



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

Financial Statements

June 30, 2011

(With Independent Auditors' Report Thereon)

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

Official Roster

June 30, 2011

BOARD OF DIRECTORS

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Michael Olguin
Dr. Jeffery Griffith
Dick Mason
Dr. Martha McGrew
Steve McKernan
Dr. Carolyn Voss
Charlotte Garcia

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

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KPMG LLP
Suite 700
Two Park Square
6565 Americas Parkway NE
PO Box 3990
Albuquerque, NM 87190

Independent Auditors' Report

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

We have audited the accompanying balance sheet of the UNM Sandoval Regional Medical Center, Inc. (SRMC), a component unit of the University of New Mexico, as of June 30, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of SRMC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SRMC's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of SRMC as of June 30, 2011, and the respective changes in net assets, and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011 on our consideration of SRMC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SRMC's basic financial statements. The accompanying schedules of pledged collateral by banks and deposit and investment account balances (schedules 1 and 2) are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of pledged collateral by banks and deposit and investment account balances have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

October 28, 2011

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
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Management's Discussion and Analysis

June 30, 2011

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

Using This Annual Report

This annual report consists of a series of financial statements.

The balance sheet provides information about SRMC's overall financial status. The statement of revenues, expenses, and changes in net assets provides information about the revenues and expenses of SRMC. The statement of cash flows provides information related to the cash inflows and outflows of SRMC.

Overview of Entity

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

SRMC believes that construction of the hospital will provide much needed access to healthcare for the residents of Sandoval County and surrounding areas.

The following summarizes the healthcare services that will be offered by the Hospital:

Inpatient Care – Acute care provided by practitioners in 48 acute medical-surgical beds, 12 intensive care unit beds and 12 dedicated behavioral health beds. The hospital will be equipped with an emergency department with 11 exam rooms, 2 trauma rooms, and 2 triage rooms. Additionally, the hospital will be equipped with 6 operating rooms and 3 endoscopy rooms.

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

Surgical Services – Anesthesia, General Surgery, Gynecologic, Orthopedic (including hand), Ophthalmology, Otolaryngology, Urologic, and outpatient laparoscopic surgery.

Physician Services – The hospital will provide physicians on the active medical staff boarded as family practice and internal medicine to provide hospitalist services; 24/7 emergency services. In addition, unlike the UNM Hospitals, SRMC will have an "open" medical staff, allowing community physicians to be members of the active medical staff and to admit and follow their patients at the SRMC.

In January 2010, SRMC submitted a mortgage insurance application to the U.S. Department of Housing and Urban Development (HUD) for a mortgage loan to be funded with the proceeds of bonds, to finance the construction of a 200,000-square-foot hospital and 40,000-square-foot connected medical office building. In

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September 2010, HUD issued its commitment to insure, under the provisions of Section 242 of the National Housing Act, a mortgage note in the amount of \$143,425,000.

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

During 2011, the SRMC executive team was assembled, bonds were issued to provide financing, and construction of the facility began. As an entity in the pre-opening phase of the business cycle, SRMC operations and financial results primarily involve the \$143.4 million bond issuance transaction that closed in November 2010, and the costs associated with the beginning of the construction of the physical facility.

As of June 30, 2011, the construction of the physical facility of SRMC was well under way, with structural steel framework completed on 72-bed facility. The assets of SRMC at year-end include cash and cash equivalents placed into the trustee controlled accounts amounting to \$161.3 million and another \$136 thousand in an operating account outside of the trust agreement as noted below:

Cash and cash equivalents:	
Operating account	\$ 135,748
Trust accounts	<u>161,295,642</u>
Total cash and cash equivalents	<u>\$ 161,431,390</u>

The remaining assets of SRMC include the construction related expenditures to date (including architectural fees, labor, supplies, etc.), capitalized interest on the bonds related to the construction, and costs incurred upon the issuance of the Bonds.

Noncurrent assets:	
Bond issuance costs	\$ 3,619,632
Capitalized interest	4,283,879
Construction in progress	<u>35,615,984</u>
Total noncurrent assets	<u>\$ 43,519,495</u>

As of June 30, 2011, total assets for SRMC are \$204,950,885.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
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Management's Discussion and Analysis

June 30, 2011

The liabilities of SRMC consist of two main obligations; 1) the Bonds issued and related interest costs associated with those Bonds, and 2) an amount due to UNM Medical Group, Inc. (UNMMG) for amounts advanced to SRMC for operating expenditures and a balance of funds used for a fund required at closing to escrow future potential interest costs incurred during the construction period. These liabilities are segregated into long-term and short-term components on the balance sheet of SRMC.

