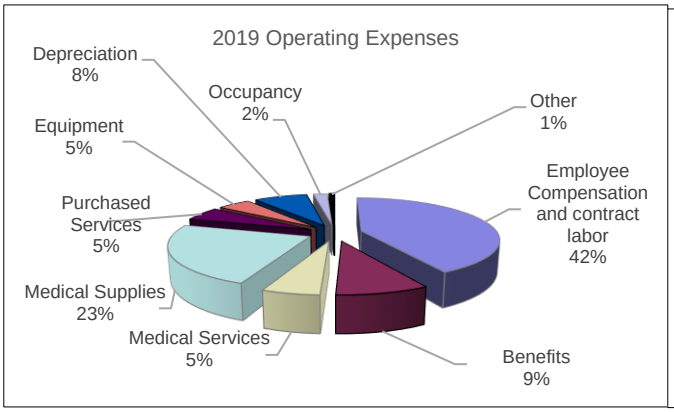
The Medical Center does not pursue collection of amounts determined to qualify as charity care. The costs of charity care provided under this program for the years ended June 30, 2020, 2019, and 2018 approximated $0.9 million, $1.8 million, and $1.5 million, respectively. The costs incurred are estimated based on the cost-to-charge ratio for the Medical Center as applied to the charity care charges.

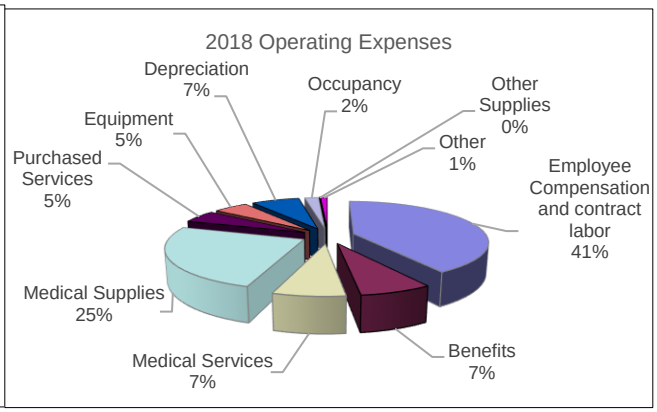
Bad debt accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2020, 2019, and 2018 was $3.9 million, $5.4 million, and $7.3 million, respectively. The cost of care provided to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance for years ended June 30, 2020, 2019, and 2018 was $1.7 million, $2.0 million, and $2.9 million, respectively.

Operating Expenses

The following pie charts depict the distribution of the operating expenses for the Medical Center for the years ended June 30, 2020, 2019, and 2018:







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

For the year ended June 30, 2020, total operating expenses were $82.8 million and represent an increase of $2.8 million from the year ended June 30, 2019. The most significant changes were an increase of $1.9 million in employee compensation and contract labor primarily due to COVID-19, annual wage increase and mill levy program ramp up, a $1.3 million increase in purchased services primarily for operational improvement consulting fees, and a $1.5 million increase in gross receipts tax, which was a new tax on nonprofit hospitals beginning in fiscal year 2020. These increases were partially offset by a $2.4 million decrease in medical and other supplies as a result of cancelling nonessential services from mid-March to early June.

Nonoperating Revenues and Expenses

For the year ended June 30, 2020, nonoperating revenues net of nonoperating expenses was $4.9 million. For the years ended June 30, 2019 and 2018, the Medical Center recorded net nonoperating expense of $4.0 million and net nonoperating revenues of $4.4 million, respectively.

The largest source of nonoperating revenues for the year ended June 30, 2020 was the Sandoval County mill levy tax subsidy totaling $6.5 million. The second largest source of nonoperating revenues for the year ended June 30, 2020 was $3.1 million from the CARES Act funding. In 2019, the largest source of nonoperating revenues was the federal bond subsidy in the amount of $1.8 million. The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs.

The most significant nonoperating expense recorded for the years ended June 30, 2020, 2019, and 2018 was bond interest expense in the amount of $5.2 million, $5.4 million, and $5.5 million, respectively.

Capital Assets

At June 30, 2020, the Medical Center had $150.7 million invested in capital assets, net of accumulated depreciation of $55.2 million. Depreciation expense totaled $5.6 million for the year ended June 30, 2020. Depreciation expense for each of the years ended June 30, 2019 and 2018 was $6.1 million.

	Year ended June 30		
	2020	**2019**	**2018**
Building and building improvements	$ 105,650,011	105,650,011	105,614,225
Building service equipment	4,724,428	4,302,846	3,961,110
Fixed equipment	4,223,199	4,094,180	4,055,147
Major moveable equipment	35,822,042	37,504,986	37,329,241
Construction in progress	300,910	362,234	616,981
	150,720,590	151,914,257	151,576,704
Less accumulated depreciation	(55,245,574)	(52,405,616)	(48,461,000)
Net property and equipment	$ 95,475,016	99,508,641	103,115,704

(Continued)

For the year ended June 30, 2020, total depreciable capital assets decreased by $1.1 million from June 30, 2019. Major moveable equipment additions were $1.2 million, with the largest asset addition being $0.4 million for ICU beds. Major moveable equipment retirements were $2.8 million, with a net book value of $29 thousand.

For the year ended June 30, 2019, total depreciable capital assets increased by $0.6 million from June 30, 2018. Major moveable equipment additions were $1.5 million, with the largest asset addition being $0.9 million for information technology equipment. Major moveable equipment retirements were $2.2 million, with a net book value of $45 thousand.

Debt Activity

The Medical Center's bonds payable totaled $113.3 million, $117.4 million, and $121.2 million at June 30, 2020, 2019, and 2018, respectively. The current portion of this debt was $4.3 million, $4.1 million, and $3.9 million at June 30, 2020, 2019, and 2018, respectively. This debt is related to the Government National Mortgage Association (GNMA) Collateralized Series 2010A and Series 2010B bonds.

On July 20, 2019 and on January 20, 2020, the Medical Center paid the scheduled mandatory bond redemption payments on the Series 2010A, which consisted of principal payments of $2.0 million and $2.1 million, respectively, as well as interest payments of $2.5 million and $2.4 million, respectively. On July 20, 2019 and on January 20, 2020, the scheduled interest payments of $0.2 million were paid on the Series 2010B bonds. No principal payments were scheduled for either period.

There is a loan guarantee that is considered federal assistance subject to the requirements of Office of Management and Budget Uniform Guidance. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2020, 2019, and 2018 Single Audit.

