# UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.

(A Component Unit of the University of New Mexico)

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

**UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.**
(A Component Unit of the University of New Mexico)
Official Roster
June 30, 2019

## Board of Directors

| | |
|---|---|
| Paul Roth, MD | Chairperson (Term expires 6/30/20, Regent appointed) |
| Michael Richards, MD | Member (Term expires 12/31/19, Regent appointed) |
| Martha McGrew, MD | Member (Term expires 12/31/19, 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 /1231/21, Regent appointed) |
| Donnie Leonard | Member (Term expires 12/31/20, Regent appointed) |
| Kim Hedrick | Member (Term expires 12/31/21, 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, 2019

## Administrative Officers

| | |
|---|---|
| Paul Roth, M.D. | Chancellor – UNM Health Sciences Center<br>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 |
| Robb McLean | 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)

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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, 2019 and 2018, 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, 2019 and 2018, 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.

## Other Matters

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-15 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.

*Supplementary and Other Information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Medical Center's basic financial statements. The accompanying indigent care cost and funding report (Schedule 1) and calculations of cost of providing indigent care (Schedule 2) (Schedules 1 and 2) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1 and 2 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1 and 2 are fairly stated, in all material respects, in relation to the basic financial statements as a whole, except for the information marked as unaudited.

The information that is marked as unaudited in the accompanying Schedule 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019 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 10, 2019

**UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.**
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2019 and 2018

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, 2019, 2018, and 2017. 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 sleep disorders center, laboratory, radiology, diagnostic services, rehabilitation services, behavioral health, primary care, 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 579 physicians credentialed, of which 487 are UNM SOM physicians and 92 are community physicians.

## Financial Summary

**Condensed summary of net position**

| | June 30 | | |
|---|---|---|---|
| **Assets** | **2019** | **2018** | **2017** |
| Current assets | $ 41,156,850 | 46,294,420 | 43,899,002 |
| Capital assets, net | 99,508,641 | 103,115,704 | 107,320,532 |
| Noncurrent assets | 13,206,575 | 11,329,655 | 9,505,792 |
| Total assets | $ 153,872,066 | 160,739,779 | 160,725,326 |
| **Liabilities** | | | |
| Current liabilities | $ 20,278,279 | 23,238,451 | 20,258,416 |
| Noncurrent liabilities | 113,280,000 | 117,355,000 | 121,245,000 |
| Total liabilities | $ 133,558,279 | 140,593,451 | 141,503,416 |
| **Net Position** | | | |
| Net investment in capital assets | $ (17,846,359) | (18,129,296) | (17,639,468) |
| Restricted net position, expendable | 20,420,964 | 17,635,876 | 16,562,124 |
| Unrestricted | 17,739,182 | 20,639,748 | 20,299,254 |
| Total net position | $ 20,313,787 | 20,146,328 | 19,221,910 |

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 DSH 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.

At June 30, 2018, total Medical Center assets were $160.7 million, compared to same asset value at June 30, 2017. The Medical Center's most significant assets at June 30, 2018 were net capital assets of $103.1 million, cash and cash equivalents of $33.1 million, and restricted investments held by trustee for mortgage reserve fund of $11.3 million.


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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 the amount of bonds payable resulting from the payments of the scheduled mandatory bond redemptions of $3.9 million during the year ended June 30, 2019. There were additional decreases in liabilities from estimated third party settlements of $3.6 million, related to a determination that liabilities recorded for a prior year disproportionate share receipt were no longer needed, and related party liabilities of $1.5 million. These decreases were offset by an increase in accounts payable of $2.0 million.

The Medical Center's total liabilities were $140.6 million at June 30, 2018, compared to $141.5 million at June 30, 2017. At June 30, 2018, current and noncurrent bonds payable of $121.2 million was the largest liability, followed by estimated third-party settlements of $6.8 million. The decrease in total liabilities is primarily due to a decrease in the bonds payable amount resulting from the payments of the scheduled mandatory bond redemptions of $3.7 million during the year ended June 30, 2018, offset by the increase in estimated third-party settlements.

At June 30, 2019, 2018, and 2017, the Medical Center's current assets of $41.2 million, $46.3 million, and $43.9 million, respectively, were sufficient to cover current liabilities of $20.3 million (current ratio of 2.03), $23.2 million (current ratio of 2.00), and $20.3 million (current ratio of 2.17), 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, 2019 increased by $0.2 million to $20.3 million, which included operating income of $4.1 million and net non-operating 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.

Total net position as of June 30, 2018 increased by $0.9 million to $20.1 million, which included an operating gain of $5.3 million and net non-operating expenses of $4.4 million. Unrestricted net position totaled $20.6 million, with a net deficiency in capital assets of $18.1 million at June 30, 2018. Restricted net position, expendable as of June 30, 2018 increased by $1.1 million to $17.6 million, which was driven by a $0.7 million


(Continued)

decrease in cash held by trustee for mortgage reserve fund and $1.8 million increase in the bond fund trust account.

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

| | Year ended June 30 | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Total operating revenues | $ 84,180,161 | 86,038,524 | 78,757,869 |
| Total operating expenses | (80,037,405) | (80,728,183) | (83,488,864) |
| Operating gain (loss) | 4,142,756 | 5,310,341 | (4,730,995) |
| Net nonoperating (expenses) revenues | (3,975,297) | (4,385,923) | 4,834,098 |
| Total increase in net position | 167,459 | 924,418 | 103,103 |
| Net position, beginning of year | 20,146,328 | 19,221,910 | 19,118,807 |
| Net position, end of year | $ 20,313,787 | 20,146,328 | 19,221,910 |

**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 $84.2 million, $86.0 million, and $78.8 million for the years ended June 30, 2019, 2018, and 2017, 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 $83.0 million, $83.7 million, and $77.4 million for the years ended June 30, 2019, 2018, and 2017, respectively. 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. The increase of $6.3 million from 2017 to 2018 is the result of an increase in case mix index, medical/surgical inpatient days, diagnostics, and emergency visits.


