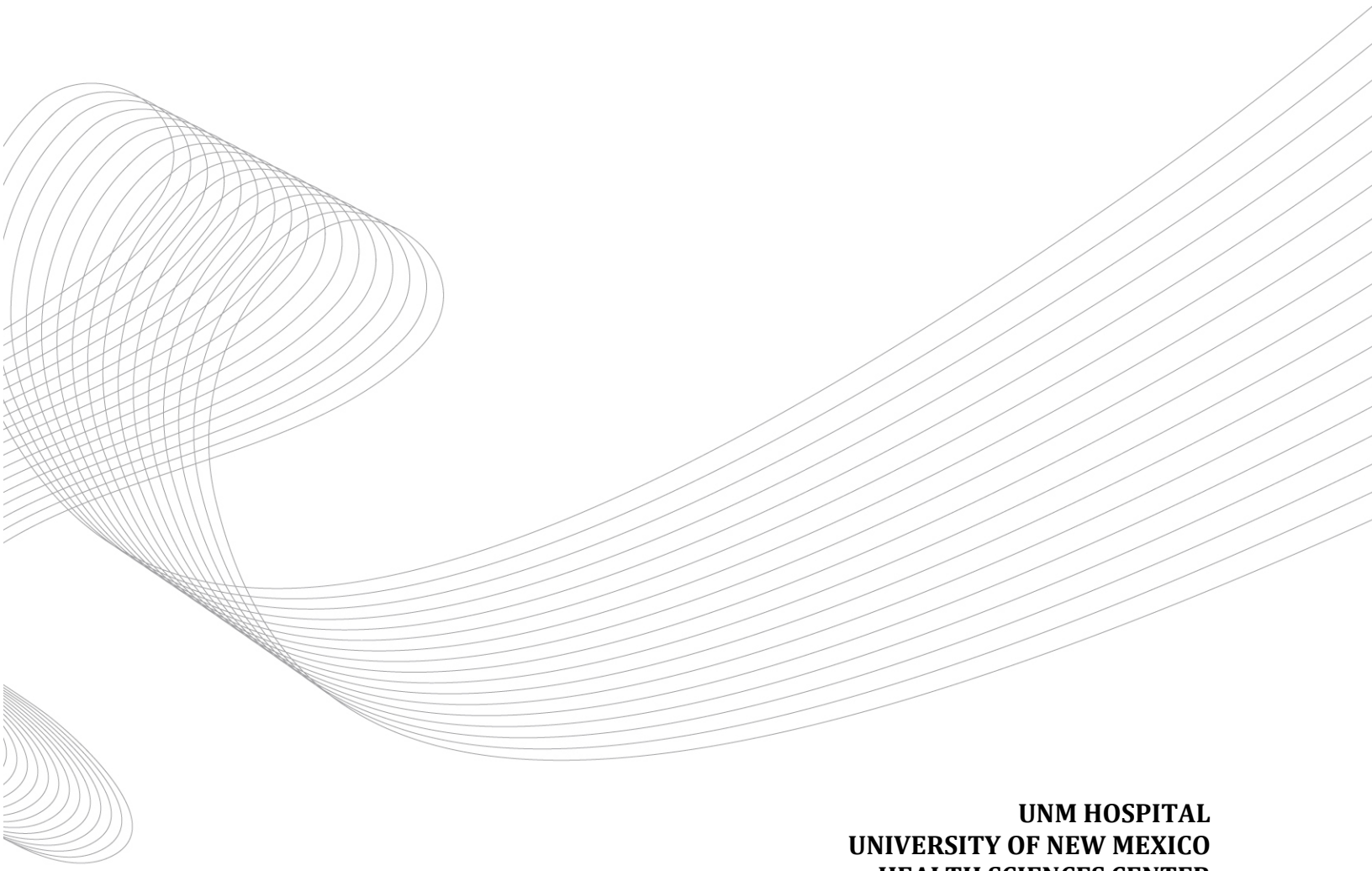

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO
HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2014 AND 2013

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
FISCAL YEAR 2014 OFFICIAL ROSTER

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UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
FISCAL YEAR 2014 OFFICIAL ROSTER (CONTINUED)

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Ella Watt	Chief Financial Officer – UNM Hospitals Interim Chief Financial Officer - UNM Health System

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

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MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Hector Balderas, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of UNM Hospital (the "Hospital"), a division of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, organized as the University of New Mexico Hospital, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the budget comparison (Schedule 1) presented as supplementary information for the year ended June 30, 2014.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of June 30, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison referred to above presents fairly, in all material respects, the budgetary comparison for the year ended June 30, 2014 in conformity with accounting principles accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, the Hospital adopted GASB Statement No. 65, Items Previously Reported as Assets and Liabilities effective July 1, 2013. Upon adoption, accounting changes required by the Statement are required to be applied retroactively by restating the financial statements for all periods presented. Accordingly, the Hospital has retroactively restated the 2013 financial statements to expense previously capitalized and amortized bond issuance costs in the period incurred.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of postemployment benefits other than pensions schedule of funding progress for the year ended June 30, 2014 on pages 4 through 23 and page 74 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Hector Balderas, New Mexico State Auditor

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements and budget comparison that collectively comprise the Hospital's basic financial statements and budget comparison. The accompanying schedule of pledged collateral by banks and schedule of individual deposit and investment accounts (Schedules 2 and 3, respectively) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules of pledged collateral by banks and individual deposit and investment accounts (Schedules 2 and 3, respectively) are the responsibility of management and was derived from and relates 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, the accompanying schedules of pledged collateral by banks and individual deposit and investment accounts are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2014 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hospital's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
October 29, 2014

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2014 and 2013

This section of the UNM Hospital's (the Hospital) annual financial report presents management's discussion and analysis of the financial performance of the Hospital during the fiscal years ended June 30, 2014 and 2013. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the 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 Hospital's management.

Using the Annual Financial Report

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

The financial statements prescribed by GASB 34 (the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows) present financial information in a form similar to that used by commercial corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service 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) is one indicator of the improvement or erosion of the Hospital'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 non-governmental 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 state or county aid can result in an operating deficit since the financial reporting model classifies such aid as nonoperating revenues, which is the case with the Bernalillo County Mill Levy received by the Hospital. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

Condensed Summary of Net Position

	As of June 30		
Assets	**2014**	**2013**	**2012**
Current assets	$ 299,767,628	261,331,960	249,665,274
Capital assets, net	239,078,379	254,687,891	270,357,736
Noncurrent assets	55,818,643	51,378,149	51,195,980
Total assets	$ 594,664,650	567,398,000	571,218,990
Liabilities			
Current liabilities	$ 131,275,013	104,243,261	104,150,537
Noncurrent liabilities	170,096,837	179,051,105	185,731,050
Total liabilities	$ 301,371,850	283,294,366	289,881,587
Net Position			
Net investment in capital assets	$ 90,419,715	102,310,629	112,680,519
Restricted net position, expendable	43,996,008	39,610,263	35,444,198
Unrestricted net position	158,877,077	142,182,742	133,212,686
Total net position	$ 293,292,800	284,103,634	281,337,403

Current assets include cash and other assets that are deemed to be consumed or convertible to cash within one year, and include cash, marketable securities and accounts receivable. The Hospital's most significant current asset was cash and cash equivalents. The cash balance was $106.3 million, $102.7 million and $88.5 million as of June 30, 2014, 2013, and 2012, respectively. A standard metric used to calculate the number of days that it would take to deplete existing cash balances is called "days cash on hand" (DCOH). This measure is used to assess how long the hospital could cover operating expenses or outflows using existing cash balances. It is calculated by taking the cash balance divided by annual expenses divided by the number of days in a calendar year. The DCOH for the Hospital was 48.24, 50.53 and 49.18 as of June 30, 2014, 2013, and 2012, respectively. As part of the FHA Insured Hospital Mortgage Revenue Bonds Series 2004 discussed further in footnote 8, the Hospital must meet a minimum DCOH of 21 days. As part of the cash management practice, the Hospital centrally manages all cash receipts and disbursements for all its affiliates, including the UNM Psychiatric Center (UNMPC) and the UNM Children's Psychiatric Center (UNMCPC), which are collectively referred to as "The Center." The corresponding liability, due to affiliates, reflects the cash balances held by the Hospital on behalf of its affiliates. The second most significant current asset is patient receivables. The patient receivables balance was $95.6 million, $68.3 million and $71.3 million as of June 30, 2014, 2013, and 2012, respectively. The increase of

$27.3M as of June 30, 2014 compared to June 30, 2013 in patient receivables is primarily due to the implementation of the New Mexico Medicaid program called "Centennial Care". The patient receivable associated with Medicaid represents $22.8M of the total increase.

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

The New Mexico Health and Human Services Department (NMHSD) implemented the revised New Mexico Medicaid program called "Centennial Care" beginning January 1, 2014. There are four "managed care organizations" (MCO's) participating in Centennial Care, and their plans encompass all services covered under Centennial Care. New Mexico provides coverage based on household size with income below 138% of the federal poverty limits (FPL). The Medicaid expansion provides coverage for patients who were previously eligible for the Hospital's financial assistance program. Although the program was implemented January 1, 2014, there were significant delays with processing Medicaid coverage applications which created a backlog in patient enrollment during the first six months of calendar year 2014. The delay in processing applications varied from 75 – 90 days.

At the end of May 2014, the US District Court in New Mexico issued an "Order Granting Motion to Enforce Compliance" on 13 separately identified orders against Sidonie Squier, Secretary of the New Mexico Human Services Department, "Defendant". This order primarily required HSD to "…Ensure that New Mexicans who are Eligible for Health Care Coverage…receive the support to which they are entitled"; "immediately suspend the…automatic denial function in its computer system…", and "suspend the practice of denying … Medicaid benefits for other procedural reasons", as well as ten other orders.

The State has also communicated to the Hospital that they have provided direction to the MCO's to waive denial edits for claims denials resulting from State eligibility system issues.

Effective August 2013, the Radiation and Medical Oncology clinics of the UNM Cancer Center became hospital based. The accounts receivable increase associated with the addition of these clinics was $2.9M.

At June 30, 2014, 2013, and 2012, the Hospital's current assets of $299.8 million, $261.3 million, and $249.7 million, respectively, were sufficient to cover current liabilities of $131.3 million (current ratio of 2.28), $104.2 million (current ratio of 2.51), and $104.2 million (current ratio of 2.40), respectively.

Current liabilities are generally defined as amounts due with one year, and include accounts payable, accrued payroll, accrued compensated absences and amounts due to UNM. The most significant current liability was accounts payable. The accounts payable balance was $50.1 million, $31.1 million and $26.8 million as of June 30, 2014, 2013, and 2012, respectively. This increase was primarily due to IGT payable to the State of New Mexico, increased medical supplies, and minor equipment purchases that had not been paid at June 30, 2014. The next significant liability was Due to University of New Mexico (UNM). The Due to UNM balance was $19.2 million, $7.8 million and $18 million as of June 30, 2014, 2013, and 2012, respectively. The increase in Due to UNM was the payable for the second payment for capital initiatives of $11 million. The second payment was to provide the capital funding for the purchase and construction for two new primary care clinics, one located in the North Valley and the other located in the Northeast Heights. Capital initiatives are more fully discussed in Note 16.

Total net position as of June 30, 2014 increased by $9.2 million to $293.3 million, due to an operating loss of $84.0 million offset by net nonoperating revenues of $93.2 million. Unrestricted net position totaled $158.9 million at June 30, 2014.

Total net position as of June 30, 2013 increased by $6.0 million to $284.1 million, due to an operating loss of $88.3 million offset by net nonoperating revenues of $94.7 million. Unrestricted net position totaled $142.2 million at June 30, 2013.

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

	Year Ended June 30		
	2014	**2013**	**2012**
Total operating revenues	$ 702,853,479	638,053,576	633,205,357
Total operating expenses	(786,814,917)	(726,361,454)	(693,028,692)
Operating loss	(83,961,438)	(88,307,878)	(59,823,335)
Nonoperating revenues, expense and other revenues	93,150,604	94,652,898	61,613,832
Total increase in net position	9,189,166	6,345,020	1,790,497
Net position, beginning of year	284,103,634	277,758,614	279,546,906
Net position, end of year	$ 293,292,800	284,103,634	281,337,403

Operating Revenues

The sources of operating revenues for the Hospital are net patient services, state and local contracts and grants, and other operating revenues, with the most significant source being net patient services revenues. Operating revenues were $702.9 million, $638.1 million, and $633.2 million for the years ended 2014, 2013, and 2012, respectively.

Net patient service revenue is comprised of gross patient revenue, net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were $671 million, $604 million and $592.2 million for the years ended 2014, 2013, and 2012, respectively.

Net patient service revenues for 2014 of $671 million increased $67 million from $604 million in 2013, which represents a 11% increase. This is primarily the result of the enactment of the Patient Protection and Affordable Care Act (PPACA) on January 1, 2014 which expanded Medicaid eligibility and created the New Mexico Health Insurance Exchange (NMHIX) among other reforms. As a part of the State's Medicaid Expansion Plan, enrollees were expected to enroll in Centennial Care or purchase insurance on the New Mexico Health Insurance Exchange. The New Mexico Health Insurance Exchange (NMHIX) is available to individuals/families with incomes above 138% FPL and provides subsidized health insurance up to 400% FPL. NMHIX estimates approximately 187,000 adults qualify for exchange coverage, with 58,000 of those residing in Bernalillo County. Exchange enrollment began in October 2013. Approximately 34,000 enrolled on the exchange. The Hospital is designated as a site for enrollment with a direct connection to NMHIX.

The number of NMHIX applications submitted through the Hospitals was lower than expected at around 300 through June 2014. UNM Hospitals did submit approximately 10,000 Medicaid applications during this same time period.

In addition, the net patient revenue increase associated with the Radiation and Medical Oncology clinics becoming hospital based during fiscal year 2014 was $16.4 million.

Net patient service revenues for 2013 of $604 million increased $11.8 million from $592.2 million in 2012, which represents a 1.9% increase. Increased volumes at the Primary Care Clinics, Clinical Neurosciences Center and Orthopedic Clinic contributed to this increase.