Factors Impacting Future Periods

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

(a) Provider Contracts

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

On September 2, 2020, CMS released the fiscal year 2021 Inpatient Prospective Payment (IPPS) Final Rule. The Medical Center's IPPS rate is estimated to decrease 4.83% or $0.5 million as a result of the IPPS final rule. This decrease is primarily due to a 3% decrease in Medicare Fee-for-Service discharges and a finalized wage index decrease of 4.2%, dropping from 0.9051 to 0.8670. The Sandoval County average hourly wage has not kept pace with the national average and as a result has caused the county's wage index to continue to drop.

The 2021 IPPS final rule continued the ACA provision that hospitals scoring in the top quartile of the nation for Hospital-Acquired Conditions (HACs) are subject to a 1.0% penalty reduction in payments. The Medical Center's HAC score has never been in the highest quartile, and thus has never been subject to the 1% decrease. The Medical Center's payment rates are expected to have a 1.97% negative impact under the Hospital Readmission Reduction Program and a 0.24% positive impact under the Value Based Purchasing Program as required by ACA. The negative impact of these three quality pay-for-performance programs is estimated at $152,000 for federal fiscal year 2021.

CMS proposed to require every hospital to report the median charges that the hospital negotiated with all Medicare Advantage organizations and third-party payers, broken down by MS-DRG. The agency claims that hospitals are already required to report this data as a result of the 2019 final Outpatient Prospective Payment (OPPS) rule and that the reporting burden would be minimal. However, a number of hospitals have filed suit in the United States District Court for the District of Columbia challenging the relevant portion of that 2019 rule. The rule was upheld by a federal judge in June 2020, and any decision on a pending appeal may not be issued before the requirements take effect January 1, 2021. The agency has finalized use of the Medicare Advantage negotiated rates to recalibrate the MS-DRG weights beginning in 2024 in the final 2021 IPPS rule.

On August 4, 2020, CMS issued the proposed calendar year 2021 OPPS rule. CMS proposes to raise the base OPPS payment rate by 2.6%, which is a market basket increase of 3.0%, less a multifactor productivity adjustment of 0.4%. However, due to a proposed 3.9% decrease in the wage index and a 6.2% proposed decrease to average sales price (ASP) of 340B drugs, the overall impact of the proposed OPPS to the Medical Center's reimbursement is estimated to be a reduction of 1.56% or $126,100.

In January 2018, CMS reset Medicare payments for drugs obtained under the 340B program from the ASP plus 6% to ASP minus 22.5%. The proposed 2021 OPPS rule increased the Medicare Part B drug payment cuts to hospitals in the 340B program starting January 1, 2021. Specifically, CMS proposes to reimburse 340B hospitals at ASP minus 28.7% based on the results of the Hospital Acquisition Cost Survey for 340B Acquired Specified Covered Drugs. This is proposed as an alternative to continuing the current policy of paying ASP minus 22.5% for 340B Acquired Specific Covered Drugs.

(b) Medicare Disproportionate Share Hospital (DSH)

The Medical Center's Uncompensated Care (UC) DSH payments are estimated to decrease $0.1 million in fiscal year 2021. Under the 2021 Proposed IPPS Rule, CMS proposed to continue using one year of UC data from worksheet S-10 of the Medicare cost report to calculate each hospital's share of UC in the DSH calculation. For fiscal year 2021 UC-based DSH payments, CMS proposed to use federal fiscal year 2017 cost report data, which is the Medical Center's fiscal year ending June 30, 2018, which CMS has audited. In subsequent years, CMS proposes to continue using one year of S-10 data from the most recent audited cost reports.

(c) COVID-19 Pandemic

Coronavirus disease 2019 (COVID-19) is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). It was first identified in December 2019 in Wuhan, Hubei, China, and has resulted in an ongoing pandemic. On January 31, 2020, Health and Human Services Secretary Alex Azar II declared a Public Health Emergency (PHE) for the United States to help the healthcare community respond to COVID-19. On March 13, 2020, the American College of Surgeons issued Recommendations for Management of Elective Surgical Procedures, which included recommendations on minimizing, postponing, or cancelling elective surgeries, endoscopies, or other invasive procedures. They also recommended immediately minimizing items needed to care for patients, such as ICU beds, personal protective equipment, cleaning supplies, and ventilators. On March 24, 2020, the New Mexico Department of Health issued a Public Health Order prohibiting hospitals and other healthcare facilities from providing nonessential healthcare services, procedures, and surgeries. The Medical Center resumed nonessential healthcare services, procedures, and surgeries in early June 2020, shortly after the New Mexico Public Health Order for nonessential healthcare services was lifted. The COVID-19 pandemic is ongoing and the national PHE order is still in place.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was enacted on March 27, 2020. The CARES Act authorizes $100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (PHSSEF). Payments from the PHSSEF are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. On April 10, 2020, the U.S. Department of Health and Human Services (HHS) distributed $30 billion of this funding in a general distribution based on each provider's share of total Medicare fee-for-service reimbursement in 2019. On April 24, 2020, HHS distributed a further $20 billion of this funding in a second general distribution based on eligible providers' revenues from CMS cost report data and revenue submissions to the provider portal. Additional targeted distributions were later made, primarily to hospitals in COVID-19 high-impact areas, to rural providers, and to reimburse providers for COVID-19-related treatment of uninsured patients. The Medical Center received approximately $6.7 million in payments from the initial PHSSEF general distribution payments, of which $3.1 million was recognized as revenue for the year ended June 30, 2020.

To increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Accelerated and Advance Payment Program. Inpatient acute care hospitals could request accelerated payments of up to 100% of the Medicare payment amount for a 6-month period (not including Medicare Advantage payments). CMS-based payment amounts for inpatient acute care hospitals on the provider's Medicare fee-for-service reimbursements in the last 6 months of 2019. Such accelerated payments are interest free for inpatient acute care hospitals for 12 months, and the program currently requires CMS to recoup the payments beginning 120 days after receipt by the provider, by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped. The program currently requires any outstanding balance remaining after 12 months to be repaid by the provider or be subject to an interest rate currently set at 10.25%. The payments are made for services a healthcare entity has provided or will provide to its Medicare patients and are therefore considered exchange transactions that will be recognized in patient service revenue, net, once services have been

provided. In April 2020, the Medical Center received $7.3 million of accelerated payments, which have been accrued as a liability on the statement of net position as of June 30, 2020.