(Continued)

The following table summarizes key operating statistics for the years ended June 30, 2019, 2018, and 2017:

| | Year ended June 30 | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Intensive care units (ICU) days and medical/surgical days | 11,951 | 14,514 | 12,887 |
| Behavioral days | — | — | 1,978 |
| Total inpatient days | 11,951 | 14,514 | 14,865 |
| ICU discharges and medical/surgical discharges | 2,950 | 3,126 | 3,333 |
| Behavioral discharges | — | — | 154 |
| Total discharges | 2,950 | 3,126 | 3,487 |
| Inpatient surgeries | 977 | 1,369 | 1,603 |
| Outpatient surgeries | 2,516 | 2,390 | 2,580 |
| Total surgeries | 3,493 | 3,759 | 4,183 |
| Outpatient visits | 48,257 | 44,048 | 44,242 |
| Emergency visits | 21,045 | 20,433 | 19,349 |

ICU and medical/surgical inpatient days decreased by 2,563 from fiscal year 2018 to 2019 due to an increase in observation days. The ICU and medical/surgical average daily census (ADC) for the year ended June 30, 2019 was 33 and decreased by 7 from an ICU and Medical/Surgical ADC of 40 for the year ended June 30, 2018.

Net patient service revenue for the fiscal years ended June 30, 2019 and 2018 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 2016 for Medicare and 2017 for Medicaid. Management believes that estimated settlements accrued related to unaudited cost reports are adequate. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount 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.


(Continued)

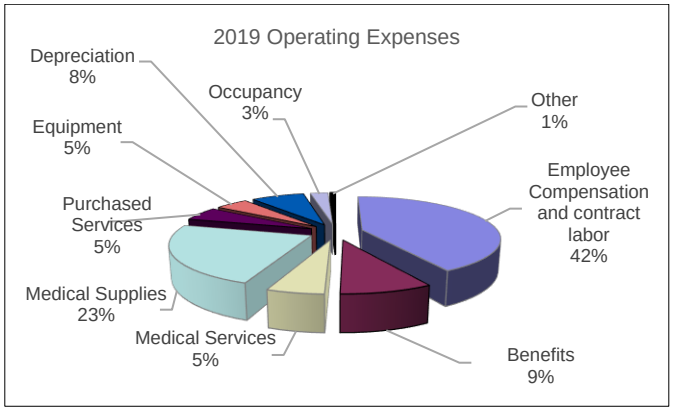
The Medical Center is committed to providing quality healthcare to all, regardless of one's ability to pay. The Medical Center offers a financial assistance program called SRMC Care for healthcare services provided by the Medical Center. This program is only available to Sandoval County residents. Patients who meet the criteria of its 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 the 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.

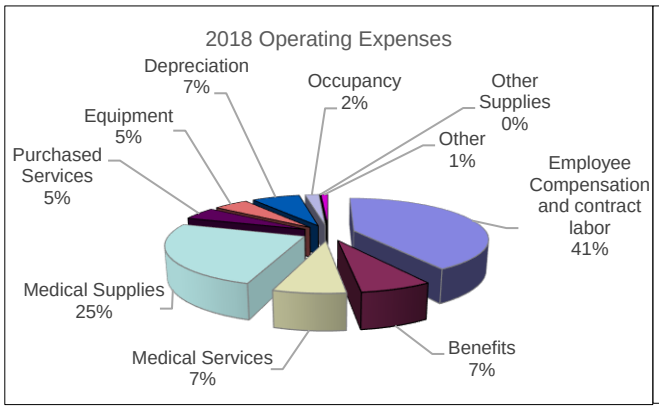
The Medical Center does not pursue collection of amounts determined to qualify as charity care. The costs of charity care provided under this program for the years ended June 30, 2019, 2018, and 2017 approximated $1.8 million, $1.5 million, and $1.3 million, respectively. The costs incurred are estimated based on the cost-to-charge ratio for the Medical Center and applied to the charity care charges.

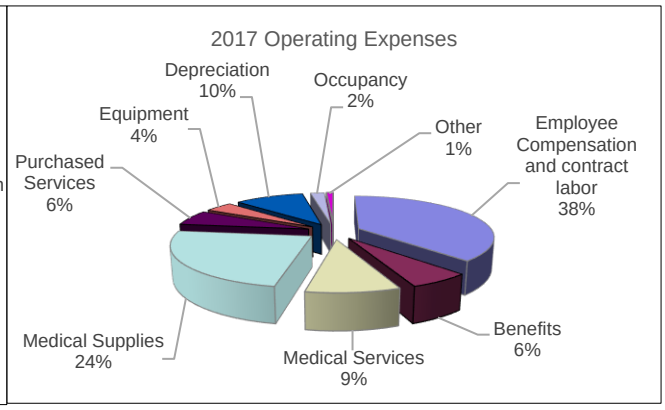
Bad debt accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2019, 2018, and 2017 was $5.4 million, $7.3 million, and $6.9 million, respectively. The cost of care provided to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance for years ended June 30, 2019, 2018, and 2017 was $2.0 million, $2.9 million, and $2.8 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, 2019, 2018, and 2017:




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

For the year ended June 30, 2019, total operating expenses were $80.0 million and represent a decrease of $0.7 million from the year ended June 30, 2018. The most significant change was a decrease of $2.0 million for medical supplies due to operational improvement initiatives and $1.3 million in medical services due to a reduction in provider service agreements. These decreases were partially offset by an increase of $1.5 million for employee benefits mostly related to employee health insurance costs, and a $0.6 million increase in purchased services primarily for operational improvement consulting fees.

### Nonoperating Revenues and Expenses

For the year ended June 30, 2019, nonoperating expenses net of nonoperating revenues was $4.0 million. For the year ended June 30, 2018, and 2017, the Medical Center recorded net nonoperating expense of $4.4 million and net nonoperating revenue of $4.8 million, respectively.

The most significant nonoperating expense recorded for the years ended June 30, 2019, 2018, and 2017 was bond interest expense in the amount of $5.4 million, $5.5 million, and $5.7 million, respectively.