Current liabilities:		
Interest payable	\$	2,892,719
Other current liabilities		2,959,889
Current portion of amounts due to UNMMG		<u>5,315,883</u>
Total current liabilities		<u>11,168,491</u>
Noncurrent liabilities:		
Bonds payable		143,425,000
Due to UNMMG		<u>3,520,187</u>
Total noncurrent liabilities		<u>146,945,187</u>
Total liabilities	\$	<u><u>158,113,678</u></u>

The \$46,000,000 equity contribution made by UNM along with net preopening gain of \$837,207 results in net assets for SRMC of \$46,837,207.

Operating Expenses

SRMC's primary operating expense during 2011 is for labor costs. Through June 30, 2011, all of SRMC's employees are contracted for their services from UNMMG or other HSC entities. For the year, SRMC incurred \$1,145,175 in labor costs. Other operating expenditures, amounting to \$353,978, include office space and related costs, consulting fees, and recruitment costs.

Factors Impacting Future Periods

Mill Levy Funding

Pursuant to a Health Facility Agreement with the Board of County Commissioners of Sandoval County, New Mexico, the new hospital will, once it opens, be entitled to receive the proceeds of a mill levy (the Mill Levy) adopted by the Board of County Commissioners of Sandoval County and approved by the voters of Sandoval County. SRMC will be eligible to begin to receive Mill Levy funds from Sandoval County once the hospital opens. SRMC will recognize Mill Levy Funds upon receipt, and will record the funds received as Nonoperating revenues. Sandoval County estimates that the proceeds of the Mill Levy will approximate \$14,000,000 per tax year. SRMC anticipates that the annual amount of the Mill Levy proceeds that it will receive will approximate \$8,000,000.

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Patient Protection and Affordable Care Act

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (PPACA). This National Health Reform includes private insurance market reforms, expanded Medicaid eligibility provisions, Medicare and Medicaid funding reforms, value-based purchasing requirements, and amended time periods for filing Medicare fee-for-service (FFS) claims to one year from the date of service as one of many provisions aimed at curbing fraud, waste, and abuse in the Medicare program.

Medicaid expansion under PPACA includes new eligibility criteria establishing a minimum floor for Medicaid coverage of 133% of the Federal Poverty Level (FPL), eliminating other nonincome-based criteria (such as age, disability, or asset testing). This FPL criteria is mandatory for State implementation January 2014 and optional for years 2010 through 2013. The population most impacted by the new eligibility criteria is expected to be childless adults. States are also prohibited from reducing Medicaid or CHIP eligibility that was in place on the date of PPACA enactment. PPACA provides additional federal financing through the Federal Medical Assistance Percentage (FMAP) for newly eligible Medicaid patients.

The Human Services Division of the State of New Mexico (HSD) implemented cost containment measures on December 1, 2009, including a 3% reduction to the Medicaid physician fee schedule.

Contacting SRMC's Financial Management

This financial report is designed to provide the public with a general overview of SRMC's finances. If you have questions about this report or need additional financial information, contact the SRMC's Controller's office at 2600 College Blvd. NE, Rio Rancho, NM 87144

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

Balance Sheet

June 30, 2011

Assets

Current assets:

Cash and cash equivalents	\$ 135,748
Restricted cash and cash equivalents	<u>161,295,642</u>
Total current assets	<u>161,431,390</u>

Noncurrent assets:

Bond issuance costs	3,619,632
Construction in progress	<u>39,899,863</u>
Total noncurrent assets	<u>43,519,495</u>

Total assets	<u><u>\$ 204,950,885</u></u>
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Liabilities and Net Assets

Current liabilities:

Interest payable	\$ 2,892,719
Other current liabilities	2,959,889
Due to UNMMG	<u>5,315,883</u>
Total current liabilities	<u>11,168,491</u>

Noncurrent liabilities:

Bonds payable	143,425,000
Due to UNMMG	<u>3,520,187</u>
Total noncurrent liabilities	<u>146,945,187</u>

Total liabilities	<u>158,113,678</u>
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Net assets:

Invested in capital assets, net of related debt	4,083,846
Restricted	39,133,729
Unrestricted	<u>3,619,632</u>
Total net assets	<u>46,837,207</u>