	Year ended June 30,		
	2014	**2013**	**2012**
Inpatient days - adult	97,273	97,182	99,248
Inpatient days - pediatric	40,560	42,385	40,343
Inpatient days - newborn & obstetrics	16,740	16,986	16,533
Total Inpatient days	154,573	156,553	156,124
Observation days	6,196	5,502	4,737
Discharges	26,955	26,593	27,095
Outpatient visits	483,362	493,682	474,900
Emergency visits	80,702	78,428	72,682
Urgent Care Clinic	21,423	16,595	12,280

Overall inpatient days for 2014 decreased 1,980 from 2013, which represents a 1.3% decrease and is primarily attributed to a decrease in pediatric days of 1,825 from 2014 to 2013. At the same time, observation days for 2014 increased by 694 from 2013. A patient is considered to be in inpatient status based upon the physician's order. Observation services are hospital outpatient services given to help the doctor decide if the patient needs to be admitted as an inpatient or can be discharged. In the Hospital, observation services are provided in both the Emergency Room and on the inpatient units where the patient is assigned to a bed. The decision for inpatient hospital admission is a complex medical decision based on a physician's judgment and the need for medically necessary hospital care. The Hospital has been operating at full capacity for adult beds. The decrease in pediatric days in 2014 is the result of a higher than normal increase in Respiratory Syncytial Virus (RSV) pediatric admissions in 2013.

Inpatient days for 2013 increased 429 from 2012, which represents a 0.3% increase.

Beginning on July 1, 2005 effective through fiscal years 2013, and 2012, the Hospital entered into a reimbursement agreement for the State Coverage Insurance (SCI) program. The SCI agreement was in place through the first six months of fiscal year 2014. As a part of the transition to the Centennial Care Medicaid Program in January 2014, SCI enrollees with incomes up to 138% of the Federal Poverty Level (FPL) were moved onto full Medicaid coverage and for enrollees with incomes between 138% FPL and 185% FPL, enrollees were moved to Limited Medicaid coverage - Family Planning. The Human Services Department provided automatic assignment to Medicaid based on date on file in their eligibility system. Approximately 73% of the enrollees transferred to Centennial Care with full Medicaid benefits. Another 23% qualified for Medicaid Family Planning, which covers limited reproductive benefits. The remainder did not qualify for coverage under Medicaid, and were given the option of applying for coverage under the health insurance exchange. The 1115 HIFA waiver under which SCI operated was moved under the State's new Centennial Care waiver along with a range of other programs. The Funding for the SCI program was modeled after a capitated payment program. Funds are remitted to the Hospital on a per member per month basis for all state approved members.

The Hospital offers a financial assistance program called UNM Care to which all eligible patients are encouraged to apply. This program assigns patients primary care providers and enables them to receive care throughout the Hospital and at all clinic locations. This program is available to Bernalillo County residents who also meet certain income and asset thresholds. Patients applying for coverage under UNM Care must apply for coverage under Medicaid or the Health Insurance Exchange (HIX), if eligible. Patients may continue to receive UNM Care until they receive Medicaid eligibility or notification of coverage under the Exchange. Patients certified under Medicaid or the Exchange may continue to qualify for UNM Care as a secondary coverage for copays and deductibles if they meet the income guidelines. If a patient has access to insurance coverage under the Exchange, or through other coverage options, such as an employer or spouse the patient would be expected to obtain coverage through that source prior to eligibility for UNM Care. The Hospital uses the same sliding income scale as the Affordable Care Act to determine if insurance coverage is considered affordable. If coverage is determined not affordable, patients may be granted a hardship waiver, and would not be required to pursue coverage under HIX. These patients would qualify for UNM Care.

Approximately 36% of the patients who previously qualified for UNM Care are now covered under full Medicaid, 7% are covered under Limited Medicaid coverage - Family Planning and approximately 1% are now covered under the HIX. The remainder, approximately 10,000 enrollees are still covered under UNM Care. The income threshold for UNM Care is 300% of the FPL, and patients may apply for this program at various locations throughout the Hospital and various community locations. As of June 30, 2014, 2013, and 2012, there were approximately 20,200, 26,500, and 32,500 active enrollees, respectively. The Hospital does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The cost of charity care provided under this program for fiscal years ended June 30, 2014, 2013 and 2012 was $107.3 million, $130.8 million, and $129.5 million, respectively. The implementation of Centennial Care resulted in a decrease in the cost of charity care of $23.5 million in 2014 from 2013 and is the result of an increased number of Medicaid eligible patients.

The Hospital provides care to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance. The Hospital encourages patients to meet with a financial counselor to develop payment arrangements. Although the Hospital pursues collection of these accounts usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, liens are not placed on property or assets, and judgments are not filed against the patients. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2014, 2013 and 2012 was $136 million, $102.2 million, and $98.1 million, respectively. The cost of care provided to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance for years ended June 30, 2014, 2013 and 2012 was $66.7 million, $49.5 million, and $48.3 million, respectively. The increase in the cost is associated with an increase in under-insured patients due to the implementation of PPACA.

The Medicaid Supplemental Upper Payment Limit (UPL) funding was replaced with the Safety Net Care Pool (SNCP) Program effective January 1, 2014 as part of the implementation of Centennial Care. The FY 2014 UPL payment was $18 million, net of intergovernmental transfer ("IGT"). Under the SNCP program, the State is providing for enhanced Fee For Service (FFS) rates for hospitals classified as SNCP hospitals and increasing the capitation paid to the MCO's. The Hospital is classified as a SNCP provider and has recorded approximately $11 million in revenue, net of IGT associated with enhanced FFS rates. The rates are effective for Medicaid discharges from January 1, 2014; however, due to the delays in implementation in enrollment in Centennial Care, the payments will be based on discharges from April 1, 2014 through June 30, 2014.

For the years ended June 30, 2014 and 2013, UNM Hospital provided IGT's to the State of New Mexico in the amounts of $18.7 million and $16.3 million, respectively. Due to the current economic conditions in the State of New Mexico and nationally, the State was unable for fiscal years 2014 and 2013 to fund a portion of the non-federal share to obtain federal matching funds as described in the CMS Special Conditions/Approval, thereby jeopardizing the viability of the State Coverage Initiative ("SCI") program and Upper Payment Limit ("UPL") through the Sole Community Provider Program as related to the State Operated Teaching Hospital, and effective 1/1/14 the Enhanced MCO Rates as provided for in the Centennial Care waiver. As a result, UNM Hospital entered into Memorandums of Understanding with the State of New Mexico under which UNM Hospital agreed to an intergovernmental transfer to fund the non-federal share of the Medicaid payment pursuant to federal Medicaid regulations at 42 CFR 433.51 (Eligible Operating Funds). The loss of the SCI program, the State-Operated UPL funding and the Enhanced MCO rates would have a large detrimental financial impact to the Hospital which provides services to the enrollees in the SCI and Medicaid Fee-For-Service, and Managed Medicaid Programs. This loss would have also threatened the health, welfare and well-being of the enrollees in the SCI and Medicaid Fee-for-Service, and Managed Medicaid Programs. The IGTs are recorded as a reduction of net patient service revenues in the accompanying statement of revenues and expenses.

Effective February 21, 2014, the Recovery Audit Contract (RAC) program post payment reviews were temporarily suspended due to expiring RAC contracts. As of June 30, 2014, the new RAC contracts have not been awarded. The RAC program was created through the Medicare Modernization Act of 2003 (MMA) to recover inappropriate payments made to providers for fee-for-service Medicare. The RAC program became effective in March 2009 with Connolly Consulting Associates, Inc. as the contractor. The RAC has the authority to request up to 348 records every 45 days covering claims from June 2011 and forward. The Hospital received its first complex RAC request in June 2012 and last request was received in February 2014. As of June 30, 2014, there have been a total of 11 requests for approximately 2,500 records and $25.2 million in Medicare payments. Approximately $5.9 million has been recouped through June 30, 2014 and approximately $260,000 remains to be recouped. From June 2012 through February 2014, the volume and total RAC requests have trended significantly downward. The Hospital has implemented

several initiatives to reduce recoupment efforts including inpatient provider documentation initiatives, increasing utilization review nurse staffing, hiring consultants to provide education for both physicians and coders, and more robust and expanded auditing and review procedures. Management is aggressively rebilling claims under Medicare Part B and is in the appeals process for approximately $2.1 million of the $5.9 million. Management is currently in the process of analyzing the pending appeals and does not believe the decision will significantly impact the financial statements as of June 30, 2014.

Other Operating

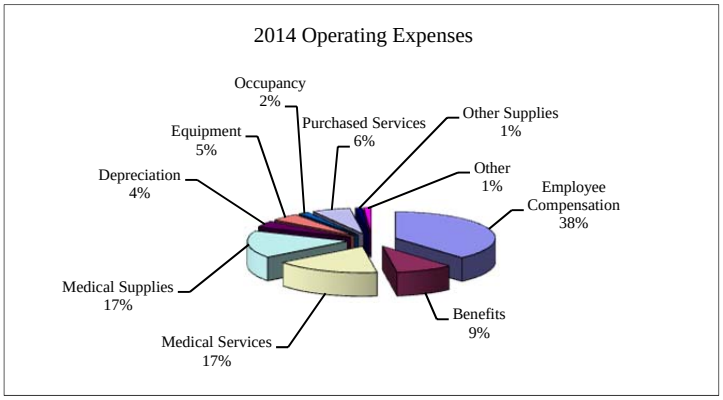
The Hospital was not able to provide outpatient pharmacy services for all Hospital patients due to limited outpatient pharmacy capacity at the three hospital outpatient pharmacy locations. Beginning December, 2012, the Hospital entered into contract pharmacy service arrangements. The contracted pharmacies are able to fill and re-fill prescriptions written by physicians credentialed at the Hospital for patients of the Hospital. The contracted pharmacy bills the patient's underlying insurance and remits the payments to the Hospital on a monthly basis, net of a dispensing fee. The Hospital has recorded $14.3 million and $1.5 million in other operating revenue for the fiscal years ended June 30, 2014 and 2013, respectively.

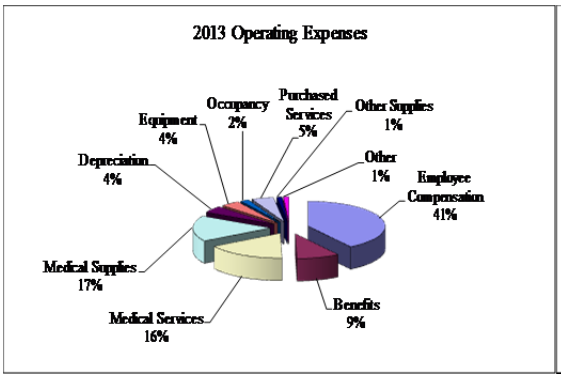
Operating Expenses

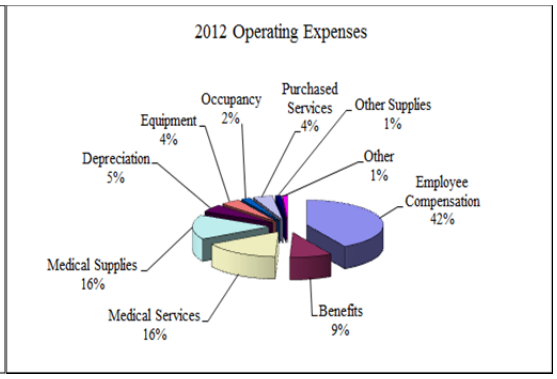
Operating expenses for the Hospital include items such as employee compensation and benefits, medical services, medical supplies, and equipment. The most significant expenditures were for employee compensation and benefits.

Compensation and benefits combined were $375.2 million, $359.1 million, and $350.8 million for the years ended June 30, 2014, 2013 and 2012, respectively. The percentage of compensation and benefits combined to total expenses was 47%, 50% and 51%. The Hospital was not able to provide an increase in wages to its employees during FY 2014 due to the minimal impact of HIX and the delayed implementation of Medicaid expansion.

The following pie charts depict the operating expense mix for the years ended June 30, 2014, 2013 and 2012:







For the year ended June 30, 2014, operating expenses, including depreciation of $31 million, totaled $786.8 million, an increase from 2013 of $60.5 million or 8.3%. The overall increase was primarily attributed to an increase in purchased services of $15.5 million (46.3%), medical services of $11.1 million (9.1%), medical supplies of $10.2 million (8.4%), and employee benefits of $9.1 million (14.4%). Purchased services increased due to an increase in costs for the provision of post-acute and additional primary care access for UNM Care patients, transcription of physician dictations, and other health system expenses. Medical services increased as a result of increased support of physician providers and resident programs. Medical supplies increased as a result of increased pharmaceutical and biologics costs, as well as increased utilization of supplies designed to reduce the risk of infection control. The Hospital has seen an increase in the number of patients requiring blood clotting agents. Employee benefits increased as a result of increased health insurance costs and annual adjustments to the Hospital's other post-employment benefits liability based on actuarial review.

For the year ended June 30, 2013, operating expenses, including depreciation of $32.2 million, totaled $726.4 million, an increase from 2012 of $33.4 million or 4.8%. The overall increase was primarily attributed to an increase in medical supplies of $11.1 million (10.1%), medical services of $10.5 million (9.4%), and employee compensation of $6.3 million (2.2%) as well as employee benefits of $2.0 million (3.2%). Medical supplies increased as a result of increased implant, pharmaceutical and biologics costs. Medical services increased as a result of increased support of physician providers and resident programs. Employee compensation increased as a result of an increase in the number of employees in the nursing, ambulatory and support areas. Employee benefits increased as a result of increased health insurance costs and annual adjustments to the Hospital's other post-employment benefits liability based on actuarial review.

Nonoperating Revenues and Expenses

For the year ended June 30, 2014, $93.2 million has been recorded as net nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position.

At June 30, 2014 and 2013, the Bernalillo County Mill Levy tax subsidy was the most significant nonoperating revenue, totaling $78.2 million in 2014 and $78.5 million in 2013. This tax subsidy is provided for the general operations of the Hospital. The Hospital received this tax subsidy by voter endorsement for the services the Hospital provides. The voters approved the renewal of the mill levy in the November 2008 election. The mill levy is subject to approval by the Bernalillo County voters every eight years, and it will be up for renewal in the November 2016 election.

The next largest source of nonoperating revenue in 2014 was $41.1 million in Investment Income compared to $13.7 million in 2013. UNM Hospital recognized $39.9 million from its investment in TriWest Healthcare Alliance (TriWest) in 2014 compared to $12.7 million in 2013. Approximately $30 million of the revenue recognized in fiscal year ended 2014 was the result of a re-capitalization completed by TriWest in 2014 (Note 5). State appropriation funding was $5.6 million compared to $5.2 million in 2013. Included in this amount for 2014 and 2013 was $5 million and $4.7 million for Carrie Tingley Hospital (CTH), respectively, and $497,800 and $524,000 for Young Children Health Center (YCHC), for 2014 and 2013, respectively. The Hospital received capital appropriations in the amount of $30,000 and $577,000 in 2014 and 2013, respectively. State land revenue and oil and gas royalties for CTH for 2014 and 2013 were $877,738 and $732,598, respectively.

Contribution revenue was $2.7 million for 2014 compared to $3.0 million in 2013. The primary source for contributions is the annual Children's Miracle Network drive which raised approximately $865,000 in 2014. In addition, there were donations that were used for pediatric cardiology, intermediate care nursery, and pediatric intensive care. All donation monies are received by the UNM Hospital Foundation and are drawn upon by the hospital.