The largest source of nonoperating revenue for the years ended June 30, 2019 and 2018 was the federal bond subsidy in the amount of $1.8 million and $1.9 million, respectively. The Medical Center receives subsidy payments related to interest payments under the federal Build America Bond and Taxable Revenue Recovery Zone Economic Development Bond programs.

The most significant nonoperating revenue for the year ended June 30, 2017 was the Sandoval County mill levy tax subsidy totaling $6.3 million. The voter tax subsidy was provided for the general operations of the Medical Center and inpatient behavioral health services. In November 2016, voters in Sandoval County narrowly rejected extending the tax for another eight years; therefore, effective July 2017, the Medical Center no longer received mill levy proceeds. On November 6, 2018, the Medical Center requested a new eight year tax levy at 1.9 mill. The request said the tax levy will provide operational funding for outpatient behavioral health and trauma level III designation services. The voters approved the new mill levy effective July 1, 2019.

### Capital Assets

At June 30, 2019, the Medical Center had $99.5 million invested in capital assets, net of accumulated depreciation of $52.4 million. Depreciation expense for each of the years ended June 30, 2019 and 2018 was $6.1 million. Depreciation expense totaled $8.4 million for the year ended June 30, 2017.

| | Year ended June 30 | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Building and building improvements | $ 105,650,011 | 105,614,225 | 105,431,774 |
| Building service equipment | 4,302,846 | 3,961,110 | 3,847,741 |
| Fixed equipment | 4,094,180 | 4,055,147 | 4,055,147 |
| Major moveable equipment | 37,504,986 | 37,329,241 | 37,359,387 |
| Construction in progress | 362,234 | 616,981 | 97,068 |
| | 151,914,257 | 151,576,704 | 150,791,117 |
| Less accumulated depreciation | (52,405,616) | (48,461,000) | (43,470,585) |
| Net property and equipment | $ 99,508,641 | 103,115,704 | 107,320,532 |

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 additions of $0.9 million for information technology equipment. Major moveable equipment retirements were $2.2 million, with a net book value of $45 thousand.

For the year ended June 30, 2018, total depreciable capital assets increased by $0.3 million from June 30, 2017. Major moveable equipment additions were $1.2 million, with the largest asset additions of $0.7 million for operating room equipment. Major moveable equipment retirements were $1.3 million, with a net book value of $0.1 million.

**Debt Activity**

The Medical Center's bonds payable totaled $117.4 million, $121.2 million, and $125.0 million at June 30, 2019, 2018, and 2017, respectively. The current portion of this debt was $4.1 million, $3.9 million, and $3.7 million at June 30, 2019, 2018, and 2017, respectively. This debt is related to the Government National Mortgage Association (GNMA) Collateralized Series 2010A and 2010B bonds.

On July 20, 2018 and on January 20, 2019, the Medical Center paid the scheduled mandatory bond redemption payments on the Series 2010A which consisted of principal payments of $1.9 million and $2.0 million, respectively, as well as interest payments of $2.5 million and $2.5 million, respectively. On July 20, 2018 and on January 20, 2019, 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, 2019, 2018, and 2017 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 payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not become known until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations.

On August 2, 2019, CMS released the fiscal year 2020 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates will increase by a market basket increase less a multi-factor productivity reduction mandated by the ACA, plus a documentation and coding increase mandated by the American Taxpayer Relief Act of 2012 (ATRA). The net impact of the market basket update and adjustments on the Medical Center's IPPS reimbursement is estimated at a $0.5 million decrease for fiscal year 2020.

On July 29, 2019, CMS issued the proposed calendar year 2020 Outpatient Prospective Payment (OPPS) rule. CMS proposed to raise the base OPPS Payment rate by a market basket increase less a multi-factor

productivity adjustment. The impact of the proposed OPPS rule on the Medical Center's reimbursement is estimated to increase $0.3 million for fiscal year 2020.

Effective January 1, 2019, the New Mexico Human Services Department implemented changes to the New Mexico Medicaid Program, also known as Centennial Care 2.0. With this program, the Department awarded Blue Cross and Blue Shield (BCBS NM), Presbyterian Health Plan, and Western Sky managed care contracts. The Medical Center no longer contracted with Molina Healthcare for the Medicaid program, effective January 1, 2019, but remains contracted with BCBS NM, Presbyterian Health Plan, and Western Sky.

Effective January 1, 2019 CMS required hospitals to publish their chargemaster online. Standard charges were defined as the hospital's gross charge and payer-specific negotiated charge for an item or service. It also requires making public payer-specific negotiated charges for a limited set of 'shoppable' services that are displayed and packaged in a consumer-friendly manner. In addition it set forth the expectation that there would be some type of monitoring put in place for noncompliance and actions to address hospital noncompliance.

In January 2018, CMS reset Medicare payments for drugs obtained under the 340B program from the average sales price (ASP) plus 6% to ASP minus 22.5%. CMS is requesting comments on utilizing ASP+3% for calendar year 2020 and remedy for calendar year 2018 and calendar year 2019 340b Drug cuts. The proposed 2020 OPPS rule continues the Medicare Part B drug payment cuts to hospitals in the 340B program starting January 1, 2020. Specifically, CMS proposes to reimburse 340B hospitals 77.5% of average sales price which is a 28.5% decrease.

During the 2019 state legislative session, HB6 was passed implementing a gross receipts tax on non-profit and governmental hospitals effective July 1, 2019. The Medical Center's impact of the 5.125% gross receipts tax on patient receipts is estimated to be $1.7 million for fiscal year 2020.

Effective July 1, 2019, the New Mexico Human Services Department's Medical Assistance Division implemented Medicaid rate increases. Specifically, inpatient DRG rates for Fee-for-Service and Managed Care Medicaid services were increased 12%. Medicaid OPPS rates were increased 18% for both fee-for-service and Managed Care Medicaid.

During fiscal year 2019 the Medical Center engaged the services of White Cap Health Advisors to update the Medical Center's three-year strategic plan and establish long-term aspirations.