Total liabilities and net assets	<u><u>\$ 204,950,885</u></u>
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See accompanying notes to financial statements

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
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Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2011

Operating expenses:	
Labor costs	\$ 1,145,175
Other operating expenses	<u>353,978</u>
Total operating expenses	<u>1,499,153</u>
Operating loss	<u>(1,499,153)</u>
Nonoperating revenues:	
Federal bond subsidy	1,660,822
Interest income	<u>1,066,812</u>
Total nonoperating revenues	<u>2,727,634</u>
Income before capital contribution	1,228,481
Capital contribution	<u>46,000,000</u>
Change in net assets	47,228,481
Net assets, beginning of year	<u>(391,274)</u>
Net assets, end of year	<u><u>\$ 46,837,207</u></u>

See accompanying notes to financial statements

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
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Statement of Cash Flows

Year ended June 30, 2011

Cash flows from operating activity:	
Cash payments to UNMMG	\$ (1,422,369)
Net cash used in operating activity	<u>(1,422,369)</u>
Cash flows from noncapital financing activity:	
Cash received from capital contribution	<u>46,000,000</u>
Net cash provided by capital financing activity	<u>46,000,000</u>
Cash flows from capital and related financing activities:	
Cash received from the issuance of bonds	143,425,000
Cash received from federal bond subsidy	1,660,822
Cash received from UNMMG for negative arbitrage fund	10,125,000
Cash payments to UNMMG for negative arbitrage fund	(1,685,000)
Purchases of capital assets	(32,728,084)
Cash payments for bond issuance costs	(3,619,632)
Cash payments for interest that was capitalized	<u>(1,391,160)</u>
Net cash provided by capital and related financing activities	<u>115,786,946</u>
Cash flows from investing activity:	
Cash received from interest income	<u>1,066,813</u>
Net cash provided by investing activity	<u>1,066,813</u>
Net increase in cash and cash equivalents	161,431,390
Cash and cash equivalents, beginning of year	<u>—</u>
Cash and cash equivalents, end of year	<u><u>\$ 161,431,390</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (1,499,153)
Adjustments to reconcile operating loss to net cash used in operations:	
Changes in assets and liabilities:	
Due to UNMMG	4,796
Other accrued expenses	<u>71,988</u>
Net cash used in operating activities	<u><u>\$ (1,422,369)</u></u>

See accompanying notes to financial statements

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Notes to Financial Statements

June 30, 2011

(1) Description of Business

SRMC is a corporation organized by the Regents of the University of New Mexico and existing as a New Mexico governmental nonprofit and University Research Park and Economic Development Act (URPEDA) corporation. SRMC is governed by its Board of Directors (the Board), which is empowered to do all things necessary for the proper operation of SRMC. The University, by and through its Board of Regents, is the sole member of SRMC. In 2011, UNM made an equity contribution to SRMC of \$46,000,000.

UNM Sandoval Regional Medical Center (SRMC) is a community teaching hospital located in Rio Rancho, New Mexico. Currently under construction, SRMC will consist of an approximately 200,000 square foot, 72 acute bed, community teaching hospital and corresponding 40,000 square foot medical office building on a site located adjacent to the new City Center in Rio Rancho, New Mexico. The anticipated opening of SRMC is the summer of 2012. SRMC will provide inpatient and outpatient services primarily to the residents of Sandoval County, New Mexico.

SRMC is a component unit of the University of New Mexico (UNM) and is reported as such in the basic financial statements of UNM. SRMC has no component units.

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB). As a special-purpose government entity engaged in business-type activities, SRMC's financial statements present financial information in a form similar to that used by corporations.

Effective July 1, 2010, SRMC adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The adoption of GASB 62 had no impact on SRMC's accounting policies, as SRMC had previously elected in accordance with GASB 20 to not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, and applicable FASB pronouncements issued on or before November 30, 1989 have now been incorporated into GASB pronouncements.

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Notes to Financial Statements

June 30, 2011

(b) Net Assets

For accounting and reporting purposes, SRMC reports its net assets in the following net asset categories as applicable:

- *Invested in capital assets, net of related debt* – Capital assets, net of outstanding principal balances of debt attributable to the construction plus the unspent proceeds of the related debt.
- *Restricted* – balance of remaining funds from UNM contribution with restrictions on purpose of use.
- *Unrestricted* – Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the SRMC Board. SRMC's unrestricted net assets at June 30, 2011 represent the funds associated with the unamortized portion of the bond issuance costs.