The largest nonoperating expense recorded in 2014 was $26.0 million for strategic capital projects such as additional clinics in the North Valley and the Northeast Heights.

Included in nonoperating expense was $7.6 million and $7.8 million of interest expense on capital asset-related debt for the years ended June 30, 2014 and 2013, respectively. This debt consists of Federal Housing Administration (FHA) insured Hospital Mortgage Revenue Bonds issued on October 14, 2004, in the aggregate principal amount of $192.3 million. Interest on the bonds ranges from 2% to 5% and is payable semi-annually on each January 1 and July 1. The Series 2004 bonds were issued for the purpose of financing the construction, equipping, and furnishing of the Barbara and Bill Richardson Pavilion. The 478,000 square foot pavilion was placed into service in June 2007.

Capital Assets

At June 30, 2014, the Hospital had $239.1 million invested in capital assets, net of accumulated depreciation of $342.3 million. Depreciation charges for fiscal year 2014 totaled $31.0 million compared to $32.2 million and $34.2 million in fiscal years 2013 and 2012, respectively.

As of June 30,

	2014	2013	2012
Land, building and improvements	$ 182,659,209	182,067,206	180,495,764
Building service equipment	158,794,896	156,400,725	152,380,444
Fixed equipment	15,509,382	15,464,906	15,386,603
Major moveable equipment	217,919,198	210,374,242	196,099,993
Construction in progress	6,517,679	3,961,372	9,462,680
	581,400,364	568,268,451	553,825,484
Less accumulated depreciation	(342,321,985)	(313,580,560)	(283,467,748)
Net property and equipment	$ 239,078,379	254,687,891	270,357,736

During 2014, the largest capital increases were within major moveable equipment ($7.5 million) and building service equipment ($2.4 million). The largest capital expenditure was the completion of the installation of the final new room for Interventional Radiology which included a single-plane angiography lab. The next largest expenditure was for upgrades to the Operating Rooms (OR). This included surgical imaging equipment which enables physicians to have instant access to previously stored patient radiological images and be able to record images during surgical procedures. In addition, operating room surgical suite integration equipment was installed in the six pediatric operating rooms. The equipment provides video feeds and allows for the sharing of information between the surgeon and physicians located outside of the OR to collaborate and provide instant communication on cases. Another group of capital purchases was for replacement of the nurse call system, Phase 2 implementation of Lawson Financial System, new ultrasound equipment, new incubators, and new ventilators. Building improvements included expansion of the University Eye Clinic and improvements to the pharmacy order and picking area. Building service equipment included assets for the interventional radiology renovation, assets for the expansion of the eye clinic, replacement of the domestic soil pipes, HVAC upgrades, and installation of fan coils in the Orthopedic Clinic and replacement of the unit doors.

Debt Activity

The Hospital's bonds payable totaled $160.3 million and $165.9 million at June 30, 2014 and 2013, respectively. The current portion of this debt was $5.5 million and $5.2 million at June 30, 2014 and 2013, respectively. This debt is related to the Federal Housing Administration (FHA) insured Hospital Mortgage Revenue Bonds, Series 2004, issued by the UNM Board of Regents for the purpose of financing the construction, equipping, and furnishing of the 478,000-square-foot Bill and Barbara Richardson Pavilion. The project was placed into service June 2007.

The loan guarantee is considered federal assistance subject to the requirements of Office of Management and Budget (OMB) Circular A-133 and the Single Audit Act. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2014 and 2013 Single Audit.

Change in Net Position

The Hospital's total change in net position showed a net increase for 2014 and 2013. Total net position (assets minus liabilities) is classified by the Hospital's ability to use these assets to meet operating needs. Unrestricted net position may be used to meet all operating needs of the Hospital. A portion of the Hospital's net position may be restricted as to use by sponsoring agencies, donors, or other nonhospital entities. Restricted net position represents funds generated by contributions and gifts. The restricted net position is further classified as to the purpose for which the funds must be used. Net position increased approximately $9.2 million in 2014. The increase in net position is, in large part, due to the increased investment income of $27.3 million which was partially offset by capital initiatives expense of $26 million. Additionally, operating revenue increased $64.8 million and was only partially offset by an increase of $60.5 million in operating expense.

Factors Impacting Future Periods

On August 4, 2014, the Centers for Medicare & Medicaid Services (CMS) released the fiscal year 2015 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates will increase by a market basket increase of 2.9%, less a 0.5% productivity reduction mandated under the Patient Protection and Affordable Care Act (PPACA), less a 0.8% documentation and coding reduction mandated by the American Taxpayer Relief Act of 2012, and less a 0.2% reduction to offset projected increases associated with new admission and medical review criteria for inpatient services.

The final rule includes a 2.2% mandated increase to national standardized operating payment amounts for hospitals submitting data on quality measures and meeting meaningful use of electronic health records (EHRs) requirements. Hospitals not submitting either quality data or not meaningful use users of EHRs in fiscal year 2015 receive an update of only 1.475%. Hospitals not meeting either requirement are subject to only a 0.75% increase. The Hospital has submitted quality measures and is awaiting final CMS rules to determine if meaningful use measures have been met. The Final Rule did not provide policies or explanation regarding how CMS will identify and notify appropriate hospitals that they are subject to meaningful use payment penalties. If the Hospital is not deemed a meaningful use EHR user, the estimated impact associated with the EHR will be a reduction of $341 thousand. The estimated impact associated with the federal fiscal year 2015 IPPS final rule will be a reduction of $1.6 million.

Beginning in FY 2014, PPACA required changes to Medicare Disproportionate share hospital (DSH) payments. The Hospital receives 25% of the DSH payment previously received using the traditional formula as part of the "base" DRG payments for each Medicare inpatient discharge. The remaining 75% flows into a separate funding pool and is distributed based on each DSH-eligible hospital's ratio of uncompensated care relative to the total for all DSH-eligible hospitals. This portion of the Medicare DSH funding is paid as a flat amount on each Medicare inpatient discharge. This pool is reduced as uninsured populations decline. The national uninsured rate decreased from 16% to 13%. The estimated impact associated with the federal fiscal year 2015 Medicare Disproportionate share will be a reduction of $2.3 million.

CMS will also use its most recent labor market delineations for determining area wage index as issued by the Office of Management and Budget on February 28, 2013 and included an updated list of core-based statistical areas (CBSAs). For hospitals experiencing a decrease in wage index exclusively due to the new labor market delineations, CMS will use a blended wage index for FY 2015 that is 50% of the FY2015 CBSA value and 50% of the FY2014 CBSA value.

The Final Rule implements the PPACA required 1% reduction for Hospital-acquired Conditions (HACs) for hospitals scoring in the top quartile of national HAC rates. The Hospital's HAC score is in the highest quartile; therefore, the Hospital will be subject to the 1% decrease. The Hospital's payment rates will have no impact from the Hospital Readmission Reduction Program required by ACA. The estimated impact associated with the federal fiscal year 2015 HAC will be a reduction of $690 thousand.

On July 3, 2014, CMS issued the proposed calendar year 2015 Outpatient Prospective Payment rule. CMS proposed to raise the base OPPS Payment rate by a market basket increase of 2.7%, less a productivity adjustment of 0.4% and 0.2% for reductions required under PPACA. For hospitals that do not report the 22 quality measures identified by CMS, the update will be decreased by 2.0 percentage points, to 0.1%. CMS has proposed creating 28 comprehensive ambulatory payment classifications (APCs), which package related items and services into a single payment for the comprehensive primary service. These comprehensive APCs will replace the existing device-dependent APCs (procedures requiring a device to also be coded). The proposed comprehensive APCs will cover certain ancillary services with a geometric mean cost of less than $100 that are typically paid under separate fee schedules (such as laboratory services and therapy services, and durable medical equipment, prosthetic and orthotic supplies). These services will be

considered adjunctive services that support the primary service and will not be paid separately. Separate payment will made for the ancillary services when they are furnished by themselves. CMS proposes using the final FY 2015 IPPS wage index for CY 2015 OPPS and the same wage index transition periods as those used in IPPS. CMS has proposed to begin collecting information that would allow it to analyze the services and payment for services furnished in off-campus provider-based hospital departments. The proposed rule would require a modifier be added to physician services and outpatient hospital services provided in an off-campus provider-based department of a hospital. The estimated impact associated with the calendar year 2015 OPPS will be an increase of $639 thousand.

The Patient Protection and Affordable Care Act (PPACA) was enacted on March 23, 2010. PPACA expanded Medicaid eligibility provisions, Medicare and Medicaid reforms, and private insurance market reforms. PPACA includes legislation on Health Exchanges. Health Exchanges are expected to facilitate the purchase of health insurance for qualified individuals and small employers. Federal subsidies for premiums under Health Exchanges became available beginning January 2014. On July 22, 2014, the D.C. Circuit Court of Appeals in Washington ruled that the text of PPACA forbids income-tax subsidies for low and middle income Americans whose insurance is provided through one of the federally run insurances exchanges (*Halbig v. Burwell*). The Circuit Court ruled that tax credits can only be provided on coverage purchased through an exchange established by the state. Thirty-six states currently use the federally run insurance exchanges, including New Mexico. On the same day, the 4th U.S. Circuit Court of Appeals in Virginia upheld the subsidies provided for coverage purchased on federal exchanges (*King v. Burwell*). In August 2014, plaintiffs in the Virginia case petitioned the Supreme Court to hear the case. If accepted by the Supreme Court, a ruling may not be made until after the next re-enrollment period for 2015. New Mexico will continue to utilize the federal health exchange for the next enrollment period and will be impacted by any subsequent court rulings. CMS has also identified a significant number of enrollees nationally that have not provided all required documentation to support enrollment on the federal health exchange. If documentation is not provided, patients will be removed from the federal health exchange as of September 30, 2014. The number of New Mexico enrollees impacted is not known at this time.

The Recovery Audit Contract (RAC) program was created through the Medicare Modernization Act of 2003 (MMA) to recover inappropriate payments made to providers for fee-for-service Medicare. The RAC program encompassing New Mexico became effective in March 2009, with Connolly Consulting Associates, Inc. as the contractor. CMS is currently in the procurement process for the next

round of RAC contractors. In February 2014, CMS issued deadlines by which current contractors could submit additional documentation requests (ADRs) and improper payment adjustment files to the Medicare Administrative Contractors (MACs) for adjustment. These deadlines were to allow completion of all outstanding claims reviews and other process by the end of the current contracts. On August 4, 2014, due to delays in awarding RAC contracts, CMS initiated contract modifications to current RAC contracts to allow a restart of some reviews. CMS stated that most reviews will be on an automated basis, with a limited number of complex reviews of topics selected by CMS. During the extension of the current contracts, RACs will not review claims to determine if the care was delivered in the appropriate setting. CMS announced on August 29, 2014, that it is offering an administrative agreement to any hospital willing to withdraw pending appeals in exchange for timely partial payment (68% of the net allowable amount).

In January 2009, the Department of Health and Human Services (HHS) published final rules on the adoption of International Classification of Diseases, 10th Revision, Clinical Modification (ICD-10) as the Health Insurance Portability and Accountability Act of 1996 (HIPAA) standard code set to replace ICD-9. This 2009 ICD-10 final rule established October 1, 2013 as the compliance date for ICD-10 coding of diagnosis and procedure codes. In September 2012, HHS published a delay in the ICD-10 compliance date from October 1, 2013 to October 1, 2014. On April 1, 2014, the Protecting Access to Medicare Act of 2014 (PAMA) was signed delaying the transition to ICD-10 for at least one year. On July 31, 2014, HHS issued a final rule establishing October 1, 2015 as the compliance date for ICD-10. The Hospital is in the process of upgrading its patient financial billing systems in order to prepare for ICD-10. The Hospital has submitted a request for proposal for computer assisted coding software and expects to have this software implemented within the next twelve months in preparation for ICD-10. The Hospital has incurred $881 thousand in costs associated with the patient billing upgrade and the remaining estimated costs for preparing for the implementation of ICD-10 is expected to be $3.2 million.

The Bernalillo County mill levy the Hospital receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially decrease as a result of reduced property values and slowdowns in the building construction industry. The Hospital's facilities are leased from Bernalillo County (the County) by UNM under the 1999 lease agreement, as described under Note 1 to the financial statements. Section IV. Term of this agreement provides for either party to the lease to reopen the terms and conditions by giving notices in the first three months of 2006, 2014, 2022, 2030 and 2038. On March 25, 2014, the County Commission approved Administrative Resolution AR 2014-21 to open negotiations with UNM on the lease agreement and to establish a taskforce to provide healthcare expertise to

the County in support of the negotiations. The County is expected to receive recommendations from the taskforce in September 2014. It is likely the County will request the Hospital to expand or add services based on the priorities identified by the taskforce. Behavioral Health services expansion is expected to be a key part of this request, as this has been a topic of high concern in the local community. The Hospital may be expected to partner with Bernalillo County, the City of Albuquerque, State and other community providers to better address the needs of behavioral health patients.

The Hospital owns 2.55%, carried at $5 million, of TriWest Healthcare Alliance (TriWest). In September 2013, TriWest was awarded a five-year contract with the Department of Veteran Affairs to provide health care services to Department of Veteran Affairs Beneficiaries under the Patient-Centered Community Care (VA PC3) program. The VA PC3 program is to provide a limited network of inpatient and outpatient specialty care, mental health, emergency and newborn care providers for VA beneficiaries. On August 13, 2014, the VA announced that primary care would be added to the services available under VA PC3 contracts. This modification is designed to support the VA's Accelerated Care Initiative to reduce wait times and commuting distances necessary for healthcare. It is expected that the Hospital will continue to care for the patients covered under this program and may have a minor increase in patient volumes.

The Hospital plans to build out the second and fourth floors of the existing Cancer Center clinic. The build out will add multidisciplinary cancer clinics integrating surgical oncology specialties as well as provide for expansion of chemotherapy infusion. New cancer service lines to be added or expanded as a result of the finish out include hematologic malignancies, bone marrow and stem cell transplantation program, clinical trials program, experimental therapeutics, an adolescent and young adult oncology Program (Ages 16-39) as well as a Cancer Survivorship Program. The costs for the build out are estimated to be $11.6 million dollars and will be primarily funded by the Capital Initiatives. The Hospital plans to construct one primary care clinic in the North Valley and renovate a building purchased in fiscal year 2014 as a family medicine clinic in Northeast Heights. The costs for the construction and renovation are estimated to be $10 million and will be funded from the Capital Initiatives.