***(b) Medicare Disproportionate Share Hospital (DSH)***

Beginning in federal fiscal year 2018, CMS incorporated Cost Report Worksheet S-10 uncompensated care cost as one of three factors averaged to determine a hospital's allocation of DSH uncompensated care payments. In 2020 CMS will base DSH uncompensated care reimbursement on only one year of S-10 data. The other two factors, Medicaid days and Supplemental Security Income (SSI) ratios are to be phased out beginning with federal fiscal year 2020. The Medical Center's estimated impact associated with the federal fiscal year 2019 DSH share will be an increase of $75 thousand.

Medicaid DSH payments are supplemental payments made to the Medical Center, in addition to Medicaid claims payments, to take into account the uncompensated care costs incurred by serving a

disproportionate number of low-income patients with special needs. Medicaid payments often don't cover the cost of the care. In 1993 the Omnibus Reconciliation Act established a Hospital-Specific DSH Limit whereby the Medicaid DSH payments made to hospitals must not exceed the cost the hospitals incur in treating Medicaid or uninsured patients. The DSH Limit regulation did not take into account third-party-liability payments received by hospitals. In 2008 CMS issued additional regulations requiring enhanced "General DSH Audit and Reporting Protocol"; however, the regulation didn't define the term "costs incurred" by DSH hospitals. In an attempt to correct this, in 2010 CMS posted some frequently asked questions (FAQs) on the CMS website. The FAQs 33 and 34 directed state Medicaid agencies to deduct Medicare and private insurance payments from hospital costs for dual-eligible patients. Numerous parties challenged the FAQ policies on the basis that CMS did not follow the proper rulemaking process in order to adopt the policies they were trying to enforce. A proposed rule formalizing the FAQ policies was issued in 2016 and finalized on April 3, 2017. The final rule specified that uncompensated care costs must include only those costs for Medicaid-eligible individuals that remain after deducting payments made to hospitals by Medicaid, Medicare and other third party payments. In January 2019, CMS withdrew its FAQs 33 and 34 after cases were lost in two additional circuit courts. In March 2019, the D.C District court invalidated the final rule nationwide. On August 13, 2019, the U.S. Court of Appeals reversed the decision and reinstated the final rule concluding that the third-party payer policy is consistent with the intent of federal DSH statute. In fiscal year 2018, the Medical Center accepted additional redistribution payments of $6.2 million for 2016 DSH funds with the understanding that some of the dollars may be recouped by the state in later years. The Medical Center recognized $2.1 million of this payment as revenue in fiscal year 2018 and reserved the remaining $4.2 million as estimated third-party settlements as of June 30, 2018 due to uncertainty about the amount, if any, that would be recouped by the state in future years. The Medical Center filed its fiscal year 2016 DSH Audit Survey in August 2019, and recognized an additional $3.2 million, leaving a 15% reserve, pending final audit on the DSH Survey.

### *(c) 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 will fund expansion of outpatient behavioral health services and an increase in staffing to achieve a level III trauma center designation at the Medical Center. Behavioral health services could include funding an outpatient clinic, expansion of behavioral health services via telemedicine, behaviorists in the emergency department, and social workers in primary care. A level III trauma designation allows the Medical Center to better serve its community. Offering trauma care benefits the area the Medical Center serves by providing services to care for patients with moderate injuries and the ability to stabilize the severe trauma patient in preparation for transport to a higher level trauma center. A Level III Trauma Center provides prompt assessment, resuscitation, surgery, intensive care and stabilization of injured patients and emergency operations. Throughout the course of the mill levy period, distribution of mill levy proceeds by the County Treasure is contingent on existence of a Health Facilities Contract between the County and the Medical Center. Following the success of the November 2018 ballot initiative, the Medical Center and the County remain in negotiations over the Health Facilities Contract.

## 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, 2019 and 2018

| Assets | 2019 | 2018 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 21,942,347 | 26,850,558 |
| Restricted cash and cash equivalents: | | |
| Held by trustee for debt service | 7,124,841 | 6,227,171 |
| Total cash and cash equivalents | 29,067,188 | 33,077,729 |
| Receivables: | | |
| Patient (net of allowance for uncollectible accounts and contractual adjustments of $21,892,758 in 2019 and $26,274,862 in 2018) | 8,800,479 | 8,834,152 |
| Due from related parties | 90,530 | 190,950 |
| Estimated third-party settlements | 396,286 | 723,500 |
| Interest receivable – bond subsidy proceeds | — | 820,147 |
| Other | 128,956 | 184,449 |
| Total net receivables | 9,416,251 | 10,753,198 |
| Prepaid expenses | 585,139 | 379,368 |
| Inventories | 2,088,272 | 2,084,125 |
| Total current assets | 41,156,850 | 46,294,420 |
| Noncurrent assets: | | |
| Restricted investments: | | |
| Held by trustee for mortgage reserve fund | 13,206,575 | 11,329,655 |
| Capital assets, net | 99,508,641 | 103,115,704 |
| Total noncurrent assets | 112,715,216 | 114,445,359 |
| Total assets | $ 153,872,066 | 160,739,779 |
| **Liabilities** | | |
| Current liabilities: | | |
| Accounts payable | $ 6,051,656 | 4,004,490 |
| Accrued payroll | 1,814,559 | 1,594,307 |
| Due to related parties | 677,314 | 2,155,221 |
| Estimated third-party settlements | 3,190,535 | 6,839,242 |
| Bonds payable – current | 4,075,000 | 3,890,000 |
| Interest payable bonds | 2,664,837 | 2,752,362 |
| Accrued compensated absences | 1,804,378 | 2,002,829 |
| Total current liabilities | 20,278,279 | 23,238,451 |
| Noncurrent liabilities: | | |
| Bonds payable | 113,280,000 | 117,355,000 |
| Total noncurrent liabilities | 113,280,000 | 117,355,000 |
| Total liabilities | 133,558,279 | 140,593,451 |
| **Net Position** | | |
| Net deficiency in capital assets | (17,846,359) | (18,129,296) |
| Restricted, expendable: | | |
| Expendable bequests and contributions | 89,548 | 79,050 |
| In accordance with the trust indenture and debt agreement | 20,331,416 | 17,556,826 |
| Unrestricted | 17,739,182 | 20,639,748 |
| Total net position | 20,313,787 | 20,146,328 |
| Total liabilities and net position | $ 153,872,066 | 160,739,779 |