Lastly, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Medical Center began deferring the employer portion of social security taxes in mid-April 2020. As of June 30, 2020, the Medical Center deferred $0.5 million in social security taxes.

CMS has issued multiple 1135 waivers since the PHE was declared. The waivers help ensure that sufficient healthcare items and services are available to meet the needs of individuals enrolled in the Medicare, Medicaid, and Children's Health Insurance Program programs. The waivers also ensure that healthcare providers that furnish these items and services in good faith but are unable to comply with one or more of these requirements as a result of the consequences of the COVID-19 pandemic may be paid for these items and services and exempted from sanctions for noncompliance, absent any determination of fraud or abuse. One of the waivers expanded the use of telehealth and telephone visits. The waiver implemented payment for telephone visits under the physician fee schedule, which previously were not payable on the fee schedule. The telehealth visits for professional fees are paid at the same rate as an in-person visit under the physician fee schedule. The Medical Center is only able to bill and be paid for one code on telehealth and telephone visits. The payment for this code is significantly less than what the payment would be for an in-person visit. There is support to make the expanded telehealth and telephone services permanent. CMS has increased payment rates for patients that are hospitalized due to COVID-19. It is unknown how long these increased payments will be in effect. The New Mexico Human Services Department (HSD) increased payment rates for inpatients diagnosed with COVID-19 beginning April 1, 2020. HSD has issued proposed State Plan Amendment (SPA) 20-0017, which would discontinue this temporary rate increase effective September 30, 2020.

Due to the recent enactment of the CARES Act and the Paycheck Protection Program and Health Care Enhancement (PPPHCE) Act, there is still a high degree of uncertainty surrounding their implementation, and the public health emergency continues to evolve. The Medical Center continues to assess the potential impact of the CARES Act, the PPPHCE Act, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition, and cash flows. The long-term financial impact of COVID-19 is not known at this time as there are multiple factors, which may influence the outcome, including whether there will be additional federal funding (grants or loans), the impact of an additional surge if any, the impact of telehealth on a historical business model or whether there will be another total shutdown of nonessential healthcare services. Timing of the development of antiviral treatments or a potential vaccine is also unknown. The Medical Center continues to monitor developments and the directives of federal, state, and local officials to determine what precautions and procedures may need to be implemented by the Medical Center in the event of the continued spread of COVID-19. COVID-19's continued impact on social interaction, travel, economies, and financial markets has affected and may continue to affect the Medical Center's operations and finances. Due to these uncertainties, the full impact of COVID-19 and the scope of any cumulative adverse impact on the Medical Center's finances and operations cannot be fully determined at this time and largely depends on the ongoing severity, duration, and spread of COVID-19. Management continues to monitor key factors such as the impact within the Medical Center's service area, extent of the recovery of

ramping up nonessential services in the near term, and the impact of federal and state legislation, emergency measures, and funding within healthcare and the economy as a whole. The Medical Center has developed forecasting models for both cash flows and operations and continues to monitor these regularly. The Medical Center believes it will maintain compliance with debt covenants and meet its obligations as they become due as a result of the initiatives implemented and the current strong cash position.

(d) Sandoval County Mill Levy

On November 6, 2018, voters approved a new eight-year tax levy at 1.9 mill on property owned within Sandoval County. The mill levy funds expansion of outpatient behavioral health services and an increase in staffing to achieve a level III trauma center designation at the Medical Center. The mill levy contract with Sandoval County was effective July 1, 2019. Due to the impact of COVID-19 pandemic, effective March 2020, Sandoval County and the Medical Center agrees that, for all mill levy proceeds not allotted toward provision of behavioral health and substance abuse services, the Medical Center may use any or all of such mill levy proceeds for general hospital operations for so long as the Medical Center and the County agree. Both parties will meet at least monthly to evaluate the COVID-19 impact on the Medical Center and the Medical Center will submit a monthly report to the County Commission documenting the need for continued operating funding. Mill levy proceeds from fiscal year 2020 in the amount of $2.8 million were redirected for operations per the amendment. The Medical Center patient volumes began to drop in March due to COVID-19 stay at home orders and limitations on elective visits and procedures in healthcare services were implemented by the Governor of New Mexico in March. The New Mexico State Public Health Order issued on March 24, 2020; indicated "all hospitals and other healthcare facilities, ambulatory surgical facilities are prohibited from providing nonessential healthcare services, procedures, and surgeries." All ambulatory/ancillary/surgical service volumes were impacted. Very similar to other hospitals around the world, the Medical Center experienced a significant loss of revenue as nonessential services have been reduced to free up resources to treat COVID-19 patients. At the same time, the Medical Center incurred costs to fight the virus such as buying personal protective equipment supplies, transforming units to alternative care sites, and operating various check-in stations for staff and visitors. The hospital did receive some federal stimulus payments and Medicare advance payments, but these emergency relief funds were not enough to keep up with the continued downward revenue trend. Once the Executive Order was lifted for nonessential healthcare services, the Medical Center began to reschedule canceled visits and procedures. However, hospitals were required to follow the State Gating Criteria. The Medical Center continues to experience impacted volumes due to social distancing requirements in common areas. In the Medical Center's navigation of the COVID-19 public health crisis, primarily patients from Sandoval County are being served. Eighty percent of the Medical Center's COVID-19 patients being cared for are from Sandoval County. The Medical Center is honored that patients and families have chosen the facility during this public health crisis as their community hospital. The Medical Center is following all CDC guidelines and direction of local health officials in caring for patients and protecting our healthcare providers.