(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) Cash and Cash Equivalents

SRMC considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Deposits are in demand accounts with a local financial institution. State statute requires financial institutions to pledge qualifying collateral to SRMC to cover at least 50% of the uninsured deposits.

One hundred percent of the demand deposit balance at June 30, 2011 was guaranteed under the FDIC Temporary Liquidity Guarantee Program. The Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law on July 21, 2010 by President Barack Obama permanently raised the maximum deposit insurance amount to \$250,000.

(e) Bond Issuance Costs

Bond Issuance Costs totaled \$3,619,632 and are being amortized over the life of the bonds.

(f) Capital Assets

Capital assets consist primarily of construction in process related to the construction of the hospital facility. Capital assets with a cost of \$5,000 or greater are capitalized. Capital assets are accumulated on the balance sheet and will be depreciated once the asset is placed in service. Repairs and maintenance costs are charged to expense as incurred. Interest during the construction phase of capital assets is capitalized as part of the value of the asset. Capitalized interest in the amount of \$4,283,879 is included in the value of capital assets at June 30, 2011.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
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Notes to Financial Statements

June 30, 2011

(g) *Operating and Nonoperating Revenues and Expenses*

SRMC's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating expenses are all expenses incurred that are not classified for the procurement of capital assets. Nonoperating revenues reflect interest income, federal bond interest subsidy, and the capital contribution made into SRMC.

(h) *Federal Bond Subsidy*

SRMC 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 on an accrual basis. Under the program, SRMC applies for subsidy funds commensurate with each bond payment, so the application for the subsidy is made semiannually. For the year ended June 30, 2011, SRMC recognized \$1,660,822 in federal bond subsidy revenue.

(i) *Labor Costs*

Through June 30, 2011, all of SRMC's employees are contracted for their services from UNMMG or other HSC entities.

(j) *Other Operating Expenses*

Other operating expenditures include expenditures such as office space and related costs, consulting fees, and recruitment costs.

(k) *Income Taxes*

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

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.
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Notes to Financial Statements

June 30, 2011

(3) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

SRMC has cash and cash equivalents that are held in a demand account with a local financial institution in the name of SRMC amounting to \$135,748. Also included in cash and cash equivalents at June 30, 2011 are secured money market account balances in the amount of \$147,780,492. These accounts are held under a Trust Indenture by the financial institution. The money market funds are invested in short-term high quality government securities. Also included in cash and cash equivalents are \$13,515,150 in a money market account held by a financial institution that is invested in certificates of deposit and is fully collateralized by the financial institution. State statute requires financial institutions to pledge qualifying collateral to SRMC to cover at least 50% of the uninsured deposits.

Bank balances at June 30, 2011 are categorized as follows:

Operating accounts	\$	135,748
Amounts held with Financial Institution in accordance with the Trustee Indenture		161,295,642
Total cash and cash equivalents	\$	161,431,390

As a requirement of the Trust Indenture, SRMC was required to establish trust funds for the deposit of bond proceeds and the capital contribution. At June 30, 2011, the balances of the trust funds were as follows:

Bond Fund	\$	696,937
Acquisition Fund		107,608,983
Negative Arbitrage Fund		7,698,325
Subsudy Escrow Fund		1,163,226
Operating Capital Escrow Fund		30,613,021
		147,780,492
Funds placed as collateral for letter of credit		13,515,150
	\$	161,295,642

Bond Fund - Established to collect the interest income and necessary funds to make the semi-annual coupon payments for the bonds.

Acquisition Fund - Proceeds from the sale of the bonds were placed in this fund. Draws on this fund are made to offset the certificates issued from the mortgagor during the construction period.

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Negative Arbitrage Fund - Established to provide a debt service contingency fund throughout the construction process. This fund is drawn upon if the funds in the Bond Fund are insufficient at the time a coupon payment is made from the Bond Fund.

Subsidy Escrow Fund - Established as a depository account for the proceeds received from the Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond payments. Once received, these funds are transferred to the Bond Fund.

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

(4) Capital Assets

Capital assets of \$39,899,863 at June 30, 2011 include capitalized interest of \$4,283,879 and construction in process of \$35,615,984.