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, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Operating revenues: | | |
| Net patient service revenue | $ 82,965,371 | 83,720,445 |
| Other operating revenues | 1,214,790 | 2,318,079 |
| Total operating revenues | 84,180,161 | 86,038,524 |
| Operating expenses: | | |
| Employee compensation and contract labor | 33,389,483 | 33,391,569 |
| Medical and other supplies | 18,624,932 | 20,606,880 |
| Benefits | 6,956,753 | 5,460,271 |
| Depreciation | 6,084,684 | 6,105,586 |
| Medical services | 4,339,535 | 5,626,282 |
| Purchased services | 4,306,451 | 3,698,870 |
| Equipment | 3,714,891 | 3,902,753 |
| Occupancy | 2,021,825 | 1,463,353 |
| Other | 598,851 | 472,619 |
| Total operating expenses | 80,037,405 | 80,728,183 |
| Operating income | 4,142,756 | 5,310,341 |
| Nonoperating revenues (expenses): | | |
| Sandoval County mill levy | 84,996 | 182,721 |
| Federal bond subsidy | 1,810,878 | 1,858,808 |
| Interest income, net | 295,048 | 82,970 |
| Interest on bonds | (5,374,000) | (5,547,025) |
| Bequests and contributions | 20,626 | 7,695 |
| Other nonoperating expense | (812,845) | (971,092) |
| Net nonoperating (expenses) revenues | (3,975,297) | (4,385,923) |
| Increase in net position | 167,459 | 924,418 |
| Net position, beginning of year | 20,146,328 | 19,221,910 |
| Net position, end of year | $ 20,313,787 | 20,146,328 |

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, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from patient services | $ 79,677,551 | 90,095,373 |
| Cash payments to employees | (30,147,563) | (29,816,316) |
| Cash payments to suppliers and contractors | (38,793,493) | (42,944,072) |
| Cash payments to related parties | (4,111,938) | (2,298,794) |
| Other receipts | 852,118 | 869,559 |
| Net cash provided by operating activities | 7,476,675 | 15,905,750 |
| Cash flows from noncapital financing activities: | | |
| Cash received from Sandoval County mill levy | 84,996 | 249,416 |
| Cash received from contributions | 20,626 | 7,695 |
| Net cash provided by noncapital financing activities | 105,622 | 257,111 |
| Cash flows from capital financing activities: | | |
| Purchases of capital assets | (2,508,835) | (2,041,260) |
| Cash received from federal bond subsidy | 2,631,025 | 1,038,661 |
| Interest payments on bonds | (5,461,525) | (5,630,613) |
| Cash payments into mortgage reserve fund | (1,876,920) | (1,823,863) |
| Principal payments on bonds | (3,890,000) | (3,715,000) |
| Cash payments for mortgage-related activities (Mortgage servicing, MIP, GNMA guaranty) | (969,965) | (884,590) |
| Other receipts | 188,334 | 54,000 |
| Net cash used in capital financing activities | (11,887,886) | (13,002,665) |
| Cash flows from investing activities: | | |
| Interest on investments | 295,048 | 82,970 |
| Net cash provided by investing activities | 295,048 | 82,970 |
| Net (decrease) increase in cash and cash equivalents | (4,010,541) | 3,243,166 |
| Cash and cash equivalents, beginning of year | 33,077,729 | 29,834,563 |
| Cash and cash equivalents, end of year | $ 29,067,188 | 33,077,729 |



(Continued)

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

Statements of Cash Flows

Years ended June 30, 2019 and 2018

| | | 2019 | 2018 |
|---|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | | |
| Operating income | $ | 4,142,756 | 5,310,341 |
| Adjustments to reconcile operating income to net cash provided by (used in) operating activities: | | | |
| Depreciation expense | | 6,084,684 | 6,105,586 |
| Provision for doubtful accounts | | 5,404,257 | 7,279,260 |
| Change in assets and liabilities: | | | |
| Patient receivables | | (5,370,584) | (6,211,213) |
| Due from related parties | | 100,420 | (151,836) |
| Estimated third-party settlements | | (3,321,493) | 4,396,183 |
| Other receivables and prepaid expenses | | (150,278) | (66,383) |
| Inventories | | (4,147) | 387,203 |
| Accounts payable | | 2,047,166 | (1,470,492) |
| Due to related parties | | (1,477,907) | 113,080 |
| Accrued payroll | | 220,252 | 16,013 |
| Accrued compensated absences | | (198,451) | 198,008 |
| Net cash provided by operating activities | $ | 7,476,675 | 15,905,750 |

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 12.

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 November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. Statement No. 83 addresses the accounting and financial reporting for certain asset retirement obligations, with the establishment of criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. Statement No. 83 was adopted by the Medical Center for the year ended June 30, 2019. The adoption of this Statement had no material impact on the financial statements.

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. Statement No. 87 is effective for reporting periods beginning after December 15, 2019. The Medical Center is evaluating the impact the standard will have on its financial statements.

In March 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Statement No. 88 addresses the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The Statement also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 was adopted by the Medical Center for the year ended June 30, 2019. The adoption of this statement had no material impact on the 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 under 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 its past history and identifies 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 or not 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, 2019 and 2018 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 adjusted in future periods as final settlements are determined.


(Continued)

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.

In November 2016, voters in Sandoval County voted not to approve the mill levy for the tax period beginning January 1, 2017. In November 2018, voters approved a new 1.9 mill levy on property owned within Sandoval County, effective July 1, 2019. Mill levy recognized in fiscal years 2019 and 2018 represent late collections related to the pre-January 1, 2017 period.

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. 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. Following the success of the November 2018 ballot initiative, the Medical Center and the County remain in negotiations over the Health Facilities Contract.

### *(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 and $1.9 million in federal bond subsidy revenue for the years ended June 30, 2019 and 2018, respectively.