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, 2020 and 2019

Assets	2020	2019
Current assets:		
Cash and cash equivalents	$ 32,069,503	21,942,347
Restricted cash and cash equivalents:		
Held by trustee for debt service	6,313,272	7,124,841
Total cash and cash equivalents	38,382,775	29,067,188
Receivables:		
Patient (net of allowance for uncollectible accounts and contractual adjustments of $15,787,220 in 2020 and $21,892,758 in 2019)	6,940,108	8,800,479
Due from related parties	405,437	90,530
Estimated third-party settlements	427,806	396,286
Interest receivable – bond subsidy proceeds	870,380	—
Other	339,177	128,956
Total net receivables	8,982,908	9,416,251
Prepaid expenses	1,021,035	585,139
Inventories	2,265,744	2,088,272
Total current assets	50,652,462	41,156,850
Noncurrent assets:		
Restricted investments:		
Held by trustee for mortgage reserve fund	15,083,228	13,206,575
Capital assets, net	95,475,016	99,508,641
Total noncurrent assets	110,558,244	112,715,216
Total assets	$ 161,210,706	153,872,066
Liabilities		
Current liabilities:		
Accounts payable	$ 6,016,483	6,051,656
Accrued payroll	3,186,216	1,814,559
Due to related parties	1,574,965	677,314
Estimated third-party settlements	1,001,630	3,190,535
Bonds payable – current	4,275,000	4,075,000
Interest payable bonds	2,573,150	2,664,837
Medicare Accelerated and Advance Payment Program	7,330,765	—
CARES Act funding	3,617,914	—
Accrued compensated absences	2,018,148	1,804,378
Total current liabilities	31,594,271	20,278,279
Noncurrent liabilities:		
Bonds payable	109,005,000	113,280,000
Total noncurrent liabilities	109,005,000	113,280,000
Total liabilities	140,599,271	133,558,279
Net Position		
Net deficiency in capital assets	(17,804,984)	(17,846,359)
Restricted, expendable:		
Expendable bequests and contributions	101,155	89,548
In accordance with the trust indenture and debt agreement	21,396,500	20,331,416
Unrestricted	16,918,764	17,739,182
Total net position	20,611,435	20,313,787
Total liabilities and net position	$ 161,210,706	153,872,066

See accompanying notes to financial statements.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of University of New Mexico)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Net patient service revenues	$ 76,453,989	82,965,371
Other operating revenues	1,749,999	1,214,790
Total operating revenues	78,203,988	84,180,161
Operating expenses:		
Employee compensation and contract labor	35,326,209	33,389,483
Medical and other supplies	16,206,936	18,624,932
Benefits	7,399,946	6,956,753
Depreciation	5,629,891	6,084,684
Purchased services	5,655,568	4,306,451
Medical services	4,787,950	4,339,535
Equipment	3,754,606	3,714,891
Occupancy	1,942,541	2,021,825
Gross receipts tax	1,463,415	—
Other	638,957	598,851
Total operating expenses	82,806,019	80,037,405
Operating (loss) income	(4,602,031)	4,142,756
Nonoperating revenues (expenses):		
Sandoval County mill levy	6,465,723	84,996
Federal bond subsidy	1,756,026	1,810,878
Interest income, net	219,797	295,048
Interest on bonds	(5,192,650)	(5,374,000)
Bequests and contributions	19,676	20,626
CARES Act funding	3,065,689	—
Other nonoperating expense	(1,434,582)	(812,845)
Net nonoperating revenues (expenses)	4,899,679	(3,975,297)
Increase in net position	297,648	167,459
Net position, beginning of year	20,313,787	20,146,328
Net position, end of year	$ 20,611,435	20,313,787

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, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash received from patient services	$ 75,806,628	79,677,551
Cash received from CMS Advance	7,330,765	—
Cash payments to employees	(31,369,119)	(30,147,563)
Cash payments to suppliers and contractors	(40,304,445)	(38,793,493)
Cash payments to related parties	(2,809,663)	(4,111,938)
Cash payments to Department of Revenue	(710,126)	—
Other receipts	1,139,582	852,118
Net cash provided by operating activities	9,083,622	7,476,675
Cash flows from noncapital financing activities:		
Cash received from Sandoval County mill levy	6,690,081	84,996
Cash received from CARES Funding	6,683,603	—
Cash received from contributions	19,676	20,626
Net cash provided by noncapital financing activities	13,393,360	105,622
Cash flows from capital financing activities:		
Purchases of capital assets	(1,624,881)	(2,508,835)
Cash received from federal bond subsidy	885,646	2,631,025
Interest payments on bonds	(5,284,337)	(5,461,525)
Cash payments into mortgage reserve fund	(1,876,653)	(1,876,920)
Principal payments on bonds	(4,075,000)	(3,890,000)
Cash payments for mortgage-related activities (Mortgage servicing, MIP, GNMA guaranty)	(1,405,967)	(969,965)
Other receipts	—	188,334
Net cash used in capital financing activities	(13,381,192)	(11,887,886)
Cash flows from investing activities:		
Interest on investments	219,797	295,048
Net cash provided by investing activities	219,797	295,048
Net increase (decrease) in cash and cash equivalents	9,315,587	(4,010,541)
Cash and cash equivalents, beginning of year	29,067,188	33,077,729
Cash and cash equivalents, end of year	$ 38,382,775	29,067,188

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2020 and 2019

		2020	2019
Reconciliation of operating income to net cash provided by operating activities:			
Operating (loss) income	$	(4,602,031)	4,142,756
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation expense		5,629,891	6,084,684
Provision for doubtful accounts		3,894,191	5,404,257
Change in assets and liabilities:			
Patient receivables		(2,033,820)	(5,370,584)
Due from related parties		(314,907)	100,420
Estimated third-party settlements		(2,507,732)	(3,321,493)
Other receivables and prepaid expenses		(583,168)	(150,278)
Inventories		(177,472)	(4,147)
Accounts payable		(35,173)	2,047,166
CMS Advance		7,330,765	—
Due to related parties		897,651	(1,477,907)
Accrued payroll		1,371,657	220,252
Accrued compensated absences		213,770	(198,451)
Net cash provided by operating activities	$	9,083,622	7,476,675

See accompanying notes to financial statements.

(1) Description of Business

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

The healthcare-related education, research, and clinical programs and services offered by UNM and/or provided in UNM's facilities and those of certain of its URPEDA subsidiaries are designated as the UNM Health Sciences Center (UNM HSC), which is a component unit of UNM. The clinical elements of UNM HSC are intended to be a fully integrated academic health center and healthcare delivery system and are collectively administered as the UNM Health System. As part of ongoing operations, the Medical Center engages in certain related-party transactions as described further in note 13.

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

- Management's discussion and analysis

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

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

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

(b) Recent Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 addresses the accounting and financial reporting for leases, establishing a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. In May 2020, GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which postponed the effective date of Statement No. 87 to fiscal years beginning after June 15, 2021. The Medical Center is evaluating the impact the standard will have on its financial statements.

(c) Use of Estimates

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

(d) Operating Revenues and Expenses

The Medical Center's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing healthcare services, the Medical Center's principal activity. Exchange transactions are those in which each party to the

transaction receives and gives up essentially equal values. Operating expenses are all expenses incurred to provide healthcare services.

(e) Nonoperating Revenues and Expenses

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

(f) Cash and Cash Equivalents

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

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

(g) Restricted Cash and Cash Equivalents

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

(h) Net Patient Accounts Receivables

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

(i) 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.