(5) Current Liabilities

The current liabilities of SRMC consist of three main obligations; 1) the related interest costs associated with the Bonds, 2) amounts due to the contractor at June 30, 2011, and 3) an amount due to UNMMG for amounts advanced to SRMC for operating expenditures and funds used for the creation of the negative arbitrage account that was required at closing. The interest coupons on the bonds are due and payable semiannually every January 20th and July 20th. The interest payable of \$2,892,719 represents the portion of the July 20, 2011 coupon payment accrued by SRMC for the time period of January 20, 2011 through June 30, 2011.

Current liabilities consisted of the following at June 30, 2011:

Liabilities:		
Interest payable	\$	2,892,719
Other current liabilities		2,959,889
Current portion of amounts due to UNMMG		<u>5,315,883</u>
Total current liabilities	\$	<u><u>11,168,491</u></u>

(6) Short Term Obligations

In FY 2011, SRMC secured a letter of credit from Bank of America in the amount of \$13,515,150 as collateral for the required equity contribution by UNM to be made prior to the completion of the construction. Simultaneously SRMC deposited \$13,515,150 with Bank of America, as collateral for the letter of credit, and invested those funds in a short term collateralized certificate of deposit.

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(7) Bonds Payable

In November 2010, SRMC 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 are being issued pursuant to a Trust Indenture, dated as of October 1, 2010, by and between SRMC and Wells Fargo Bank, National Association, as trustee for the purpose of financing SRMC’s hospital facility and to pay certain costs associated with the issuance of the bonds.

The bonds are guaranteed by a Federal Housing Administration (FHA) commitment for mortgage insurance on September 17, 2010 under the HUD 242 program. As of June 30, 2011, the draws against the FHA insured construction loan amounted to \$35,992,317. Additionally SRMC is entitled to interest expense subsidy from the U.S. Treasury equal to 35% on Build America Bonds (Series 2010A) and 45% subsidy on Recovery Zone Economic Development Bonds (Series 2010 B). This lowers the all in true cost after the subsidy to 3.33%. The bond subsidy payments are recognized as nonoperating revenues.

Additionally, the Regents of UNM made an equity contribution of \$46 million to SRMC as part of the requirements of the FHA guarantee. These funds are to sustain the preopening operational costs and working capital needs of SRMC. The terms of the Bonds issued are as follows:

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

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Notes to Financial Statements

June 30, 2011

The maturity schedule for Series 2010A is as shown in the table below:

Series 2010A Bonds Maturing July 20, 2036

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ —	6,004,125	6,004,125
2013	1,540,000	6,004,125	7,544,125
2014	3,160,000	5,899,725	9,059,725
2015	3,310,000	5,755,838	9,065,838
2016	3,470,000	5,605,088	9,075,088
2017	3,635,000	5,447,138	9,082,138
2018	3,815,000	5,281,538	9,096,538
2019	3,995,000	5,107,838	9,102,838
2020	4,185,000	4,925,925	9,110,925
2021	4,390,000	4,735,350	9,125,350
2022	4,595,000	4,535,550	9,130,550
2023	4,820,000	4,326,300	9,146,300
2024	5,050,000	4,106,813	9,156,813
2025	5,295,000	3,876,863	9,171,863
2026	5,545,000	3,635,775	9,180,775
2027	5,815,000	3,383,213	9,198,213
2028	6,095,000	3,118,500	9,213,500
2029	6,385,000	2,840,963	9,225,963
2030	6,695,000	2,550,150	9,245,150
2031	7,015,000	2,245,388	9,260,388
2032	7,355,000	1,925,888	9,280,888
2033	7,710,000	1,590,975	9,300,975
2034	8,075,000	1,239,975	9,314,975
2035	8,470,000	872,213	9,342,213
2036	8,875,000	486,563	9,361,563
2037	4,130,000	92,925	4,222,925
Total	\$ 133,425,000	95,594,744	229,019,744

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

Notes to Financial Statements

June 30, 2011

The maturity schedule for Series 2010B is as shown in the table below:

Series 2010B Bonds Maturing July 20, 2037

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ —	500,000	500,000
2013	—	500,000	500,000
2014	—	500,000	500,000
2015	—	500,000	500,000
2016	—	500,000	500,000
2017	—	500,000	500,000
2018	—	500,000	500,000
2019	—	500,000	500,000
2020	—	500,000	500,000
2021	—	500,000	500,000
2022	—	500,000	500,000
2023	—	500,000	500,000
2024	—	500,000	500,000
2025	—	500,000	500,000
2026	—	500,000	500,000
2027	—	500,000	500,000
2028	—	500,000	500,000
2029	—	500,000	500,000
2030	—	500,000	500,000
2031	—	500,000	500,000
2032	—	500,000	500,000
2033	—	500,000	500,000
2034	—	500,000	500,000
2035	—	500,000	500,000
2036	—	500,000	500,000
2037	5,170,000	488,375	5,658,375
2038	4,830,000	359,125	5,189,125
Total	\$ 10,000,000	13,347,500	23,347,500