### *(q) Income Taxes*

The Medical Center has received a determination letter from the Internal Revenue Service (IRS) that it is an organization described in Internal Revenue Code (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, 2019 and 2018, the estimated amount of the Medical Center's IBNR and accrued claims are $0.3 million and $0.2 million, respectively, which is included in accrued payroll. The liability for IBNR is based on actuarial analysis calculated using information provided by BCBS NM and management estimates.

| | Balance at beginning of fiscal year | Claims and changes in estimates | Claim payments | Balance at fiscal year-end |
|---|---|---|---|---|
| 2018–2019 | $ 200,000 | 3,547,070 | (3,397,388) | 349,682 |
| 2017–2018 | 263,865 | 2,573,672 | (2,637,537) | 200,000 |

**(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, 2019 and 2018 are $21.9 million and $26.8 million, respectively.

Bank balances are categorized at June 30 as follows:

| | 2019 | 2018 |
|---|---|---|
| Amount insured by the Federal Deposit Insurance Corporation (FDIC) | $ 250,000 | 377,217 |
| Other cash | 23,389,932 | 27,688,971 |
| Total | $ 23,639,932 | 28,066,188 |

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, 2019 and 2018, 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, 2019 and 2018 and their exposure to credit risk is as follows:

| | June 30, 2019 | | June 30, 2018 | |
|---|---|---|---|---|
| | Rating | Fair value | Rating | Fair value |
| Items subject to credit risk: | | | | |
| Money market fund | Not rated | $ 7,124,841 | Not rated | $ 6,227,171 |
| Total items subject to credit risk | | 7,124,841 | | 6,227,171 |
| Total debt investments – cash and cash equivalents | | $ 7,124,841 | | $ 6,227,171 |



(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, 2019 and 2018, the Medical Center held no U.S. government obligations for long-term investment purposes. As of June 30, 2019 and 2018, 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, 2019 and 2018 and their exposure to credit risk is as follows:

| | June 30, 2019 | | June 30, 2018 | |
|---|---|---|---|---|
| | **Rating** | **Fair value** | **Rating** | **Fair value** |
| Items subject to credit risk: | | | | |
| Money market fund | Not rated | $ 13,206,575 | Not rated | $ 11,329,655 |
| Total items subject to credit risk | | 13,206,575 | | 11,329,655 |
| Total long-term investments | | $ 13,206,575 | | $ 11,329,655 |



(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:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Medicare | $ 9,828,919 | 32 % | $ 11,206,358 | 32 % |
| Medicaid | 4,062,739 | 13 | 5,057,555 | 14 |
| Other third-party payors | 10,565,748 | 35 | 11,104,184 | 32 |
| Others | 6,235,831 | 20 | 7,740,917 | 22 |
| Total patient accounts receivable | 30,693,237 | 100 % | 35,109,014 | 100 % |
| Less allowance for uncollectible accounts and contractual adjustments | (21,892,758) | | (26,274,862) | |
| Patient accounts receivable, net | $ 8,800,479 | | $ 8,834,152 | |

## (5) Estimated Third-Party Payor Settlements

The Medical Center is reimbursed by the Medicare and Medicaid programs on a prospective payment basis for hospital services, with certain items reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Medical Center. The annual cost reports are subject to audit by the Medicare Administrative Contractor and the Medicaid audit agent. 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 2019 and 2018, the Medical Center recognized $3.2 million and $3.1 million of net patient service revenue, respectively, related to prior year settlements.


(Continued)

## (6) Capital Assets

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

| | Year ended June 30, 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 |



(Continued)

| | Year ended June 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Beginning balance | Additions | Transfers | Retirements | Ending balance |
| SRMC capital assets not being depreciated: | | | | | |
| Construction in progress | $ 97,068 | 815,733 | (295,820) | — | 616,981 |
| SRMC depreciable capital assets: | | | | | |
| Building and building improvements | 105,431,774 | — | 182,451 | — | 105,614,225 |
| Building service equipment | 3,847,741 | — | 113,369 | — | 3,961,110 |
| Fixed equipment | 4,055,147 | — | — | — | 4,055,147 |
| Major moveable equipment | 37,359,387 | 1,225,527 | — | (1,255,673) | 37,329,241 |
| Total depreciable capital assets | 150,694,049 | 1,225,527 | 295,820 | (1,255,673) | 150,959,723 |
| Less accumulated depreciation for: | | | | | |
| Building and building improvements | (13,191,082) | (2,681,036) | — | — | (15,872,118) |
| Building service equipment | (1,486,924) | (283,342) | — | — | (1,770,266) |
| Fixed equipment | (1,642,542) | (261,086) | — | — | (1,903,628) |
| Major moveable equipment | (27,150,037) | (2,880,122) | — | 1,115,171 | (28,914,988) |
| Total accumulated depreciation | (43,470,585) | (6,105,586) | — | 1,115,171 | (48,461,000) |
| SRMC depreciable capital assets, net | 107,223,464 | (4,880,059) | 295,820 | (140,502) | 102,498,723 |
| SRMC capital assets, net | $ 107,320,532 | (4,064,326) | — | (140,502) | 103,115,704 |

## (7) 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 11.07 hours of PTO each pay period (36 days per annum), up to a maximum of 500 hours to be used for sick, holiday, and personal leaves. Full-time employees with years of service in excess of 7 years accrue 12.61 hours of PTO each pay period (41 days per annum), up to a maximum of 500 hours to be used for sick, holiday, and 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, 2019 and 2018 of $1.8 million and $2.0 million, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

For the years ended June 30, 2019 and 2018, the following changes occurred in accrued compensated absences, which includes annual leave, sick leave, and holiday.