(j) Restricted Investments Noncurrent

The Medical Center has established a mortgage reserve fund in accordance with the requirements and conditions of the Federal Housing Administration (FHA) Regulatory Agreement. Notwithstanding any other provision in the Regulatory Agreement, the mortgage reserve fund may be used by Housing and

Urban Development if the Medical Center is unable to make a mortgage note payment on the due date. The Medical Center is required to make contributions to the fund based on the mortgage reserve fund schedule.

(k) Capital Assets

Capital assets are stated at cost or at estimated fair value on date of acquisition. The Medical Center's capitalization policy for assets includes all items with a unit cost of more than $5,000, as well as items in the aggregate whose total cost is more than $5,000. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets as indicated in the *Estimated Useful Lives of Depreciable Medical Center Assets*, Revised 2018 Edition published by the American Medical Center Association. Repairs and maintenance costs are charged to expense as incurred. On an annual basis, the Medical Center assesses long-lived assets in order to determine whether it is necessary to retire, replace, or impair based on condition of the assets and their intended use.

(l) Net Deficiency in Capital Assets

Net deficiency in capital assets represents the Medical Center's total investment in capital assets, net of outstanding debt related to those capital assets. Since the outstanding debt at June 30, 2020 and 2019 is greater than the investment in capital assets, this category of net position is reported as a negative amount in the statements of net position.

(m) Net Patient Service Revenues

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

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

(n) Charity Care

The Medical Center provides care to all patients, regardless of ability to pay for needed services. A patient classified as a charity care patient in accordance with the Medical Center's charity care policy is provided care without charge or at amounts less than established rates. The Medical Center does not pursue collection of amounts determined to qualify as charity care; therefore, they are deducted from gross revenue, with the exception of co-payments.

(o) Sandoval County Mill Levy Taxes

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

On November 6, 2018, voters approved a new eight-year, 1.9 mill tax levy on property owned within Sandoval County. The mill levy is intended to fund expansion of outpatient behavioral health services and an increase in staffing to achieve a level III trauma center designation at the Medical Center. The mill levy contract with Sandoval County was effective July 1, 2019. Due to the impact of COVID-19 pandemic, effective March 2020 Sandoval County and the Medical Center amended the original mill levy agreement such that all mill levy proceeds not allotted toward provision of behavioral health and substance abuse services may be used by the Medical Center for general hospital operations, so long as the Medical Center and the County agree upon such usage. Sandoval County and the Medical Center will meet at least monthly to evaluate the COVID-19 impact on the Medical Center. The Medical Center shall submit a monthly report to the County Commission documenting the need for continued operating funding. Mill levy revenues recognized in fiscal years 2020 and 2019 were $6.5 million and $0.08 million, respectively. The 2019 mill levy represents late collections related to the previous mill levy agreement.

Any taxes remitted to the Medical Center by the County Treasurer are paid after any potential impacts related to GASB Statement No. 77, Tax Abatement Disclosures. Foregone mill levy proceeds resulting from Sandoval County tax abatements are not included in any mill levy proceeds received by the Medical Center, and the financial impacts are the responsibility of the taxing agency to disclose. The proceeds of the levy were reduced by approximately $41 thousand during the year ended June 30, 2020 as a result of the exemptions and abatements granted. Throughout the course of the mill levy period, distribution of mill levy proceeds by the County Treasurer is contingent on existence of a Health Facilities Contract between the County and the Medical Center.

(p) Federal Bond Subsidy

The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs. These sources of funds are accounted for as nonoperating revenues and recorded as they are earned. Under the program, the Medical Center applies for subsidy funds commensurate with each bond payment, so the application for the subsidy is made semiannually. The Medical Center recognized $1.8 million in federal bond subsidy revenue in each of the years ended June 30, 2020 and 2019.

(q) Income Taxes

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

(r) Risk Management

The Medical Center sponsors a self-insured health plan for employees. Blue Cross and Blue Shield of New Mexico (BCBS NM) and HMO New Mexico provide administrative claim payment services for the Medical Center's plan. Liabilities are based on an estimate of claims that have been incurred but not reported (IBNR) and claims received but not yet paid. At June 30, 2020 and 2019, the estimated amount of the Medical Center's IBNR and accrued claims are $0.4 million and $0.3 million, respectively, which are included in accrued payroll. The liability for IBNR is based on actuarial analysis calculated using information provided by BCBS NM and management estimates.

	Balance at beginning of fiscal year	Claims and changes in estimates	Claim payments	Balance at fiscal year-end
2019–2020	$ 349,682	3,725,392	(3,683,440)	391,634
2018–2019	200,000	3,547,070	(3,397,388)	349,682

(3) Cash and Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

(i) Deposits

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

The carrying amounts of the Medical Center's deposits with financial institutions at June 30, 2020 and 2019 are $32.1 million and $21.9 million, respectively.

Bank balances are categorized at June 30 as follows:

	2020	2019
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 250,000	250,000
Other cash	31,772,284	23,389,932
Total	$ 32,022,284	23,639,932

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

(b) Restricted Cash and Cash Equivalents

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

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

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

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

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Medical Center will not be able to recover the value of its investments or collateral that is in the possession of an outside party. As of June 30, 2020 and 2019, there are no investments or cash and cash equivalents subject to custodial credit risk.

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

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

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

A summary of the debt investments – cash and cash equivalents at June 30, 2020 and 2019 and their exposure to credit risk is as follows:

	June 30, 2020		June 30, 2019	
	Rating	Fair value	Rating	Fair value
Items subject to credit risk:				
Money market fund	Not rated	$ 6,313,272	Not rated	$ 7,124,841
Total items subject to credit risk		6,313,272		7,124,841
Total debt investments – cash and cash equivalents		$ 6,313,272		$ 7,124,841

(Continued)

(c) Long-Term Investments

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

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

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

As of June 30, 2020 and 2019, there are no investments subject to custodial credit risk.