Contacting the Hospital's Financial Management

This financial report is designed to provide the Hospital's patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital's Finance and Accounting Department, Attn: Controller, P.O. Box 80600, Albuquerque, NM 87198-0600.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
STATEMENTS OF NET POSITION
June 30, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash and cash equivalents	$ 106,308,056	102,650,474
Marketable securities	34,328,916	34,139,155
Restricted assets by trustee for debt service	8,788,658	8,629,411
Receivables:		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $207,229,000 in 2014 and $168,550,000 in 2013)	95,616,735	68,261,887
Due from University of New Mexico	1,717,687	137,013
Estimated third-party payor settlements	30,873,502	26,454,703
Bernalillo County Treasurer	1,315,249	1,261,556
Other	6,270,599	5,028,472
Total net receivables	135,793,772	101,143,631
Prepaid expenses	3,859,416	4,390,015
Inventories	10,688,810	10,379,274
Total current assets	299,767,628	261,331,960
Noncurrent assets:		
Assets held by trustee:		
Restricted for mortgage reserve fund	17,361,975	14,941,334
Restricted for debt service reserve	13,513,150	13,513,150
Restricted for collateral	3,828,000	3,823,469
Restricted for redemption fund	2,005	2,005
Assets designated by UNM Hospital Board of Trustees	21,113,513	19,098,191
Total restricted assets	55,818,643	51,378,149
Capital assets, net	239,078,379	254,687,891
Total noncurrent assets	294,897,022	306,066,040
Total assets	594,664,650	567,398,000
Liabilities		
Current liabilities:		
Accounts payable	50,055,591	31,103,685
Accrued payroll	16,292,193	19,251,147
Due to University of New Mexico	19,222,840	7,817,742
Bonds payable – current	5,495,000	5,240,000
Interest payable bonds	3,908,150	4,020,600
Accrued compensated absences	19,213,056	18,672,192
Estimated third-party payor settlements	17,010,659	16,519,287
Other accrued liabilities	77,524	1,618,608
Total current liabilities	131,275,013	104,243,261
Noncurrent liabilities:		
Bonds payable	154,850,166	160,650,412
Due to affiliates	9,513,711	13,151,888
Net OPEB obligation	5,732,960	5,248,805
Total noncurrent liabilities	170,096,837	179,051,105
Total liabilities	301,371,850	283,294,366
Net Position		
Net invested in capital assets	90,419,715	102,310,629
Restricted, expendable		
For grants, bequests, and contributions	14,015,369	12,214,044
In accordance with the trust indenture and debt agreement	29,980,639	27,396,219
Unrestricted	158,877,077	142,182,742
Commitments and contingencies		
Total net position	$ 293,292,800	284,103,634

See accompanying notes to financial statements.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2014 and 2013

		2014	2013
Operating revenues:			
Net patient service	$	671,034,670	603,994,113
Premium		12,021,655	25,570,089
State and local contracts and grants		1,353,088	1,478,278
Other operating		18,444,066	7,011,096
Total operating revenues		702,853,479	638,053,576
Operating expenses:			
Employee compensation		302,558,952	295,562,277
Benefits		72,622,852	63,494,436
Medical services		133,338,676	122,247,904
Medical supplies		131,637,150	121,391,422
Purchased services		49,007,243	33,506,729
Equipment		36,397,282	28,875,494
Depreciation		30,982,823	32,201,262
Occupancy		12,742,222	12,940,959
Other		9,320,820	8,272,741
Other supplies		8,206,897	7,868,230
Total operating expenses		786,814,917	726,361,454
Operating loss		(83,961,438)	(88,307,878)
Nonoperating revenues (expenses):			
Bernalillo County mill levy		78,217,226	78,457,065
State appropriation		5,545,264	5,219,500
Capital appropriation		30,000	577,000
State of New Mexico Land and Permanent Fund proceeds		877,738	732,598
Capital initiatives		(26,000,000)	-
Investment income (interest, dividends, gains, and losses)		41,060,298	13,681,081
Equity in income (loss) of TriCore and TriCore Lab Svc Corp.		(372,177)	1,441,087
Interest on capital asset-related debt		(7,566,691)	(7,770,258)
Capital grants and gifts		108,952	1,296,265
Bequests and contributions		2,564,600	1,686,531
Other nonoperating revenue		-	442,897
Other nonoperating expense		(1,314,606)	(1,110,868)
Net nonoperating revenues		93,150,604	94,652,898
Increase in net position		9,189,166	6,345,020
Net position, beginning of year		284,103,634	281,337,403
Restatement		-	(3,578,789)
Net position, beginning of year, as restated		-	277,758,614
Net position, end of year	$	293,292,800	284,103,634

See accompanying notes to financial statements.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from Medicaid and Medicare	$ 319,556,891	348,088,846
Cash received from insurance and patients	350,869,500	302,210,331
Cash received from contracts and grants	1,404,923	1,996,768
Cash payments to employees	(304,977,042)	(290,385,306)
Cash payments to suppliers	(296,797,759)	(268,830,051)
Cash payments to University of New Mexico	(149,699,845)	(132,254,983)
Cash payments to State of New Mexico for intergovernmental transfer	(9,018,014)	(21,033,597)
Cash payments to affiliates	(3,638,177)	(1,523,621)
Other receipts	17,778,872	6,985,127
Net cash (used in) operating activities	(74,520,651)	(54,746,486)
Cash flows from noncapital financing activities:		
Cash received from Bernalillo County mill levy	78,163,533	78,501,786
Cash received from state general fund and other state fund appropriations	5,545,264	5,219,500
Cash received from State of New Mexico Land and Permanent Fund	773,393	739,042
Cash payments for other than capital or operating purposes	(267,995)	(24,861)
Cash received from contributions for other-than-capital purposes	2,564,600	1,686,531
Net cash provided by noncapital financing activities	86,778,795	86,121,998
Cash flows from capital financing activities:		
Interest payments on capital assets-related to debt	(7,984,387)	(8,184,272)
Principal payments of bonds	(5,240,000)	(4,985,000)
Purchases of capital assets	(15,577,075)	(16,357,854)
Cash payments to University of New Mexico	(15,000,000)	-
Cash received from state general fund and other state fund capital appropriations	30,000	577,000
Capital grants and gifts received	108,952	1,296,265
Cash payments for mortgage-related activities	(842,848)	(816,673)
Net cash (used in) capital financing activities	(44,505,358)	(28,470,534)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	74,096,302	40,857,867
Purchase of investments	(48,794,958)	(43,557,685)
Interest and dividends on investments	10,603,452	13,920,549
Net cash provided by investing activities	35,904,796	11,220,731
Net increase in cash and cash equivalents	3,657,582	14,125,709
Cash and cash equivalents, beginning of year	102,650,474	88,524,765
Cash and cash equivalents, end of year	$ 106,308,056	102,650,474

See accompanying notes to financial statements.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2014 and 2013

		2014	2013
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(83,961,438)	(88,307,878)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense		30,982,823	32,201,262
Provision for doubtful accounts		136,033,949	102,205,099
Change in assets and liabilities:			
Patient receivables		(163,388,797)	(99,144,952)
Due from University of New Mexico		(1,580,674)	2,929,582
Estimated third-party payor settlements receivables		(4,418,799)	(3,222,620)
Other receivables and prepaid expenses		(613,359)	492,521
Inventories		(309,536)	(711,293)
Due to University of New Mexico		405,098	(10,158,771)
Estimated third-party payor settlements liabilities		491,372	(136,149)
Due to affiliates		(3,638,177)	(1,523,621)
Accrued expenses		(1,933,935)	5,605,717
Accounts payable		17,410,822	5,024,617
Net cash (used in) operating activities	$	(74,520,651)	(54,746,486)

See accompanying notes to financial statements.

NOTE 1. DESCRIPTION OF BUSINESS

UNM Hospital (the Hospital), operated by the University of New Mexico (UNM) Health Sciences Center (HSC), is certified as a short-term acute care provider with a full range of medical services provided mainly to the New Mexico community. UNM is a state institution of higher education created by the New Mexico Constitution. The accompanying financial statements of the Hospital are intended to present the financial position and changes in financial position and cash flows of only that portion of the business-type activities of UNM that is attributable to the transactions of the Hospital. The Hospital is not a legally separate entity and is, therefore, reported as a division of UNM and included in the basic financial statements of UNM. The Hospital, as a division of UNM, is not a legal entity and has no component units.

The Hospital's facilities are leased from Bernalillo County (the County) by UNM. The lease provides for a $1 annual rental payment, an allocation of the County mill levy, and medical treatment for American Indians as required by a 1952 agreement with the federal government, and is contingent on approval of the mill levy by the electorate every eight years with the last voter approval in November 2008. Effective as of November 18, 2004, the UNM Board of Regents and the Board of County Commissioners entered into a First Amendment to the Original Lease, as amended, (the Lease), under which, among other things, (i) the term of the Original Lease was extended until June 30, 2055, which is after the maturity of the Department of Housing and Urban Development (HUD)-insured loan (refer to Note 10, Bonds Payable); (ii) the Hospital was authorized to obtain the HUD insured loan; (iii) the Hospital was authorized to encumber the Lease with a leasehold mortgage; and (iv) the actions that are to be taken concerning the operations of the Hospital in the event of a default under the HUD-insured loan were described.

The UNM Board of Regents is the ultimate governing authority of the Hospital, but it has delegated certain oversight responsibilities to the UNM HSC Board of Trustees. The Hospital is governed by the UNM HSC Board of Trustees, which consists of nine members, including seven members appointed by the UNM Board of Regents. One is nominated by the All Indian Pueblo Council and the two remaining members are appointed by the County Commission.

In 2007, UNM Carrie Tingley Hospital (CTH) inpatient unit relocated to the Barbara and Bill Richardson Pavilion, a new addition to the Hospital known as Children's Hospital and Critical Care Pavilion (CHCCP). As a result, CTH's healthcare provider number was terminated, and CTH became a pediatric unit of the Hospital.

NOTE 1. DESCRIPTION OF BUSINESS (CONTINUED)

CTH was created in 1989 by the legislature of the State of New Mexico to provide care and treatment for the physically challenged children of the State of New Mexico in need of long-term inpatient or outpatient care. A brief summary of CTH's financial results for the years ended June 30 is as follows:

	2014	2013
Total operating revenues	$ 11,113,895	11,294,475
Total operating expenses	(17,181,775)	(17,740,599)
Operating loss	(6,067,880)	(6,446,124)
Nonoperating revenue	6,097,999	6,063,326
Total (decrease) in net position	30,119	(382,798)
Net position, beginning of year	3,171,703	3,554,501
Net position, end of year	$ 3,201,822	3,171,703

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for healthcare organizations, and are

presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and *GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resource, and Net Position*. The Hospital follows the business-type activities' requirements of GASB Statement No. 34 and No. 63. This approach requires the following components of the Hospital's financial statements:

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- GASB Statement No. 34 and subsequent amendments including GASB Statement No. 63 as discussed below, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:
    - *Net Investment in Capital Assets* – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
    - *Restricted Net Position – Expendable* – Assets whose use by the Hospital is subject to externally imposed constraints that can be fulfilled by actions of the Hospital pursuant to those constraints or that expire by the passage of time.
    - *Unrestricted Net Position* – Assets that are not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or the UNM Board of Regents or may otherwise be limited by contractual agreements with outside parties.

Changes in Accounting Policies and Statements. Effective July 1, 2012, the Hospital adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. This statement had minimal impact on the Hospital's financial statements or related accounting and financial reporting. The primary effects of implementing these statements were to change all previous references from "net assets" to "net position," change the line item for "invested in capital assets, net of related debt" to "net investment in capital assets," and to classify certain assets and liabilities as "deferred inflows" and "deferred outflows." At June 30, 2014, the Hospital had no items meeting the criteria of "deferred inflows" or "deferred outflows." Effective July 1, 2013, the Hospital adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.* The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The impact of this statement to the Hospital is the requirement of debt issuance costs to be expensed as incurred rather than capitalized and amortized as under previous guidance. In accordance with GASB Statement No. 65, the Hospital restated the Net Position as of July 1, 2012 to remove bond issuance costs.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following summarizes the impact of the restatement to previously reported balances:

	2013 as Previously Reported	Write Off 2013 Bond Cost Expense to Beginning Net Position	Write Off Bond Issuance Cost Asset	2013 as Restated
2013 Statement of Revenues, Expenses				
and Changes in Net Position				
Amortization of bond issuance costs	354,027	(354,027)	-	-
Net non-operating revenues	94,298,871	354,027	-	94,652,898
Increase in net position	5,990,993	354,027	-	6,345,020
Net position, beginning of year	281,337,403	(354,027)	(3,224,762)	277,758,614
2013 Statement of Net Position				
Bond issuance costs	3,224,762	-	(3,224,762)	-
Total net position	287,328,396	-	(3,224,762)	284,103,634

Recent Accounting Pronouncement. The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* ("GASB No. 68"), which is effective for financial statements for periods beginning after June 15, 2014. GASB No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. The Hospital is currently evaluating the impact of the adoption of GASB No. 68 for the fiscal year ending June 30, 2015.

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.

Grants and Contracts. Revenue from grants and contracts is recognized to the extent of direct costs and allowable indirect expenses incurred under the terms of each agreement. Funds restricted by grantors for operating purposes are recognized as revenue when the terms of the grant have been met.

Operating Revenues and Expenses. The Hospital'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 Hospital's principal activity. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values. Operating expenses are all expenses incurred to provide healthcare services.

Nonoperating Revenues and Expenses. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as appropriations, gifts, investment income, and government levies. These revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Appropriations are recognized in the year they are appropriated, regardless of when actually received. Bequests and contributions are recognized when all applicable eligibility requirements have been met. Investment income is recognized in the period when it is earned. The mill levy is recognized in the period it is collected by the County. Capital initiatives expense is recognized in the period in which the Hospital incurs an obligation to make payments to UNM HSC as evidenced by an executed Memorandum of Understanding (MOU) between UNM HSC and the Hospital.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Intergovernmental Transfers. Intergovernmental transfers are recognized in the period in which the Hospital incurs an obligation to make payments to other governmental entities as evidenced by executed Memorandums of Understanding (MOU) between the State of New Mexico and the Hospital. Approximately, $9.6 million of the total $18.6 million recorded IGT obligations were not paid as of the end of fiscal year 2014. All obligations occurring during fiscal year 2013 were paid in fiscal year 2013. Due to the nature of the MOU to fund a portion of the non-federal share to obtain federal matching funds for the State Care Initiative (SCI) program and since the SCI program is for the provision of patient care, intergovernmental transfers (IGT) were recorded as a reduction of net patient service revenues.

Cash and Cash Equivalents. The Hospital considers all highly liquid investments (excluding amounts whose use is limited) purchased with an original maturity of three months or less to be cash equivalents.