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

| | Balance June 30, 2018 | Balance June 30, 2017 | Increase |
|---|---|---|---|
| $ | 2,002,829 | 1,804,821 | 198,008 |

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

**(8) Bonds Payable**

In November 2010, the Medical Center issued $133,425,000 in aggregate principal amount of its Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized – UNM Sandoval Regional Medical Center Project) Series 2010A with a maturity date of July 20, 2036 and $10,000,000 in aggregate principal amount of its Taxable Revenue Recovery Zone Economic Development Bonds (Direct Pay) (GNMA Collateralized – UNM Sandoval Regional Medical Center Project) Series 2010B with a maturity date of July 20, 2037. The bonds were issued pursuant to a trust indenture, dated 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 $127,164,027 (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, 2019 and 2018, 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, 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 |



(Continued)

The following schedule summarizes the special and scheduled mandatory redemption requirements of the Series 2010A and Series 2010B bonds as of June 30, 2019:

| Fiscal year | Series 2010A bonds | | Series 2010B bonds | | Total | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2020 | $ 4,075,000 | 4,797,338 | — | 487,000 | 4,075,000 | 5,284,338 |
| 2021 | 4,275,000 | 4,611,713 | — | 487,000 | 4,275,000 | 5,098,713 |
| 2022 | 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 |
| 2025–2029 | 28,375,000 | 16,415,213 | — | 2,435,000 | 28,375,000 | 18,850,213 |
| 2030–2034 | 35,885,000 | 9,302,738 | — | 2,435,000 | 35,885,000 | 11,737,738 |
| 2035–2039 | 20,915,000 | 1,413,788 | 9,740,000 | 1,567,250 | 30,655,000 | 2,981,038 |
| | $ 107,615,000 | 49,170,940 | 9,740,000 | 8,872,250 | 117,355,000 | 58,043,190 |

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.

## (9) 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 22% of the Medical Center's gross patient revenue for the year ended June 30, 2019 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, 2018, the approximate gross patient revenue was 35% and 26% 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 follows:

*Medicare* – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These Medical Severity Diagnosis Related Group (MS-DRG)

rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Most Medicare outpatient services are prospectively paid through Medicare's Outpatient Prospective Payment System (OPPS). Services excluded from the OPPS and paid under separate fee schedules include clinical lab, certain rehabilitation services, durable medical equipment, renal dialysis treatments, ambulance services, and professional fees of physicians and non-physician 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 follows for the years ended June 30:

| | | 2019 | 2018 |
|---|---|---|---|
| Charges at established rates | $ | 211,605,637 | 204,506,925 |
| Charity care | | (4,640,789) | (3,905,871) |
| Contractual adjustments | | (118,595,220) | (109,601,349) |
| Provision for doubtful accounts | | (5,404,257) | (7,279,260) |
| Net patient service revenues | $ | 82,965,371 | 83,720,445 |


(Continued)

## (10) Charity Care

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

| | 2019 | 2018 |
|---|---|---|
| Charges foregone, based on established rates | $ 4,640,789 | 3,905,871 |
| Estimated costs and expenses incurred to provide charity care | 1,754,218 | 1,542,819 |
| Equivalent percentage of charity care charges foregone to total gross revenue | 2.2 % | 1.9 % |

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.

## (11) 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 are 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.

## (12) 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, UNMH, 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), for the cost of various medical services and centralized administrative personnel, 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:

| | | 2019 | 2018 |
|---|---|---|---|
| UNM (excluding UNM Hospital) | $ | 741,399 | 1,532,787 |
| UNM Hospital | | 2,712,841 | 3,030,784 |
| UNM Medical Group | | 399,979 | 322,481 |
| | $ | 3,854,219 | 4,886,052 |

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

| | | 2019 | 2018 |
|---|---|---|---|
| UNM (excluding UNM Hospital) | $ | 368,563 | 1,395,949 |
| UNM Hospital | | 245,084 | 724,326 |
| UNM Medical Group | | 63,667 | 34,946 |
| | $ | 677,314 | 2,155,221 |


(Continued)

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 $1.4 million and $1.6 million for the years ended June 30, 2019 and 2018, 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 received payment from UNM HSC for services provided to UNM Health Sciences Rio Rancho campus, including building maintenance, housekeeping, and security. SRMC received payment from UNMH for data and equipment leases, from UNMMG for prior year 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:

| | | 2019 | 2018 |
|---|---|---|---|
| UNM Hospital | $ | 488,965 | 307,755 |
| UNM Medical Group | | 187,211 | 322,576 |
| UNM (excluding UNM Hospital) | | 388,602 | 410,785 |
| | $ | 1,064,778 | 1,041,116 |

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

| | | 2019 | 2018 |
|---|---|---|---|
| UNM Hospital | $ | 46,276 | 181,298 |
| UNM Medical Group | | 44,254 | 9,652 |
| | $ | 90,530 | 190,950 |

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.

## (13) 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.


(Continued)

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 defined-contribution plan was $0.9 million and $0.7 million for the years ended June 30, 2019 and 2018, respectively. Total employee contributions under this plan were $1.5 million and $1.1 million for the years ended June 30, 2019 and 2018, respectively.

## (14) 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 reasonable 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.

Schedule 1

**UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.**

(A Component Unit of University of New Mexico)

Indigent Care Cost and Funding Report

| | For the year ended June 30 | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Funding for indigent care: | | | |
| State appropriations specified for indigent care – Out of County Indigent Fund | $ — | — | — |
| County indigent funds received | — | — | — |
| Out of county indigent funds received | — | 40 | — |
| Payments and copayments received from uninsured patients qualifying for indigent care | 9,729 | 4,443 | 1,505 |
| Reimbursement received for services provided to patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA) | 10,507 | 1,129 | 2,897 |
| Charitable contributions received from donors that are designated for funding indigent care | — | — | — |
| Other source | — | — | — |
| Total funding for charity care | 20,236 | 5,612 | 4,402 |
| Cost of providing indigent care: | | | |
| Total cost of care for providing services to: | | | |
| Uninsured patients qualifying for indigent care | 806,028 | 546,021 | 381,614 |
| Patients qualifying for coverage under EMSA | 57,257 | 24,644 | 36,953 |
| Cost of care related to patient portion of bill for insured patients qualifying for indigent care | 948,190 | 996,798 | 951,016 |
| Direct costs paid to other providers on behalf of patients qualifying for indigent care | — | — | — |
| Total cost of providing indigent care | 1,811,475 | 1,567,463 | 1,369,583 |
| Shortfall of funding for charity care to cost of providing indigent care | $ (1,791,239) | (1,561,851) | (1,365,181) |
| Patients receiving indigent care services (unaudited): | | | |
| Total number of patients receiving indigent care | 5,019 | 4,406 | 10,023 |
| Total number of patient encounters receiving indigent care | 9,771 | 7,789 | 16,136 |

See accompanying independent auditors' report.