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

Notes to Financial Statements

June 30, 2011

(8) Related-Party Transactions

SRMC has entered into various agreements with UNM Hospital, UNM Medical Group, and UNM HSC for the provision of services. These include services such as construction management, marketing development and administration, and contract labor. SRMC's operational expenses are paid primarily by the UNMMG, with an expense reimbursement, at cost, made on a periodic basis. During 2011, SRMC paid \$1,422,369 to UNMMG and had a remaining amount due to UNMMG of \$396,071 and an amount due to UNM Hospital of \$81,687.

Additionally, UNMMG has extended funds to SRMC for the funding of the Negative Arbitrage Account fund as required by the bond rating agencies. The UNMMG advanced SRMC \$10.125 million dollars in November of 2010. As of June 30, 2011, SRMC has repaid \$1,685,000. As the required balance is recalculated every six months, up until the final endorsement from HUD, all funds authorized to be released are remitted to the UNMMG. The breakdown of expected repayments follows:

Due to UNM Medical Group:	
Amounts estimated to be repaid prior to June 30, 2012	\$ 5,315,883
Amounts estimated to be repaid after to June 30, 2012	<u>3,520,187</u>
Total repayments	<u><u>\$ 8,836,070</u></u>

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

During 2011, UNM made an equity contribution to SRMC of \$46,000,000, which has been recorded as a capital contribution in the accompanying statement of revenues, expenses, and changes in net assets.

Schedule 1

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

Pledged Collateral by Banks

June 30, 2011

Deposits per bank (Bank of America)	\$ 13,515,150
Less:	
FDIC coverage	<u>(250,000)</u>
Total uninsured public funds	<u>\$ 13,265,150</u>
State of New Mexico: Collateral Requirement – 50%	\$ 6,632,575
Pledged collateral:	
FNCL POOL-AE0478, 31419AQ83, 11/1/2040, 4.0%	<u>14,120,973</u>
Total pledged collateral	<u>14,120,973</u>
Overcollateralized	<u>\$ 7,488,398</u>

All pledged collateral is pledged by Bank of America and held at the Federal Reserve Bank in UNM SRMC's name.

See accompanying independent auditors' report.

UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)

Deposit and Investment Account Balances

June 30, 2011

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
Wells Fargo	Checking	\$ 135,748	—	135,748
Wells Fargo	Wells Fargo Bank Secured Institutional Money Market Account	147,780,492	—	147,780,492
Bank of America	Money Market Certificate of Deposit	13,515,150	—	13,515,150
	Total money market	161,295,642	—	161,295,642
	Total cash and cash equivalents	\$ 161,431,390	—	161,431,390

See accompanying independent auditors' report.



KPMG LLP
Suite 700
Two Park Square
6565 Americas Parkway NE
PO Box 3990
Albuquerque, NM 87190

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

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

We have audited the financial statements of the UNM Sandoval Regional Medical Center, Inc. (SRMC) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 28, 2011. We conducted our audit 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered SRMC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SRMC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of SRMC's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SRMC's financial statements are free of 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*.



This report is intended solely for the information and use of management, the board of directors, others within the entity, and the New Mexico State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 28, 2011

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

Schedule of Findings and Responses

Fiscal year ended June 30, 2011

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

There are no current year state compliance or operational findings to report.

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

Exit Conference

Fiscal year ended June 30, 2011

An exit conference was conducted on October 4, 2011, with a member of the board of directors and members of SRMC management. During this meeting, the contents of this report were discussed with the following:

Carolyn Voss	Board Member
Steve McKernan	Board Member
Kevin Rogols	CEO
Erica Hamilton	VP of Patient Services
David Gonzales	CMO
Troy Clark	VP Financial Services
Anthony R. Masciotra, Jr.	UNM Medical Group CEO
Kerri Ashburn	Administrative Assistant
Cynthia C. Reinhart	Partner, KPMG LLP
Greg Monk	Manager, KPMG LLP