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

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

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

A summary of the long-term investments at June 30, 2020 and 2019 and their exposure to credit risk is as follows:

	June 30, 2020		June 30, 2019	
	Rating	**Fair value**	**Rating**	**Fair value**
Items subject to credit risk:				
Money market fund	Not rated	$ 15,083,228	Not rated	$ 13,206,575
Total items subject to credit risk		15,083,228		13,206,575
Total long-term investments		$ 15,083,228		$ 13,206,575

(Continued)

(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:

	2020		2019	
Medicare	$ 7,546,482	33 %	$ 9,828,919	32 %
Medicaid	3,530,532	15	4,062,739	13
Other third-party payors	7,417,950	33	10,565,748	35
Others	4,232,364	19	6,235,831	20
Total patient accounts receivable	22,727,328	100 %	30,693,237	100 %
Less allowance for uncollectible accounts and contractual adjustments	(15,787,220)		(21,892,758)	
Patient accounts receivable, net	$ 6,940,108		$ 8,800,479	

(5) Federal Legislative Relief Funds

Congress appropriated funds to reimburse eligible healthcare providers for healthcare expenses incurred and/or loss in revenue due to the COVID-19 pandemic. The Health Resources and Services Administration is administering the distribution of the payments, which are funded through the Coronavirus Aid, Relief and Economic Security (CARES) Act (P.L. 116-136). These distributions are not subject to repayment, provided management is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. As of June 30, 2020, the Medical Center received CARES Act relief funding in the amount of $6.7 million as follows:

Description	
CARES Act Provider Relief Fund ($30B funds)	$ 1,058,039
CARES Act Provider Relief Fund ($20B funds)	601,292
CARES Act Safety Net Hospital	5,000,000
CARES Act General Distribution	24,272
	$ 6,683,603

(Continued)

The Medical Center recognized $3.1 million in nonoperating revenue as of June 30, 2020, consisting of the General Distribution receipts (including the Provider Relief Fund amounts), and a portion of the Safety Net Hospital receipts. The methodology used to recognize CARES Act relief funding is based on lost net patient revenue from March through June 2020. The remaining $3.6 million of Safety Net Hospital funds is recorded as unearned revenue as of June 30, 2020. The Safety Net Hospital funds balance will be recognized as income in future periods to offset additional losses incurred due to COVID-19. The Health and Human Services Department (HHS) can and does retrospectively adjust grant distribution formulas and may adjust funding already received, which may have subsequent impacts on the amount the Medical Center has recorded as of June 30, 2020 or on future financial statement periods.

In April 2020, the Medical Center also received $7.3 million in accelerated Medicare payments as provided for in legislation passed by Congress and the Center for Medicare and Medicaid Services (CMS), which allows eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers. Under the Continuing Appropriations Act, 2021 and Other Extensions Act, providers will have one year from the issuance date of their accelerated or advanced payment before they have to begin to repay their loans. Originally, providers were required to start making payments in August 2020, however these new terms will delay repayment for one year. The advances are recorded as a liability on the statement of net position and are required to be paid back to CMS in full within one year of receipt.

(6) Estimated Third-Party Payor Settlements

The Medical Center is reimbursed by the Medicare and Medicaid programs on a prospective payment basis for hospital services, with certain items reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Medical Center. The annual cost reports are subject to audit by the Medicare Administrative Contractor and the Medicaid audit agent. The Medical Center is subject to the prospective federal capital rate. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In fiscal years 2020 and 2019, the Medical Center recognized $1.5 million and $3.2 million of net patient service revenue, respectively, related to prior year settlements.

(7) Capital Assets

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

	Year ended June 30, 2020				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
SRMC capital assets not being depreciated:					
Construction in progress	$ 362,234	464,542	(525,866)		300,910
SRMC depreciable capital assets:					
Building and building improvements	105,650,011				105,650,011
Building service equipment	4,302,846	10,003	411,579		4,724,428
Fixed equipment	4,094,180	14,732	114,287		4,223,199
Major moveable equipment	37,504,986	1,135,604		(2,818,548)	35,822,042
Total depreciable capital assets	151,552,023	1,160,339	525,866	(2,818,548)	150,419,680
Less accumulated depreciation for:					
Building and building improvements	(18,545,844)	(2,672,857)			(21,218,701)
Building service equipment	(2,071,186)	(311,859)			(2,383,045)
Fixed equipment	(2,204,097)	(310,222)			(2,514,319)
Major moveable equipment	(29,584,489)	(2,334,953)		2,789,933	(29,129,509)
Total accumulated depreciation	(52,405,616)	(5,629,891)	—	2,789,933	(55,245,574)
SRMC depreciable capital assets, net	99,146,407	(4,469,552)	525,866	(28,615)	95,174,106
SRMC capital assets, net	$ 99,508,641	(4,005,010)	—	(28,615)	95,475,016

(Continued)

	Year ended June 30, 2019				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
SRMC capital assets not being depreciated:					
Construction in progress	$ 616,981	952,284	(1,207,031)	—	362,234
SRMC depreciable capital assets:					
Building and building improvements	105,614,225	—	35,786	—	105,650,011
Building service equipment	3,961,110	35,814	305,922	—	4,302,846
Fixed equipment	4,055,147	39,033	—	—	4,094,180
Major moveable equipment	37,329,241	1,495,118	865,323	(2,184,696)	37,504,986
Total depreciable capital assets	150,959,723	1,569,965	1,207,031	(2,184,696)	151,552,023
Less accumulated depreciation for:					
Building and building improvements	(15,872,118)	(2,673,726)	—	—	(18,545,844)
Building service equipment	(1,770,266)	(300,920)	—	—	(2,071,186)
Fixed equipment	(1,903,628)	(300,469)	—	—	(2,204,097)
Major moveable equipment	(28,914,988)	(2,809,569)	—	2,140,068	(29,584,489)
Total accumulated depreciation	(48,461,000)	(6,084,684)	—	2,140,068	(52,405,616)
SRMC depreciable capital assets, net	102,498,723	(4,514,719)	1,207,031	(44,628)	99,146,407
SRMC capital assets, net	$ 103,115,704	(3,562,435)	—	(44,628)	99,508,641

(8) Compensated Absences

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

Full-time employees with 0 to 7 years of service accrue 11.08 hours of PTO each pay period (36 days per annum), up to a maximum of 500 hours to be used for sick, holiday, and personal leaves. Full-time employees with years of service in excess of 7 years accrue 12.62 hours of PTO each pay period (41 days per annum), up to a maximum of 500 hours to be used for sick, holiday, and personal leaves. Part-time employees earn PTO leave on a prorated basis each pay period. When publicized by the Medical Center each year, employees have the opportunity to exchange PTO for cash at 80% of their hourly rate. At termination, employees are eligible for payment of unused accumulated hours at 100% of their regular

(Continued)

hourly rate. Accrued PTO as of June 30, 2020 and 2019 of $2.0 million and $1.8 million, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

For the years ended June 30, 2020 and 2019, the following changes occurred in accrued compensated absences, which includes annual leave, sick leave, and holiday.