Schedule 2

**UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.**

(A Component Unit of University of New Mexico)

Calculations of Cost of Providing Indigent Care

| | For the year ended June 30 | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Uninsured patients qualifying for indigent care: | | | |
| Charges for these patients | $ 2,132,349 | 1,382,331 | 889,543 |
| Ratio of cost to charges | 37.8% | 39.5% | 42.9% |
| Cost for uninsured patients qualifying for indigent care | $ 806,028 | 546,021 | 381,614 |
| Patients qualifying for coverage under EMSA: | | | |
| Charges for these patients | $ 151,474 | 62,391 | 86,137 |
| Ratio of cost to charges | 37.8% | 39.5% | 42.9% |
| Cost for patients qualifying for coverage under EMSA | $ 57,257 | 24,644 | 36,953 |
| Cost of care related to patient portion of bill for insured patients qualifying for indigent care: | | | |
| Indigent/charity care adjustments for these patients | $ 2,508,440 | 2,523,540 | 2,216,820 |
| Ratio of cost to charges | 37.8% | 39.5% | 42.9% |
| Cost of care related to patient portion of bill for insured patients qualifying for indigent care | $ 948,190 | 996,798 | 951,016 |
| Direct costs paid to other providers on behalf of patients qualifying for indigent care: | | | |
| Payments to other providers for care of these patients | — | — | — |

See accompanying independent auditors' report.

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

**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, 2019, 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 10, 2019.

*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 certain matters that are required to be reported per Section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002.

*The Medical Center's Response to Findings*

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

*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 10, 2019

**UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.**
(A Component Unit of the University of New Mexico)
Summary of Audit Results
June 30, 2019

**Type of auditor report issued**: Unmodified opinion

**Fiscal year 2019 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**

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

**2018-001. Repeated and Modified**

*Condition*

In the 2018 audit, finding 2018-001 identified that the organization did not have specific written policies and procedures governing related party transactions, including associated internal controls. The finding identified that the organization should have written policies and procedures that address the topics in the "Criteria" section and expectations about documentation standards for timeliness of related party agreements.

In 2019 the organization created and adopted written policies and procedures governing related party transactions. These policies and procedures were adopted in the latter half of fiscal year 2019, with the result that many related party transactions occurred prior to the policies and procedures taking full effect.

*Criteria*

Management should design, implement and maintain controls to:

- Identify, account for, and disclose related party relationships and transactions.
- Authorize and approve significant transactions and arrangements with related parties.

*Effect*

Because the policies and procedures were adopted in the latter half of the year, certain aspects of the policies and procedures were not fully implemented in fiscal year 2019. For example:

- We identified a related party agreement between University of New Mexico Hospital and Sandoval Regional Medical Center that was not timely approved in fiscal year 2019 and was only finalized in late September 2019.

*Cause*

Written policies and procedures have been developed for related party transactions, but were enacted late in the fiscal year.

*Recommendation*

Many aspects of this fiscal year 2019 deficiency should be resolved because the policies and procedures will be in effect for the entire fiscal year 2020. As the implementation of these policies and procedures continues, we recommend that written documentation addressing related party agreements be executed timely.

*Management Response*

Management will address and continuously strive to improve the timely execution of related party agreements.



(Continued)

**UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.**
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
June 30, 2019

**2019-002. Charity Care – Other Matter**

*Condition*

Of the five charity care samples we tested during the fiscal year 2019 audit, we identified one patient charge adjustment that was incorrectly coded to charity care rather than to allowance for contractual adjustments.

*Criteria*

UNM Sandoval Regional Medical Center, Inc. (the Medical Center) provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its financial assistance (charity care) policy. These amounts are deducted from gross patient revenue.

*Effect*

The Medical Center inappropriately classified the allowance for this patient charge as being related to charity care, which resulted in an overstatement of charity care.

*Cause*

The Medical Center did not perform sufficient review of the coding of deductions from gross patient revenue related to charity care to ensure the coding was correct.

*Recommendation*

We recommend that management educate employees about the Medical Center's financial assistance policies and implement controls to ensure that deductions from gross patient revenue coded to charity care are reviewed to ensure they are appropriate and consistent with patients' eligibility.

*Management Response*

One new employee misunderstood the charity write off transaction policy and inadvertently entered the adjustment code incorrectly for commercial payers. Four transactions out of several thousand transactions were impacted. All transactions, for the code in question, were reviewed and corrected for fiscal year 2019. The employee has been educated in further detail and now has a clear understanding of the charity care policy. In addition to education, the PFS Director will review charity adjustments on a quarterly basis to ensure accuracy.

**UNM SANDOVAL REGIONAL MEDICAL CENTER, INC.**
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings
June 30, 2019

**Finding 2018-001. Related Party Transaction Policies and Procedures – Significant Deficiency**

Current Status: Repeated and modified as finding 2019-001

**Finding 2018-002. User Access Review - Other Matter**

Current Status: Resolved

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

Exit Conference

June 30, 2019

An exit conference was conducted on October 9, 2019, 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:

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| Kim Hedrick | Board Member |
| Charlotte Garcia | Board Member |
| Darlene Fernandez | Chief Financial Officer, SRMC |
| Pam Demarest | Chief Operating Officer and Chief Nursing Officer, SRMC |
| Purvi Mody | Executive Director of Internal Audit |
| Robin Cole | Controller, Finance, SRMC |
| Kaitlyn DelBene | Associate University Counsel |
| Matthew Wilks | Chief of Medical Staff, SRMC |
| Mark McComb | Partner, KPMG LLP |
| Suzette Longfellow | Managing Director, KPMG LLP |
| Jaime Cavin | Managing Director, KPMG LLP |
| Ruth Senior | Senior Manager, KPMG LLP |