Investments and Investment Return. Investments are recorded at fair market value. At June 30, 2014 and 2013, investments consist of obligations of the U.S. government and U.S. government agencies. Investment income includes interest and realized and unrealized gains and losses on investments. Investment income is reported as nonoperating revenue when earned.

The Hospital 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.

Assets Designated by UNM Hospital Board of Trustees. The investment in TriWest Healthcare Alliance Corporation (TriWest) is accounted for using the cost method. The investment in TriCore Reference Laboratories (TRL or TriCore) is accounted for using the equity method.

A portion of restricted assets are classified in the accompanying statements of net position as current assets as these assets are restricted by the Federal Housing Administration (FHA) and the UNM Hospital Board of Trustees to cover the current portion of long-term debt and are subject to approval by the respective parties.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Capital Assets. Capital assets are stated at cost or at estimated fair value on date of acquisition. Donated property and equipment are stated at fair market value when received. The Hospital's capitalization policy for assets includes all items with a unit cost of 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 Hospital Assets," Revised 2008 Edition published by the American Hospital Association. Repairs and maintenance costs are charged to expense as incurred. On a quarterly basis, the Hospital 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. During fiscal year 2014, the Hospital recognized impairment of capital assets totaling $166,000 as the result of a significant, unexpected decline in the service utility of the assets in accordance with GASB 42*, "Accounting and Financial Reporting for Impairment of Capital Assets."*

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.

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. The Hospital is eligible for and receives additional Medicaid reimbursement for the difference between the amount that would be equal to the Medicare reimbursement per discharge compared to the Medicaid payment per discharge. This upper payment limit (UPL) is based on the reimbursement that would use Medicare reimbursement principles. This amount is recorded as an offset to contractual adjustments. The UPL program was terminated effective December 31, 2013 with the implementation of the Affordable Care Act and the Centennial Care Program on January 1, 2014.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

With respect to the State Coverage Initiative (SCI) program, funding is modeled after a capitated payment program. Revenue with respect to SCI is recognized in the period in which the Hospital is obligated to provide care to the enrolled members. Funds are remitted to the Hospital on a per member per month basis for all state-approved members. Therefore, contractual adjustments are recorded as a deduction from patient revenue in its entirety. Capitated payments are received on a monthly basis and are recorded as an offset to contractual adjustments in the amount of approximately $19,602,000 and $39,696,000 for years ended June 30, 2014 and 2013, respectively. Accounts, when determined to be uncollectible, are charged against the allowance for doubtful accounts. The SCI program was terminated effective December 31, 2013 with the implementation of the Medicaid Centennial Care program on January 1, 2014.

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

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

Bond Premium. The premium associated with the issuance of the FHA Insured Hospital Revenue Bonds is amortized using the effective-interest method over the life of the series of bonds.

Income Taxes. As part of a state institution of higher education, the income of the Hospital is generally excluded from federal and state income taxes under Section 115(1) of the Internal Revenue Code. However, income generated from activities unrelated to the Hospital's exempt purpose is subject to income taxes under Internal Revenue Code, Section 511(a)(2)(B). During the years ended June 30, 2014 and 2013, there was no income generated from unrelated activities.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Investment in Capital Assets. Net investment in capital assets, represents the Hospital's total investment in capital assets, net of outstanding debt related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. There are $13.5 million in unspent bond proceeds at June 30, 2014 and 2013, reserved for debt service as required by the trustee.

Risk Management. The Hospital sponsors a self-insured health plan in which the Center (UNM Psychiatric Center and UNM Children's Psychiatric Center, collectively, the Center) also participate, as all employees are under the centralized umbrella of the Hospital. Blue Cross and Blue Shield of New Mexico and HMO New Mexico (BCBSNM and HMONM) provide administrative claim payment services for the Hospital'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, 2014 and 2013, the estimated amount of the Hospital's IBNR and accrued claims was $4 million and $3.2 million, respectively, which is included in accrued payroll. As the Hospital receives all cash and pays all obligations of the Center, the estimated amount of the Center's IBNR and accrued invoices recorded in the Hospital's accrued payroll was approximately $346,000 and $280,000 at June 30, 2014 and 2013, respectively. The liability for IBNR was based on actuarial analysis calculated using information provided by BCBSNM.

Changes in the reported Hospital liability during fiscal years 2014 and 2013 resulted from the following:

	Beginning of fiscal year liability	Current year claims and changes in estimates	Claim payments	Balance at fiscal year-end
2013 – 2014	$ 3,214,795	34,131,619	(33,372,857)	3,973,557
2012 – 2013	$ 4,135,438	30,797,448	(31,718,091)	3,214,795

Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The Hospital and the Center provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment medical and dental healthcare provided separately from a benefit or pension plan. GASB Statement No. 45, *Accounting and*

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Reporting by Employees for Postemployment Benefits Other Than Pensions, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and required supplementary information (RSI) in the financial reports of state and local governmental employers.

Estimates for 2014 were based upon the 2013 actuarial calculations, as permitted by GASB 45. In 2014, the OPEB obligation estimate was actuarially determined for the combined operations (the Hospital and the Center), and the liabilities and expenses were allocated to each reporting entity based on the applicable full-time equivalent (FTE) based on the information from the 2013 report.

Due to Affiliates. The UNM Hospital (the Hospital) receives all cash on behalf of the Behavioral Health Operations (the Center) and pays all obligations. Amounts due to affiliates consist mainly of cash collected in excess of expenses paid and do not bear interest.

State Appropriation. The funding for the state appropriation is included in the General Appropriation Act, which is approved by the House and Senate of the State Legislature and signed by the governor before going into effect. Total funds appropriated for 2014 include $4,696,500 in the General Fund. Included in the General Fund is $664,400 of Out-of-County Indigent funds, which are reported in net patient service revenue. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4. Sub-section J. Higher Education. Other State Funds are defined as nonreverting in House Bill 2, Section 2, Sub-section I Definitions.

Capital Appropriation. The Hospital received $30,000 in capital appropriation funding for the purchase and installation of equipment in the Young Children's Health Center in fiscal year 2014. This funding was made by the State Legislature and is included in Senate Bill 60, section 44.6 from 2013 for UNM Hospital's fiscal year ended June 30, 2014. The funding for the fiscal year ended June 30, 2013 capital appropriation included $100,000 for the purchase and installation of equipment for the burn care center and $477,000 for the purchase and installation of medical equipment at the Hospital. This funding made by the State Legislature is included in House Bill 191, Section 25.3 and 4 from 2012 for UNM Hospital's fiscal year ended June 30, 2013.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification. Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

NOTE 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

Deposits. The Hospital's deposits are held in demand accounts and repurchase agreements with a financial institution. State statutes require financial institutions to pledge qualifying collateral to the Hospital to cover at least 50% of the uninsured deposits; however, the Hospital requires more collateral as it considers prudent. All collateral is held in third-party safekeeping.

The carrying amounts of the Hospital's deposits with financial institutions at June 30, 2014 and 2013 are $106,308,056 and $102,650,474, respectively.

Bank balances are 100% collateralized in full as follows:

	2014	2013
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 500,000	250,000
Amount collateralized with securities held in the Hospital's name	112,518,742	117,629,420
Other cash	-	16,819
	$ 113,018,742	117,896,239

Interest-bearing deposit accounts are subject to FDIC's standard deposit insurance amount of $250,000 per type of account. Cash in excess of FDIC insurance is collateralized at June 30, 2014 and 2013 by U.S. government agency securities held by the financial institution in the Hospital's name.

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

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital has a custodial risk policy for deposits that requires collateral in an amount greater than or equal to 50% of the deposit not insured by the FDIC. A greater amount of collateral is required when the Hospital determines it is prudent. As of June 30, 2014 and 2013, the Hospital's bank deposits were not exposed to custodial credit risk.

Marketable Securities

Interest Rate Risk – Debt Investments. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Currently, the Hospital does not have a specific policy to limit its exposure to interest rate risk.

A summary of the marketable securities and their respective maturities and their exposure to interest rate risk is as follows:

	June 30, 2014		
	Fair value	Less than 1 year	1 – 5 years
Items not subject to interest rate risk:			
Money market deposits	$ 1,094	1,094	—
Items subject to interest rate risk:			
Money market funds	136,346	136,346	—
U.S. Treasury notes	15,918,882	1,050,494	14,868,388
U.S. government agency obligations:			
FHLB	3,430,787	—	3,430,787
FHLMC	666,736	666,736	—
FNMA	14,175,073	3,359,238	10,815,835
Total items subject to interest rate risk	34,327,824	5,212,814	29,115,010
Total marketable securities	$ 34,328,918	5,213,908	29,115,010

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

	June 30, 2013		
	Fair value	Less than 1 year	1 – 5 years
Items not subject to interest rate risk:			
Money market deposits	$ 3,596	3,596	—
Items subject to interest rate risk:			
Money market funds	1,706,795	1,706,795	—
U.S. Treasury notes	9,958,468	2,206,361	7,752,107
U.S. government agency obligations:			
FHLB	1,075,981	—	1,075,981
FHLMC	4,936,004	1,382,931	3,553,073
FNMA	16,458,311	3,575,436	12,882,875
Total items subject to interest rate risk	34,135,559	8,871,523	25,264,036
Total marketable securities	$ 34,139,155	8,875,119	25,264,036

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral that is in the possession of an outside party. Marketable securities of $34,191,477 and $32,428,764 at 2014 and 2013, respectively, are insured, registered, and held by the counterparty's agent in the Hospital's name.

The Hospital's custodial risk policy for investments in U.S. Treasury securities and U.S. government agency obligations is in accordance with Chapter 6, Article 10, Section 10 of the NMSA, 1978. An outside consulting firm makes investment decisions, and the investments are held in safekeeping by a financial institution.

Credit Risk – Debt Investments – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Hospital 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 Hospital has a policy that restricts short-term investments to specific investment ratings issued by nationally recognized statistical rating organizations. The policy states that cash equivalent reserves shall consist of interest-bearing or discount instruments of the U.S. government or agencies thereof.

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

A summary of the marketable securities at June 30, 2014 and 2013 and their exposure to credit risk is as follows:

	2014		2013	
	Rating	**Fair Value**	**Rating**	**Fair Value**
Items not subject to credit risk:				
U.S. Treasury securities:				
Treasury notes	N/A	$ 15,918,882	N/A	$ 9,958,468
Items subject to credit risk:				
Money market deposits	Not rated	1,094	Not rated	3,596
Money market funds	Not rated	136,346	Not rated	1,706,795
U.S. government agency obligations:				
FHLB	Fitch – AAA	3,430,787		1,075,981
FHLMC	Fitch – AAA	666,736	Fitch – AAA	4,936,004
FNMA	Fitch – AAA	14,175,073	Fitch – AAA	16,458,311
Total items subject to credit risk		18,410,036		24,180,687
Total marketable securities		$ 34,328,918		$ 34,139,155

Concentration of Credit Risk – Investments – Concentration of credit risk is the risk of loss attributed to investments in a single issuer. Investments in any one issuer that represent 5% or more of all total investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

For long-term investments, the Hospital has a policy to limit its exposure to concentrated risk. It states the portfolio will be constructed and maintained to provide prudent diversification with regard to concentration of holdings in individual issues, corporations or industries.

The Hospital's exposure to concentrated credit risk is as follows: $3,430,787, which is invested in Federal Home Loan Bank (FHLB) securities and equates to 10% of marketable securities held at June 30, 2014. An additional $14,175,073 is invested in Federal National Mortgage Association (FNMA) securities, which equates to 41.3% of marketable securities held as of June 30, 2014.

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

Short-Term Investments

Interest Rate Risk – Debt Investments – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Currently, the Hospital does not have a specific policy to limit its exposure to interest rate risk.

A summary of the short-term investments and their respective maturities and their exposure to interest rate risk is as follows:

	June 30, 2014	
	Fair Value	Less than 1 Year
Items not subject to interest rate risk:		
Money market deposits	$ 1,376,484	1,376,484
Items subject to interest rate risk:		
Money market fund	5,289,604	5,289,604
U.S. government agency obligations:		
FHLMC	1,061,101	1,061,101
FNMA	1,061,469	1,061,469
Total items subject to interest rate risk	7,412,174	7,412,174
Total short-term investments	$ 8,788,658	8,788,658

	June 30, 2013	
	Fair Value	Less than 1 Year
Items not subject to interest rate risk:		
Money market deposits	$ 1,044,680	1,044,680
Items subject to interest rate risk:		
Money market fund	2,278,159	2,278,159
U.S. government agency obligations:		
FHLMC	2,122,405	2,122,405
FNMA	3,184,167	3,184,167
Total items subject to interest rate risk	7,584,731	7,584,731
Total short-term investments	$ 8,629,411	8,629,411

The fair values of short-term U.S. Treasury and U.S. government agency obligations are based on acquisition cost, provided there is no significant impairment due to changes in the credit standing of the issuer.

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

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2014 and 2013, the short-term investments of $2,122,570 and $5,306,572, respectively, in U.S. government obligations were insured, registered, and held by the counterparty's agent in the Hospital's name.

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

Credit Risk – Debt Investments – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Hospital 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 Hospital has a policy that restricts short-term investments to specific investment ratings issued by nationally recognized statistical rating organizations. The policy states that cash equivalent reserves shall consist of interest-bearing or discount instruments of the U.S. government or agencies thereof.

A summary of the short-term investments at June 30, 2014 and 2013 and their exposure to credit risk is as follows:

	2014		2013	
	Rating	Fair Value	Rating	Fair Value
Items not subject to credit risk:				
U.S. Treasury notes	N/A	$ —	—	$ —
Items subject to credit risk:				
Money market deposits	Not rated	1,376,484	Not rated	1,044,680
Money market fund	Not rated	5,289,604	Not rated	2,278,159
U.S. government agency obligations:				
FNMA	Fitch – AAA	1,061,469	Fitch – AAA	3,184,167
FHLMC	Fitch – AAA	1,061,101	Fitch – AAA	2,122,405
Total items subject to credit risk		8,788,658		8,629,411
Total short-term investments		$ 8,788,658		$ 8,629,411

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

The fair values of short-term U.S. Treasury and U.S. government agency obligations are based on acquisition cost, provided there is no significant impairment due to credit standing of the issuer.

Long-Term Investments

Interest Rate Risk – Debt Investments - Currently, the Hospital does not have a specific policy to limit its exposure to interest rate risk.