Balance June 30, 2020	Balance June 30, 2019	Increase
$ 2,018,148	$ 1,804,378	213,770

Balance June 30, 2019	Balance June 30, 2018	Decrease
$ 1,804,378	$ 2,002,829	198,451

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

(9) 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 October 1, 2010, by and between the Medical Center and Wells Fargo Bank, National Association, the 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), issued by Prudential Huntoon Paige Associates, Ltd. (the Lender), guaranteed as to principal and interest by GNMA, with respect to the mortgage note.

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

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

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

As of June 30, 2020 and 2019, the balance of the mortgage note equaled the balance of the GNMA Securities.

The terms of the bonds issued are as follows:

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

The Medical Center is eligible to receive subsidy payments from the U.S. Department of Treasury related to these bonds. The amount received is subject to periodic adjustment due to federal budget sequestration.

Bonds payable activity consists of the following:

	Year ended June 30, 2020				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
Bond Series 2010A	$ 107,615,000	—	(4,075,000)	103,540,000	4,275,000
Bond Series 2010B	9,740,000	—	—	9,740,000	—
Total	$ 117,355,000	—	(4,075,000)	113,280,000	4,275,000

(Continued)

	Year ended June 30, 2019				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
Bond Series 2010A	$ 111,505,000	—	(3,890,000)	107,615,000	4,075,000
Bond Series 2010B	9,740,000	—	—	9,740,000	—
Total	$ 121,245,000	—	(3,890,000)	117,355,000	4,075,000

The following schedule summarizes the special and scheduled mandatory redemption requirements of the Series 2010A and Series 2010B bonds as of June 30, 2020:

	Series 2010A bonds		Series 2010B bonds		Total	
Fiscal year	Principal	Interest	Principal	Interest	Principal	Interest
2021	$ 4,275,000	4,611,713	—	487,000	4,275,000	5,098,713
2022	4,475,000	4,417,200	—	487,000	4,475,000	4,904,200
2023	4,695,000	4,213,350	—	487,000	4,695,000	4,700,350
2024	4,920,000	3,999,600	—	487,000	4,920,000	4,486,600
2025	5,155,000	3,775,612	—	487,000	5,155,000	4,262,612
2026–2030	29,740,000	15,123,150	—	2,435,000	29,740,000	17,558,150
2031–2035	37,615,000	7,668,675	—	2,435,000	37,615,000	10,103,675
2036–2040	12,665,000	564,300	9,740,000	1,080,250	22,405,000	1,644,550
	$ 103,540,000	44,373,600	9,740,000	8,385,250	113,280,000	52,758,850

The bonds are subject to various redemption provisions as set forth in the trust indenture, including Special Mandatory Redemption, Scheduled Mandatory Redemption, and Optional Redemption. The Special Mandatory Redemption provisions are contingent on various events, including but not limited to circumstances that result in the trust estate receiving early payments on the GNMA Securities as a result of mandatory prepayments being made on the mortgage note.

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

(10) Net Patient Service Revenues

The majority of the Medical Center's revenue is generated through agreements with third-party payors that provide for reimbursement to the Medical Center at amounts different from its established gross charges. Approximately 42% and 24% of the Medical Center's gross patient revenue for the year ended June 30, 2020 was derived from the Medicare and Medicaid programs, respectively, the continuation of which is dependent upon governmental policies and government funding. For the year ended June 30, 2019, the approximate gross patient revenue was 42% and 22% respectively, for income derived from the Medicare and Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center's billings at established charges for services and amounts reimbursed by third-party payors. A summary of payment arrangements with major third-party payors is as follows:

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

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

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

Other – The Medical Center has 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 is as follows for the years ended June 30:

		2020	2019
Charges at established rates	$	192,373,856	211,605,637
Charity care		(2,006,449)	(4,640,789)
Contractual adjustments		(110,019,227)	(118,595,220)
Provision for doubtful accounts		(3,894,191)	(5,404,257)
Net patient service revenues	$	76,453,989	82,965,371

(11) Charity Care

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

		2020	2019
Charges foregone, based on established rates	$	2,006,449	4,640,789
Estimated costs and expenses incurred to provide charity care		862,773	1,754,218
Equivalent percentage of charity care charges foregone to total gross revenue		1.0 %	2.2 %

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

(12) Malpractice Insurance

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

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

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

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

(13) Related-Party Transactions

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

The Medical Center enters into intercompany transactions with UNM and other entities associated with UNM, which includes UNMH (division of UNM) and UNMMG (separately incorporated but UNM-affiliated entity). These costs include, but are not limited to, medical services, payroll and employee benefits, malpractice insurance, liability insurance, safety and risk services, and physician coverage incurred on behalf of the Medical Center. The Medical Center incurred expenses, included in total expenses in the accompanying statements of revenues, expenses, and changes in net position, related to the following entities during the years ended June 30:

		2020	2019
UNM (excluding UNM Hospital)	$	832,195	741,399
UNM Hospital		3,144,998	2,712,841
UNM Medical Group		690,840	399,979
	$	4,668,033	3,854,219

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

		2020	2019
UNM (excluding UNM Hospital)	$	246,130	368,563
UNM Hospital		801,629	245,084
UNM Medical Group		527,206	63,667
	$	1,574,965	677,314

In addition, UNMH and UNM Health System provide overhead support and some management oversight for centralized administrative personnel and support with analytics, cost reports, and audit. The support is not an incremental cost to UNMH or UNM Health System; therefore, it is not reimbursed by the Medical Center. The estimated value of the support and overhead is $0.7 million and $1.4 million for the years ended June 30, 2020 and 2019, respectively. The value of the support is estimated based on various units of measure that are standard to the industry's practice, such as gross revenue, FTEs, purchase orders issued, and AP invoices keyed.

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

		2020	2019
UNM Hospital	$	383,027	488,965
UNM Medical Group		171,368	187,211
UNM (excluding UNM Hospital)		395,365	388,602
	$	949,760	1,064,778

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

		2020	2019
UNM Hospital	$	349,977	46,276
UNM Medical Group		15,638	44,254
UNM (excluding UNM Hospital)		39,822	—
	$	405,437	90,530

(Continued)

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

(14) Benefit Plans

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

Contributions to the Plan are made through employee deferrals on earned compensation. Participants may contribute, on a tax-deferred basis, up to the annual limitations as prescribed by the IRS. Participants may designate all or a portion of 403(b) elective deferral contributions as Roth elective deferral contributions. Participants may also make rollover contributions representing distributions from other qualified plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers various mutual funds and an insurance investment contract as investment options for participants. The Medical Center may make matching contributions equal to a percentage of participant contributions. If matching contributions are made, the percentage contributed is determined by the Medical Center. The Medical Center may also make a discretionary contribution each plan year. Contributions are subject to regulatory limitations. The expense for the Plan was $0.9 million for each of the years ended June 30, 2020 and 2019. Total employee contributions under the Plan were $1.6 million and $1.5 million for the years ended June 30, 2020 and 2019, respectively.