A summary of the long-term investments and their respective maturities and their exposure to interest rate risk is as follows:

	June 30, 2014	
	Fair Value	Less than 1 Year
Items not subject to interest rate risk:		
Cost and equity method investments*	$ 21,113,513	—
Money market deposits	1,731	1,731
Items subject to interest rate risk:		
Money market fund	21,285,987	21,285,987
Repurchase agreements	13,417,413	13,417,413
Items subject to interest rate risk	34,703,400	34,703,400
Total long-term investments	$ 55,818,644	34,705,131

	June 30, 2013	
	Fair Value	Less than 1 Year
Items not subject to interest rate risk:		
Cost and equity method investments*	$ 19,098,191	—
Money market deposits	—	—
Items subject to interest rate risk:		
Money market fund	18,854,664	18,854,663
Repurchase agreements	13,425,294	13,425,294
Items subject to interest rate risk	32,279,958	32,279,957
Total long-term investments	$ 51,378,149	32,279,957

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

Custodial Credit Risk – Debt Investments – As of June 30, 2014 and 2013, the Hospital held no U.S. government obligations for long-term investment purposes.

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

The State of New Mexico requires that securities underlying repurchase agreements have a market value of at least 102% of the cost of the repurchase agreement. The market value of the securities underlying the repurchase agreements was at or above the required level during the years ended June 30, 2014 and 2013.

The repurchase agreement for the Reserve Account was $13,417,413 and $13,425,294 at June 30, 2014 and 2013, respectively. This is an American International Group (AIG) Matched Funding Corporation agreement collateralized by eleven agency securities held by the Trustee in the Hospital's name. As of June 30, 2014, the market value of the repurchase agreement was $1,176,000 in excess of the investment principal resulting in a security ratio of 108.8% collateralization.

Credit Risk – Debt Investments – The Hospital 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 Hospital has a policy that restricts long-term investments to specific investment ratings issued by nationally recognized statistical rating organizations. The policy states that cash equivalent reserves shall consist of interest-bearing or discount instruments of the U.S. government or agencies thereof.

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

A summary of the investments at June 30, 2014 and 2013 and their exposure to credit risk is as follows:

	2014		2013	
	Rating	Fair Value	Rating	Fair Value
Items not subject to credit risk:				
Cost and equity method investments*	N/A	$ 21,113,513	N/A	$ 19,098,191
Items subject to credit risk:				
Money market deposits	Not rated	1,731	Not rated	—
Money market fund	Not rated	21,285,987	Not rated	18,854,664
Repurchase agreements	Moody's – Baa1	13,417,413	Moody's – Baa1	13,425,294
Total items subject to credit risk		34,705,131		32,279,958
Total long-term investments		$ 55,818,644		$ 51,378,149

* Cost and equity method investments noted are investments in TriWest (recorded at cost) and TRL and TLSC (recorded using the equity method of accounting).

The fair values of U.S. Treasury and U.S. government mortgage-backed securities investments are based on quoted market prices.

NOTE 4. CONCENTRATION OF RISK

The Hospital 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 other payor category includes United States Public Health Service, self-pay, counties and other government agencies. The following summarizes patient accounts receivable and the percentage of gross accounts receivable from all payors as of June 30:

	2014		2013	
Medicare and Medicaid	$ 175,302,705	58%	$ 110,430,126	47%
Other third-party payors	81,594,255	27	78,818,863	33
Others	45,948,839	15	47,563,031	20
Total patient accounts receivable	302,845,799	100%	236,812,020	100%
Less allowance for uncollectible accounts and contractual adjustments	(207,229,064)		(168,550,133)	
Patient accounts receivable, net	$ 95,616,735		$ 68,261,887	

NOTE 5. RESTRICTED ASSETS

The following summarizes restricted assets as of June 30:

	2014	2013
Current:		
Restricted for debt service	$ 8,788,659	8,629,411
Noncurrent:		
Restricted for mortgage reserve fund	17,361,975	14,941,334
Restricted for debt service reserve	13,513,150	13,513,150
Restricted for collateral	3,828,000	3,823,469
Restricted for redemption fund	2,005	2,005
Designated by UNM Hospital Board of Trustees	21,113,513	19,098,191
	$ 64,607,302	60,007,560

Restricted assets are classified in the accompanying statements of net position as current and noncurrent assets. Current assets are restricted by the FHA for current debt service use. The noncurrent assets are designated by the FHA and the Hospital Board of Trustees for future use subject to approval by the respective parties.

NOTE 5. RESTRICTED ASSETS (CONTINUED)

As of June 30, 2014, $3.9 million of the $8.8 million balance in the held by trustee for debt service account represents the bond interest payment due July 1, 2014. As of June 30, 2013, $4.0 million of the $8.6 million balance in the held by trustee for debt service account represents the bond interest payment due July 1, 2013.

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

The Hospital has established a "Debt Service Reserve Fund" (consists of noncurrent assets held by trustee for debt service reserve and held by trustee for collateral accounts) and has agreed to maintain this fund for as long as any of the bonds are outstanding. The amount of the Debt Service Reserve Fund is $17.4 million and is closely related to the total annual obligation under the bond repayment schedule for the fiscal years 2013 through 2028.

Assets Restricted by Board of Trustees – In 1997, the Hospital contributed $2,612,500 to TriWest, an organization formed to administer healthcare benefits to military retirees and dependents of active duty personnel in the CHAMPUS/TriCare Central Region, in exchange for 2,613 shares of common stock, which represented an approximate 10.8% ownership of TriWest as of June 30, 2013. On March 31, 2014, TriWest completed a recapitalization in which the Hospital's shares were re-purchased by TriWest in exchange for cash and tracking common stock shares. The Hospital received 289.7 shares of tracking stock with a cost basis of $5 million as well as $28,069,154 as a result of the recapitalization. The Hospital recognized $30,456,654 as return on investment during the year ended June 30, 2014 which is reflected in the accompanying Statements of Revenues, Expenses and Changes in Net Position. The investment in TriWest is accounted for using the cost method.

The Hospital has an affiliation agreement with Presbyterian Healthcare Services for the operation of a consolidated clinical laboratory (TriCore) to optimize the quality, performance, and delivery of routine and specialized clinical laboratory tests for patients throughout the State of New Mexico in a cost-effective and timely manner.

NOTE 5. RESTRICTED ASSETS (CONTINUED)

The Hospital contributed $3,999,965 in cash and equipment during 1998 related to the affiliation agreement, titled TriCore. During 2004, TriCore reorganized its business activities into two entities: TriCore whose business consists of laboratory testing services for nonmembers; and TriCore Laboratory Services Corporation (TLSC), which organized solely to perform laboratory services, on a centralized basis, for its members, the Hospital, and Presbyterian Healthcare Services. TLSC is a tax-exempt, cooperative hospital service organization under Section 501(e) of the Internal Revenue Code of 1986.

UNM, through the Hospital, has a 50% interest in TriCore totaling approximately $10,549,000 and $9,613,000 at June 30, 2014 and 2013, respectively, which is being accounted for using the equity method.

The Hospital has a 50% interest in TLSC totaling approximately $5,564,633 and $6,873,000 at June 30, 2014 and 2013, respectively, which is being accounted for using the equity method. The Hospital recorded laboratory expenses of approximately $28,100,000 in 2014 and approximately $28,000,000 in 2013.

NOTE 6. CAPITAL ASSETS

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

	Year Ended June 30, 2014				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
UNM Hospital Capital Assets not being depreciated:					
Land	$ 1,747,245	-	-	-	1,747,245
Construction in Progress	3,961,372	6,388,931	(3,832,624)	-	6,517,679
	5,708,617	6,388,931	(3,832,624)	-	8,264,924
UNM Hospital depreciable capital assets:					
Land Improvements	11,381,646	-	82,791	-	11,464,437
Building and building improvements	168,938,315	-	509,212	-	169,447,527
Building Service Equipment	156,400,725	-	2,394,171	-	158,794,896
Fixed Equipment	15,464,906	-	101,393	(56,917)	15,509,382
Major Moveable Equipment	210,374,242	9,024,540	745,057	(2,224,641)	217,919,198
Total depreciable capital assets	562,559,834	9,024,540	3,832,624	(2,281,558)	573,135,440
Less Accumulated depreciation for:					
Land Improvements	(6,125,225)	(843,642)	-	-	(6,968,867)
Building and building improvements	(73,954,351)	(5,280,447)	(3,968)	-	(79,238,766)
Building Service Equipment	(64,552,390)	(9,063,208)	3,968	-	(73,611,630)
Fixed Equipment	(10,639,222)	(578,382)	-	18,658	(11,198,946)
Major Moveable Equipment	(158,309,372)	(15,051,151)	-	2,056,747	(171,303,776)
Total Accumulated depreciation	(313,580,560)	(30,816,830)	-	2,075,405	(342,321,985)
UNM Hospital depreciable capital assets, net	248,979,274	(21,792,290)	3,832,624	(206,153)	230,813,455
UNM Hospital Capital Assets not being depreciated	5,708,617	6,388,931	(3,832,624)	-	8,264,924
UNM Hospital total cost of capital assets	568,268,451	15,413,471	-	(2,281,558)	581,400,364
Less Accumulated Depreciation	(313,580,560)	(30,816,830)	-	2,075,405	(342,321,985)
UNM Hospital capital assets, net	$ 254,687,891	(15,403,359)	-	(206,153)	239,078,379

NOTE 6. CAPITAL ASSETS (CONTINUED)

	Year Ended June 30, 2013				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
UNM Hospital Capital Assets not being depreciated:					
Land	$ 1,747,245	-	-	-	1,747,245
Construction in Progress	9,462,680	5,583,516	(11,372,149)	287,325	3,961,372
	11,209,925	5,583,516	(11,372,149)	287,325	5,708,617
UNM Hospital depreciable capital assets:					
Land Improvements	11,345,246	7,077	29,323	-	11,381,646
Building and building improvements	167,403,273	-	1,535,042	-	168,938,315
Building Service Equipment	152,380,444	24,552	4,283,054	(287,325)	156,400,725
Fixed Equipment	15,386,603	-	90,903	(12,600)	15,464,906
Major Moveable Equipment	196,099,993	10,374,053	5,420,800	(1,520,604)	210,374,242
Total depreciable capital assets	542,615,559	10,405,682	11,359,122	(1,820,529)	562,559,834
Less Accumulated depreciation for:					
Land Improvements	(5,262,995)	(862,230)	-	-	(6,125,225)
Building and building improvements	(68,597,905)	(5,356,446)	-	-	(73,954,351)
Building Service Equipment	(55,507,552)	(9,046,277)	-	1,439	(64,552,390)
Fixed Equipment	(10,069,175)	(580,127)	-	10,080	(10,639,222)
Major Moveable Equipment	(144,030,121)	(15,913,530)	(60,968)	1,695,247	(158,309,372)
Total Accumulated depreciation	(283,467,748)	(31,758,610)	(60,968)	1,706,766	(313,580,560)
UNM Hospital depreciable capital assets, net	259,147,811	(21,352,928)	11,298,154	(113,763)	248,979,274
UNM Hospital Capital Assets not being depreciated	11,209,925	5,583,516	(11,372,149)	287,325	5,708,617
UNM Hospital total cost of capital assets	553,825,484	15,989,198	(13,027)	(1,533,204)	568,268,451
Less Accumulated Depreciation	(283,467,748)	(31,758,610)	(60,968)	1,706,766	(313,580,560)
UNM Hospital capital assets, net	$ 270,357,736	(15,769,412)	(73,995)	173,562	254,687,891

NOTE 7. COMPENSATED ABSENCES

Qualified hospital employees are entitled to accrue sick leave and annual leave based on their FTE status.

Sick Leave. Full-time employees accrue four hours of sick leave each two-week pay period (13 days per annum) up to a maximum of 1,040 hours to be used for major and minor sick leave. Seven of these days are accumulated into a minor sick leave bank. Part-time employees who are at least 0.5 FTE earn sick leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange for annual leave, major sick leave or cash all hours accumulated in excess of 24 hours on an hour-for-hour basis. At termination, only employees who retire from the Hospital and qualify under the Hospital's policy or estates of employees who die as the result of a compensable occupational illness or injury are eligible for payment of unused accumulated hours. Accrued sick leave as of June 30, 2014 and 2013 of $3,012,000 and $2,904,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

Major and minor sick leave balances earned by employees previously employed by UNM under the UNM plan were transferred to the Hospital. Under the UNM plan, only employees hired prior to July 1, 1984 were eligible to accrue major sick leave. Eligible employees accrued sick leave each pay period at an hourly rate, which was based on their date of hire and employment status.

The excess minor sick leave hours carried over from UNM were converted to cash in December 2000, at a rate equal to 50% of the employee's hourly wage, multiplied by the number of hours converted. Upon retirement, all minor hours in excess of 600 are paid at a rate equal to 50% of the employee's hourly wage multiplied by the number of hours in excess of 600 unused sick leave hours based on FTE status, not to exceed 440 hours of such sick leave.

Immediately upon retirement or death, a consolidated employee is entitled to receive cash payment for unused major sick leave hours in excess of 1,040 at a rate equal to 28.5% of the employee's hourly wage multiplied by the number of hours in excess of 1,040 major sick leave hours based on FTE status. Partial hours are rounded to the nearest full hour.

NOTE 7. COMPENSATED ABSENCES (CONTINUED)

Annual Leave. Full-time employees accrue annual leave based on their length of employment up to a maximum of 480 hours. Part-time employees who are at least 0.5 FTE earn annual leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange for cash up to 80 annual leave hours accumulated in excess of 240 hours. At termination, employees are eligible for payment of unused accumulated hours, not to exceed 480 hours. Accrued annual leave as of June 30, 2014 and 2013 of approximately $15,835,000 and $15,377,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

Upon retirement, death, or involuntary termination, a consolidated employee is entitled to receive cash payment for annual leave earned prior to consolidation up to a maximum of 252 hours at a rate equal to 50% of the employee's hourly wage. Upon voluntary termination, a maximum of 168 hours is paid out at a rate equal to 50% of the employee's hourly wage.

During the years ended June 30, 2014 and 2013, the following changes occurred in accrued compensated absences:

	Balance July 1, 2013	Increase	Decrease	Balance June 30, 2014
$	18,672,192	23,697,667	(23,156,803)	19,213,056

	Balance July 1, 2012	Increase	Decrease	Balance June 30, 2013
$	18,062,439	22,871,116	(22,261,363)	18,672,192

The balances above include annual leave and sick leave, disclosed above, in addition to compensatory time and holiday, totaling approximately $366,000 and $392,000 in fiscal years 2014 and 2013, respectively. The portion of accrued compensated absences due after one year is not material and, therefore, is not presented separately.

NOTE 8. BONDS PAYABLE

On October 14, 2004, UNM Board of Regents issued FHA insured Hospital Mortgage Revenue Bonds (University of New Mexico Hospital Project), Series 2004 in the aggregate principal amount of $192,250,000. Interest on the bonds ranges from 2% to 5% and is payable semi-annually on each January 1 and July 1, commencing January 1, 2005. The Series 2004 bonds were issued for the purpose of financing the construction, equipping, and furnishing of the CHCCP, which provides care to patients requiring trauma, children's and women's services, funding the Debt Service Reserve Fund, and paying costs of issuance associated with the bonds.

In conjunction with this construction project, the U.S. HUD, under Section 242 CFDA No. 14.128, issued a loan guarantee for the mortgage amount of $183,399,000.

The bonds are limited obligations of the UNM Board of Regents, and have a claim for payment solely from: (1) the trust revenues pursuant to Trust Indenture, dated as of November 1, 2004 by and between the UNM Board of Regents and Wells Fargo Bank National Association, as trustee, including without limitation, payments or prepayments to be made on the Mortgage Note (the Series 2004 Note); (2) payments made under the Mortgage and Series 2004 Note; (3) in the event of default by the UNM Board of Regents under the Series 2004 Note or the Mortgage and the assignment thereof to FHA, from proceeds of the mortgage insurance paid by the HUD, acting by and through the FHA under Section 242 of Title II of the National Housing Act; (4) moneys and investments held by the Trustee under the Trust Indenture; and (5) under certain circumstances, proceeds from insurance and condemnation awards and sales consummated under threat of condemnation.

NOTE 8. BONDS PAYABLE (CONTINUED)

Interest expense associated with the bonds payable was approximately $7,567,000 and $7,770,000, net of amortization of bond premium totaling approximately $305,000 and $315,000 for the years ended June 30, 2014 and 2013, respectively. Interest income earned from the investment of the bond proceeds was approximately $796,000 and $797,000 for the years ended June 30, 2014 and 2013, respectively.

Bonds payable activity consists of the following:

	Year ended June 30, 2014				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts due Within One Year
FHA Insured Hospital Mortgage Revenue:					
Bonds Series 2004	$ 164,660,000	—	(5,240,000)	159,420,000	5,495,000
Bond premium	1,230,412	—	(305,247)	925,165	—
	$ 165,890,412	—	(5,545,247)	160,345,165	5,495,000

	Year ended June 30, 2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts due Within One Year
FHA Insured Hospital Mortgage Revenue:					
Bonds Series 2004	$ 169,645,000	—	(4,985,000)	164,660,000	5,240,000
Bond premium	1,545,367	—	(314,955)	1,230,412	—
	$ 171,190,367	—	(5,299,955)	165,890,412	5,240,000

Per Section 5.02 of the related Trust Indenture, the three bonds in the 2004 Series maturing on July 1, 2030, 2031, and 2032 are subject to sinking fund redemption in part prior to maturity. Excess funds in the debt service account and investment income received can be used for bond sinking fund redemption.

Per Section 5.01(B) of the related Trust Indenture, excess funds in the investment income account can be used for a special mandatory redemption.

NOTE 8. BONDS PAYABLE (CONTINUED)

Future debt service (not including sinking fund redemptions) as of June 30, 2014 for the bonds follows:

Years ending June 30,	Principal	Interest	Total
2015	$ 5,495,000	7,617,650	13,112,650
2016	5,770,000	7,332,650	13,102,650
2017	6,065,000	7,033,150	13,098,150
2018	6,370,000	6,718,525	13,088,525
2019	6,695,000	6,387,900	13,082,900
2020 - 2024	38,915,000	26,362,375	65,277,375
2025 - 2029	44,305,000	15,646,328	59,951,328
2030 - 2033	45,805,000	5,442,819	51,247,819
	$ 159,420,000	82,541,397	241,961,397

On November 15, 2004, the Hospital established a mortgage reserve fund in accordance with the requirements and conditions of the FHA Regulatory Agreement. Future Mortgage Reserve Fund contributions are summarized as follows:

Year ending June 30,	
2015	$ 2,518,921
2016	2,621,545
2017	2,728,351
	$ 7,868,817

Fiscal year 2017 is scheduled to be the final year of required contributions, at which time the mortgage reserve fund will be fully funded.

NOTE 9. NET PATIENT SERVICE REVENUES

The majority of the Hospital's revenue is generated through agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established charges. Approximately 46% and 41% of the Hospital's gross patient revenue for the fiscal years ended June 30, 2014 and 2013, respectively, was derived from the Medicare and Medicaid programs, the continuation of which are dependent upon governmental policies. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established charges for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from 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 nonphysician practitioners.

Medicaid – Inpatient acute care services rendered to Medicaid Fee-for-Service (FFS) program beneficiaries are paid at prospectively determined rates per discharge based upon the MS-DRG system. These rates vary according to clinical factors and patient diagnosis. The Hospital is eligible for and receives additional Medicaid reimbursement (UPL) for the difference between the Medicaid reimbursement per discharge and the Medicare reimbursement per discharge. The Hospital recorded UPL for the fiscal years ended June 30, 2014 and 2013 in the amounts of approximately $22.7 million and $45.5 million, respectively. During 2014 and 2013, the hospital entered into agreements with the State of New Mexico to fund an intergovernmental transfers (IGT) in the amount of $4.7 million each year in order to receive the full amount of available UPL funding. With the adoption of the Affordable Care Act and Centennial Care program, the UPL program ended effective

NOTE 9. NET PATIENT SERVICE REVENUES (CONTINUED)

December 31, 2013. For outpatients, beginning November 1, 2011, payments are made based upon an Outpatient Prospective Payment System (OPPS). Prior to that, payments were made at an interim rate that was then settled through the cost report by the State Medicaid agency.

In addition, the Hospital has reimbursement agreements with certain Managed Care Organizations (MCOs) that have contracted with the State of New Mexico SALUD! and Centennial Care programs to administer services to enrolled Medicaid beneficiaries. The State of New Mexico terminated its SALUD! program effective December 31, 2013 and began its Centennial Care program effective January 1, 2014. The basis for reimbursement under these agreements includes prospectively determined rates (MS-DRG) or per diem for inpatient services, and prospectively determined payments for outpatient services.

The Hospital entered into a reimbursement agreement for the SCI program during fiscal year 2007. This program is part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico HSD. Funding is modeled after a capitated payment program. Funds are remitted to the Hospital on a per-member-per-month basis for all state-approved members. Revenue is recognized in the period in which the Hospital is obligated to provide care to the enrolled members. The Hospital's funding under the SCI program for the fiscal years ended June 30, 2014 and 2013 was $19.6 million and $39.7 million, respectively, and is included in net patient service revenue. The State of New Mexico terminated its SCI Medicaid program effective December 31, 2013.

Other – The Hospital 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.

NOTE 9. NET PATIENT SERVICE REVENUES (CONTINUED)

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

		2014	2013
Charges at established rates	$	1,628,615,515	1,512,049,380
Charity care		(218,960,405)	(270,234,717)
Contractual adjustments		(590,564,836)	(510,045,362)
Provision for doubtful accounts		(136,033,949)	(102,205,099)
Net patient revenues	$	683,056,325	629,564,202

The Hospital 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 Hospital. The annual cost reports are subject to audit by the Medicare Administrative Contractor and the Medicaid audit agent. Cost reports through 2011 have been final settled for the Medicaid programs. Cost reports through 2009, except for 2005, have been final settled for the Medicare program. 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.

Current year estimates, settlements of prior-year cost reports, and changes in prior - year estimates resulted in net increases to net patient service revenue of approximately $8,877,000 and $5,905,000 for the years ended June 30, 2014 and 2013, respectively. During the fiscal year ended June 30, 2014, $2,433,000 liability for Medicare and $445,000 liability for Medicaid, were accrued as estimates for the fiscal year 2014 cost report. During the fiscal year ended June 30, 2013, $2,435,000 liability for Medicare and $267,000 receivable for Medicaid, were accrued as estimates for the fiscal year 2013 cost report. UNM Hospital's cost reports are typically filed by November 30. Management believes these estimates are appropriate. 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. During fiscal years 2014 and 2013, the hospital received aggregate settlements of $3,202,000 and $2,698,000, respectively, from Tri-Care, and U.S. Public Health Services which are included in the totals above.

NOTE 10. CHARITY CARE

The Hospital 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:

	2014	2013
Charges foregone, based on established rates	$ 218,960,405	270,234,717
Estimated costs and expenses incurred to provide charity care	107,290,598	130,793,603
Equivalent percentage of charity care charges foregone to total gross revenue	13%	18%

NOTE 11. MALPRACTICE INSURANCE

As a part of UNM, the Hospital enjoys sovereign immunity from suit for tort liability except as waived by the New Mexico legislature. In this connection, under the New Mexico Tort Claims Act (NMTCA), the New Mexico Legislature waived the State's and the Hospital's sovereign immunity for claims arising out of negligence out of the operation of the Hospital, the treatment of the Hospital's patients, and the healthcare services provided by Hospital employees. In addition, the NMTCA limits, as an integral part of this waiver of sovereign immunity, the amount of damages that can be assessed against the Hospital on any tort claim including medical malpractice, professional or general liability claims.

The NMTCA provides that total liability for all claims that arise out of a single occurrence shall not exceed $700,000 set forth as follows: (a) $200,000 for real property; (b) up to $300,000 for past and future medical and medically related expenses; and (c) up to $400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. While the language of the NMTCA does not expressly provide for third party claims such as loss of consortium, the New Mexico appellate court decisions have allowed claimants to seek consortium. As a result, if loss of consortium claims is presented, those claims cannot exceed $350,000 in the aggregate. Thus, if a claim presents both direct claims and third party claims, the maximum exposure of the Public Liability Fund, and therefore UNM Hospitals, cannot exceed $1,050,000. The NMTCA prohibits the award of punitive or exemplary damages against the Hospital.

NOTE 11. MALPRACTICE INSURANCE (CONTINUED)

The NMTCA requires the State Risk Management Division (RMD) to provide coverage to the Hospital for those torts where the Legislature has waived the State's sovereign immunity up to the damages limits of the NMTCA, as described above, plus the cost incurred in defending any claims and/or lawsuits (including attorney's fees and expenses), with no deductible and with no self-insured retention by the Hospital. As a result of the foregoing, the Hospital is fully covered for claims and/or lawsuits relating to medical malpractice or professional liability occurring at the Hospital.

NOTE 12. RELATED-PARTY TRANSACTIONS

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

	2014	2013
UNMMG	$ 6,127,450	3,734,585
UNM Health Sciences Center	1,440,187	1,050,571
SRMC	—	776,725
UNM Cancer Center	—	14,733
UNM Health System	2,189,694	—
	$ 9,757,331	5,576,614

The Hospital reimburses UNM and other entities associated with UNM, for the cost of utilities and the salaries of various medical and administrative personnel incurred on behalf of the Hospital. The Hospital 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:

	2014	2013
UNM Health Sciences Center	$ 171,027,083	109,536,255
UNM	3,497,186	15,489,539
UNMMG	3,034,853	2,718,673
SRMC	—	836,082
UNM Health Systems	10,862,376	—
	$ 188,421,498	128,580,549

NOTE 13. BENEFIT PLANS

The Hospital has a defined contribution plan covering eligible employees, which provides retirement benefits. The name of the plan is UNM Hospital Tax Sheltered Annuity Plan, formerly known as the University of New Mexico Hospital/Bernalillo Medical Center Tax Sheltered Annuity Plan. The Hospital contributes either 5.5% or 7.5% of an employee's salary to the plan, depending on employment level. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. The plan is administered by the Hospital's Human Resources Department.

The expense for the defined contribution plan was $12,800,000, $11,263,000 and $11,747,000 in fiscal years 2014, 2013 and 2012, respectively. Total employee contributions under this plan were $12,597,000, $12,939,000 and $13,513,000 in fiscal years 2014, 2013 and 2012, respectively. In 2012, a Roth 403b defined contribution plan option was added. Total employee contributions were $651,000 $383,000 and $5,000 in fiscal years 2014, 2013 and 2012, respectively.

The Hospital also has a deferred compensation plan, called the UNM Hospital 457(b) Deferred Compensation Plan, which provides employees with additional retirement savings plan. The Hospital does not contribute to this plan. Employees can make voluntary contributions to this plan. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. The plan is administered by the Hospital's Human Resources Department.

There was no expense for the deferred compensation plan in 2014, 2013 and 2012, respectively, as the Hospital does not contribute to this plan. Total employee contributions under this plan were $2,520,000, $2,247,000 and $2,146,000 in 2014, 2013 and 2012, respectively.

In addition, the Hospital has a 401(a) defined contribution plan, called the UNM Hospital 401(a) Plan, which was established for the purpose of providing retirement benefits for eligible participants and their beneficiaries. The 401(a) plan allows for tax-deferred employer contributions on a percentage-of-salary basis. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. All assets of the plan are held in a trust fund, are not considered hospital assets, and are under the direction of a Plan Administrator.

NOTE 13. BENEFIT PLANS (CONTINUED)

The expense for the 401(a) defined contribution plan was $361,000, $360,000 and $344,000 in fiscal years 2014, 2013 and 2012, respectively. Only the Hospital contributes to this plan.

A small portion (approximately 27) of the Hospital's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members (certified teachers and other employees of state public school districts, colleges and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's Web site at www.nmerb.org.

Funding Policy. Plan members of the public ERB whose annual salary is $20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is over $20,000 are required to make the following contributions to the Plan: 10.1% of their gross salary in fiscal year 2014; and 10.7% of their gross salary in fiscal year 2015 and thereafter. The Hospital contributed 13.15% of gross covered salary in fiscal year 2014. In fiscal year 2015 the Hospital will contribute 13.9% of gross covered salary. The contribution requirements of plan members and the Hospital are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Hospital's contributions to ERB for the fiscal years ending June 30, 2014, 2013 and 2012, were $185,000, $160,000, and $157,000, respectively, which equal the amount of the required contributions for each fiscal year.

NOTE 14. OTHER POSTEMPLOYMENT BENEFIT PLAN

Plan Description. The Hospital and the Center employees and retirees participate under the same benefit plan administered by the Hospital. The Hospital administers a single employer defined benefit postemployment benefit plan that offers postemployment healthcare coverage to eligible retirees and their dependents. Eligible retired employees are offered combined medical/prescription drug benefits through the Hospital's self-insured health plan administered by BCBSNM. Eligible retired employees are also offered dental insurance through the Hospital's self-insured dental plan insurance. The authority to establish and amend benefit provisions to the benefit policy is recommended by the Human Resource Administrator and approved by the Chief Executive Officer.

Beginning July 1, 2009, the actuarial valuations are prepared biennially for the Hospital as allowed for under GASB Statement No. 45.

Employees are eligible to retire from the Hospital and receive these post-employment benefits when:

- The employee reaches the minimum age of fifty (50);
- The employee has at least five years of continuous employment; and
- The employee has a combined age plus year of service sum of at least seventy (70) (hire date prior to July 1, 2009), seventy-five (75) (hire date after July 1, 2009) and eighty (80) (hire date after July 1, 2011).