(15) Contingencies

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

(16) Subsequent Events

In July 2020, the Medical Center entered into an agreement and mortgage with KeyBank National Association to refinance the Medical Center's mortgage from an APR of 4.86**%** (3.33% net of BAB Subsidy) to an APR of 1.98%. In connection with the mortgage refinance, the Series 2010A and Series 2010B bonds will be defeased in January 2021, when they become callable. The proceeds from the Series 2010A and Series 2010B bonds, net of the original issue discount and amounts used to establish required reserve accounts, were placed in an irrevocable trust from which the remaining debt service payments for bond defeasance will be paid. In July 2020, the Medical Center was legally released from any future debt service on the defeased bonds. The Medical Center entered into this transaction to reduce mortgage interest.

(Continued)

In July 2020, HHS announced a second round of COVID-19 High-Impact Area Targeted Distributions for hospitals that had a high number of confirmed COVID-19 positive inpatient admissions. A hospital was eligible for a distribution under this round of funding if they had a COVID-19 admission count over 160 between January 1 and June 10, 2020, or if the facility experienced an above average intensity of COVID-19 admission per bed (at least 0.54864). Hospitals were paid $50,000 per eligible admission from January 1 through June 10. HHS also took into account previous High-Impact Area payments for those hospitals that received initial payments from this Targeted Distribution. The Medical Center received $3.4 million from the second round of COVID-19 High-Impact Area Distributions.

On September 19, 2020, HHS released a notice to Provider Relief Fund recipients regarding post-payment reporting requirements for these grants received under the CARES Act. The notice provided substantive changes to the data elements that recipients must submit as part of the reporting process, including details regarding healthcare related expenses and lost revenues attributed to COVID-19. On October 22, 2020, HHS released further guidance, specifically revising the lost revenue calculation methodology. As of June 30, 2020, the Medical Center recognized amounts received to date and is currently evaluating the impact of the notice on reporting of grant receipts in subsequent periods. Management does not believe the application of the new guidance will have a material adverse effect on the Medical Center’s financial statements.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of UNM Sandoval Regional Medical Center, Inc. (the Medical Center), which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 the Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We note a certain matter that is required to be reported per Section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of findings and responses as item 2020-001.

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

The Medical Center's Response to Finding

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

Purpose of this Report

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

KPMG LLP

Albuquerque, New Mexico
December 8, 2020

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)

Summary of Audit Results

June 30, 2020

Type of auditor report issued: Unmodified opinion

Fiscal year 2020 findings and responses:

Material weaknesses: No matters to report

Significant deficiencies: No matters to report

Material noncompliance: No matters to report

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

2020-001. User Access Review – Other Matter

Condition

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

This was validated in the following:

- We noted one terminated user in the Soarian application that had their access inappropriately re-enabled after their termination date. Management provided evidence that normal protocols were followed for terminating users prior to the inappropriate re-enablement. However, the system host was unable to produce a security report showing the users with re-enabled accounts to determine how this specific account was re-enabled.
- For all in-scope systems (Cerner, Soarian, and Lawson), lookback procedures were not completed after the user access reviews for the individuals identified for access change (termination, user change, etc.) to determine whether the user(s) performed any inappropriate activity from the time the applicable change noted/requested to the time they were removed from the application.
- For the Cerner application April 2020 user access review, we noted that a number of accounts were verified, however, there was no documented review of the appropriateness/completeness of the accounts (determine whether they are terminated or no longer required access, etc.) performed for the period.
- For the Lawson application, the user access review was not fully completed for the February 2020 period. The listing was reviewed, however, there was no documentation to evidence the accounts requiring modifications (if any) for the period under review or those modifications being completed.

Criteria

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

Effect

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

Cause

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

Recommendation

We recommend that the disabling of user access within IT systems should take place within a reasonable time, or five working days of termination of employment. Management should continue to enhance its review of user access, which should occur periodically during the year.

A departmental manager or individual responsible for the functional data should perform the user access review. Evidence of the performance of the review, including remedial action taken, should be maintained.

Management Response

The processes of UNM Health System agree with the expectation of account disabling within 5 business days of termination. Information Technology departments have instituted daily automated reporting from the Health System Human Resources systems to notify if an employee has been termed in the system. Quarterly account reviews have been scheduled to determine if the disable process was completed successfully, and to identify if any HR records were changed from Active with a backdated termination date that is not picked up on the daily reports.

Account review processes for the different UNM Health System departments will be reviewed and updated to include retention of finding, action taken, and retention of the quarterly reviews for documentation purposes.

Additionally, the creation and implementation of a monthly listing of terminated employees will be created and provided to the Health System Management over each system to verify the termination and processing has been completed by the personnel tasked with account disabling.

The Chief Information Officer will be responsible for the corrective action plan, with a completion date of March 31, 2021.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings
June 30, 2020

Finding 2019-001. Related-Party Transaction Policies and Procedures – Other Matter

Current Status: Resolved

Finding 2019-002. Charity Care – Other Matter

Current Status: Resolved

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

Exit Conference

June 30, 2020

An exit conference was conducted on September 29, 2020, with members of the board of directors and members of SRMC management. During this meeting, the contents of this report were discussed with the following board members, management personnel, and KPMG LLP representatives present:

Kim Hedrick	Board Member
Charlotte Garcia	Board Member
Jamie Silva-Steele	Chief Executive Officer and President, SRMC
Darlene Fernandez	Chief Financial Officer, SRMC
Pam Demarest	Chief Operating Officer and Chief Nursing Officer, SRMC
Gurdeep Singh	Interim Chief Medical Officer, SRMC
Robin Cole	Controller, Finance, SRMC
Kaitlyn DelBene	Associate University Counsel
Brad Cushnyr	Chief of Staff, SRMC
Angela Vigil	Executive Director of Compliance, UNM Hospital
John Kennedy	Partner, KPMG LLP
Jaime Cavin	Managing Director, KPMG LLP
Ruth Senior	Senior Manager, KPMG LLP