At the date of valuation, July 1, 2013, there were a total of 23 Hospital and two Center retirees receiving benefits, 569 active employees fully eligible to receive benefits, and 4,985 active employees currently not fully eligible to receive benefits.

Funding Policy. The contribution requirements of the plan members and the Hospital are established, and may be amended by recommendation of the Human Resource Administrator and approval by the Chief Executive Officer. The retired employees that elect to participate in the postemployment benefit plan are required to make contributions in the form of monthly premiums based on current rates established under the health and dental plans. For the medical and dental plans, there are both implicit and explicit subsidies provided by the Hospital. The explicit subsidy is for employees that retire with sick and annual leave (compensated absence) accruals. The Hospital subsidizes for the retiree only, the current "employee only" premium amount for the health and dental plans for the period of

NOTE 14. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

the length of leave (compensated absence) accrual. The implicit subsidy arises because the retiree pays a contribution that is based on a combined active and retiree claim experience. If the retirees were to pay based solely on retiree claim experience, they would be paying a higher amount as typically retirees incur higher claims. This "discount" is called the implicit subsidy.

The applicable monthly retiree contribution rates are provided in the tables below:

	Retiree (coverage extension/ compensated absence accrual period)			Retiree (after coverage extension)		
	Standard Network	Extended Network	Delta Dental	Standard Network	Extended Network	Delta Dental
Rate tier:						
Retiree only	$ 0.00	448.00	30.68	730.00	1,938.00	30.68
Retiree + Spouse/DP	285.00	1,200.00	65.68	1,497.00	3,968.00	65.68
Retiree + Children	136.00	805.00	—	1,095.00	2,903.00	—
Retiree + family	312.00	1,273.00	97.68	1,571.00	4,165.00	97.68

The Hospital does not use a trust fund to administer the financing and payment of benefits. Instead, the Hospital funds the plan on a pay-as-you-go basis. The pay-as-you-go expense is the net expected cost of providing retiree benefits. This expense includes all expected claims and related expenses and is offset by the retiree contribution. Expected monthly claim costs were developed from a combination of historical claim experience and manual claim cost developed using a representative database. Nonclaim expenses are based on the current amounts charged to employees. The Hospital's and Center's pay-as-you-go expense for the period of July 1, 2013 to June 30, 2014 is approximately $57,000. The pay-as-you-go expense includes the medical and dental claims, administration expenses, and implicit subsidy and is net of any retiree contributions.

Actuarial Methods and Assumptions. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities (AALs) and the actuarial value of assets. The actuarial method used is the Unit Credit method, as the Unit Credit method provides a logical correlation between accruing and expensing of retirees' benefits.

NOTE 14. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

A 4.5% annual discount rate was used assuming the Hospital will fund the postemployment benefit on a pay-as-you-go basis. For an unfunded plan, the investment return assumption is based on the expected return on employer assets that generally consist of short-term liquid investments.

The July 1, 2013 actuarial valuation considers an annual healthcare cost trend on a select (9%) and ultimate (5%) basis. Select rates are reduced 0.5% each year until reaching the ultimate trend. The unfunded AAL is amortized over the maximum acceptable period of 30 years. It is calculated assuming a level percentage of projected payroll, with a 1.5% per annum salary increase.

Annual retirement probabilities and the rate of withdrawal for reasons other than death and retirement have been determined based on the New Mexico Educational Retirement Board ("NMERB") Actuarial Valuation as of June 30, 2013. It is assumed that 30% of future pre-retirees participate in the Hospital's postretirement health plan and that none continue coverage once attaining Medicare eligibility.

Annual OPEB Cost and Net OPEB Obligation. The annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (UAALs) over a 30-year period.

The Hospital's postemployment benefit plan includes employees from the Center. The OPEB cost and net OPEB obligation (NOO) were calculated and allocated to each reporting entity based on the Hospital's and Center's employee data as of July 1, 2013. The allocation is as follows: the Hospital – 91% and the Center – 9%. The OPEB cost and NOO information presented below are the Hospital's calculated portion.

The NOO is the cumulative difference between the ARC and the employer's contribution to the plan. The Hospital's NOO as of July 1, 2013 is equal to $5,732,960, which was determined based on the applicable FTE of the entity as of June 30, 2013.

NOTE 14. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

The plan is funded on a pay-as-you-go basis; the NOO follows as of June 30:

	2014 Unfunded	2013 Unfunded
NOO – beginning of year	$ 5,248,805	4,820,059
ARC	564,000	560,000
Interest on prior year NOO	238,497	220,858
Adjustment to ARC	(261,342)	(242,112)
Annual OPEB cost	541,155	538,746
Employer contributions	(57,000)	(110,000)
Increase in NOO	484,155	428,746
NOO – end of year	$ 5,732,960	5,248,805

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the NOO for fiscal years ended June 30, 2014 and 2013 are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 541,155	11.0%	$ 5,732,960
June 30, 2013	538,746	20.0%	5,248,805

Funding Status and Progress. As of July 1, 2013, the most recent actuarial valuation date, the plan was not funded. The plan's actuarial accrued liability (AAL, the present value of all future expected postretirement medical payments and administrative cost, which are attributable to past service) is $3,469,000 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $3,469,000.

NOTE 14. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

	Unit Credit Method Unfunded Plan June 30, 2014
AAL	$ 3,469,000
Actuarial value of plan assets	—
UAAL	3,469,000
Funded ratio (actuarial value of plan assets/AAL)	0%
Covered payroll (active plan members)	251,020,000
UAAL as a percentage of covered payroll	1.3%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, current and future retirees and their dependents, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress (Schedule 4), presented as RSI following the notes to the financial statement, presents information about the actuarial value of plan assets relative to the AALs for benefits.

NOTE 15. COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Hospital is committed under various leases for building and office space and data processing equipment. Rental expenses on operating leases and other nonlease equipment amounted to $10,106,000 in 2014 and $8,795,000 in 2013.

NOTE 15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Hospital has entered into an MOU with UNM to lease the medical facility referred to as the Ambulatory Care Center and usage of the related parking structure through fiscal year 2019. The Hospital pays semiannual installments of approximately $973,000 under this MOU.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2014, under noncancelable operating leases and memorandums of understanding, are as follows:

	Amount
Years ending June 30,	
2015	$ 4,407,229
2016	3,761,950
2017	3,718,727
2018	3,717,001
2019	1,808,416
2020 - 2024	4,578,663
2025 - 2029	4,353,165
2030 - 2034	4,358,083
2035 - 2039	1,361,807
	$ 32,065,041

Contingencies. The Hospital is currently a party to various claims and legal proceedings. The Hospital makes provisions for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Hospital believes it has adequate provisions for potential liability in litigation matters. The Hospital reviews these provisions on a periodic basis and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Based on the information that is currently available to the Hospital, the Hospital believes that the ultimate outcome of litigation matters, individually and in aggregate, will not have a material adverse effect on its results of operations or financial position. However, litigation is inherently unpredictable.

NOTE 16. CAPITAL INITIATIVES

In fiscal year 2014, the Hospital and the UNM HSC entered into an MOU for an eighth year, to collaborate on strategic capital projects. Per the agreement, the Hospital recorded a nonoperating expense of approximately $26 million to provide for the development of clinical facilities pursuant to the agreement. All capital facilities are owned by UNM HSC for use by the Hospital. In fiscal year 2013, there was no strategic capital MOU or payment. Capital project disbursements from capital initiatives funds held by UNM HSC in 2014 and 2013 and the ending balances for each year are reflected in the table below.

	July 1 Beginning Balance	UNMH Contributions to Fund	Capital Project Disbursements From Fund	June 30 Ending Balance
Fiscal Year 2014	$ 75,013,413	26,000,000	(2,763,224)	98,250,189
Fiscal Year 2013	$ 80,676,915	-	(5,663,502)	75,013,413

NOTE 17. RISKS AND UNCERTAINTIES

The Hospital's investments are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements of net position.

UNM HOSPITAL **Schedule 1**
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
COMPARISON OF BUDGETED AND ACTUAL REVENUES AND EXPENSES
Year Ended June 30, 2014

	Budget (Original)	Budget (Final)	Actual	Budget Variance
Operating revenues:				
Net patient service and premium	$ 661,383,799	657,866,583	683,056,325	25,189,742
Other operating revenue	12,114,799	18,572,972	19,797,154	1,224,182
Total operating revenues	673,498,598	676,439,555	702,853,479	26,413,924
Operating expenses	(753,958,612)	(779,842,663)	(786,814,917)	(6,972,254)
Operating loss	(80,460,014)	(103,403,108)	(83,961,438)	19,441,670
Nonoperating revenues and other revenues, net	82,590,989	117,291,623	93,150,604	(24,141,019)
Increase in net assets	$ 2,130,975	13,888,515	9,189,166	(4,699,349)

Note A: The Hospital prepares a budget for each fiscal year, using the accrual basis of accounting, which is subject to approval by the Board of Trustees and the UNM Board of Regents. The amount budgeted for the Hospital's operations is included in the UNM budget and submitted to the New Mexico Commission on Higher Education for approval. All revisions to the approved budget must be approved by the parties included in the original budget process. The budget is controlled at the major administrative functional area which is reported at the UNM level. There is no carryover of budgeted amounts from one year to the next.

UNM HOSPITAL **Schedule 2**
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
PLEDGED COLLATERAL BY BANKS
Year Ended June 30, 2014

	Pledged Collateral			Bank Balance	
	Type of Security	CUSIP	Maturity	Bank of America Albuquerque, New Mexico	Total
Funds on deposit:					
Demand deposits				$ 113,640,879	113,640,879
FDIC insurance				(500,000)	(500,000)
Total uninsured public funds				$ 113,140,879	113,140,879
50% collateral requirement per Section 6-10-17 NMSA				$ 56,570,440	56,570,440
				Fair Market Value of Securities in Safekeeping	
Pledged collateral*					
	Gold PC	3128M8UY8	6/1/1941	5,945,814	5,945,814
	FHLMC	3128NGR31	8/1/2035	1,477	1,477
	FHLMC	3128QLQQ7	12/1/2035	864,227	864,227
	Gold PC	31294KNX9	2/1/2018	4,816	4,816
	Gold PC	3132GRHL8	2/1/2042	3,660,794	3,660,794
	FNMA	31371KXT3	1/1/2018	7,232	7,232
	FNMA	3138E6VE3	2/1/2042	8,740,303	8,740,303
	FNMA	3138EGJZ8	10/1/2038	4,058,869	4,058,869
	FNMA	3138EGRE6	5/1/2040	2,666,132	2,666,132
	FNMA	3138EHXR8	2/1/2042	1,529,518	1,529,518
	FNMA	3138ELCB7	6/1/2043	4,782,676	4,782,676
	FNMA	3138MFR41	11/1/2042	6,128,967	6,128,967
	FNMA	3138MQTB9	12/1/2042	6,650,834	6,650,834
	FNMA	3138WA6L6	2/1/2044	4,795,806	4,795,806
	FNMA	3138WTQN9	6/1/2043	8,274,832	8,274,832
	FNMA	3138X6P41	10/1/2043	1,338,864	1,338,864
	FNMA	31391WVD0	1/1/2018	236,418	236,418
	FNMA	31391Y3N5	2/1/2018	100,905	100,905
	FNMA	31391YX44	12/1/2027	1,580	1,580
	FNMA	31402HRL7	7/1/2018	92	92
	FNMA	31402XNG7	9/1/2018	1,459	1,459
	FNMA	31404AQY3	10/1/2028	141	141
	FNMA	31404LV64	6/1/2028	56	56
	FNMA	31404LV80	6/1/2033	2,342,519	2,342,519
	FNMA	31404LX39	10/1/2028	159,797	159,797
	FNMA	31405FH39	48580	382,458	382,458
	FNMA	31405FHP0	6/1/2033	883,047	883,047
	FNMA	31405FHQ8	6/1/2033	1,253,032	1,253,032
	FNMA	31405FHW5	10/1/2033	1,117,421	1,117,421
	FNMA	31405MA64	7/1/2034	47,437	47,437
	FNMA	31410GZC0	3/1/2037	1,599,475	1,599,475
	FNMA	31416BL71	9/1/2037	23,730	23,730
	FNMA	31417AR50	12/1/2041	14,303	14,303
	FNMA	31417B6D4	6/1/2042	5,064,807	5,064,807
	FNMA	31417CSK2	8/1/2042	3,588,060	3,588,060
	FNMA	31417CVA0	8/1/2042	6,294,132	6,294,132
	FNMA	31417DDN0	10/1/2042	9,217,780	9,217,780
	FNMA	31417EY70	2/1/2043	5,404,311	5,404,311
	FNMA	31419A4N4	2/1/2041	3,742,624	3,742,624
	FNMA	31419GA79	10/1/2040	1,316,106	1,316,106
	FNMA	31419HFF4	10/1/2040	824	824
	FNMA	31419HUV2	10/1/2040	10,275,067	10,275,067
Total pledged collateral				112,518,742	112,518,742
(Excess) of pledged collateral over the required amount				$ (55,948,302)	(55,948,302)

* Pledged collateral is held in safekeeping by the Bank of New York Mellon

UNM HOSPITAL **Schedule 3**
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS
Year Ended June 30, 2014

Name of Bank/Broker	Account Type	Balance per Bank Statement	Reconciled Balance per Financial Statement
UNM Hospital cash:			
Bank of America:			
Operating	Checking	$ 113,640,879	106,274,565
Petty Cash	Cash on hand	-	33,491
Total UNM Hospital cash		$ 113,640,879	106,308,056
UNM Hospital short-term investments:			
Morgan Stanley	Money market deposits	1,094	1,094
Wells Fargo	Money market deposits	-	1,376,484
Morgan Stanley	Money market funds	136,346	136,346
Wells Fargo	Money market funds	5,289,604	5,289,604
Morgan Stanley	U.S. Treasury notes	15,918,882	15,918,882
Morgan Stanley	FNMA	14,175,073	14,175,073
Wells Fargo	FNMA	1,061,469	1,061,469
Morgan Stanley	FHLMC	666,736	666,736
Wells Fargo	FHLMC	1,061,101	1,061,101
Morgan Stanley	FHLB	3,430,787	3,430,787
Total UNM Hospital short-term investments		$ 41,741,092	43,117,576
UNM Hospital long-term investments:			
Wells Fargo	Money market deposits	$ 1,731	1,731
Wells Fargo	Money market funds	21,617,574	21,285,987
Wells Fargo	Collateralized repurchase agreement	13,417,413	13,417,413
Investment in TriWest	Equity securities	5,000,000	5,000,000
Investment in TriCore Reference Lab (TRL)	Equity securities	10,548,880	10,548,880
Investment in TLSC	Equity securities	5,564,633	5,564,633
Total UNM Hospital long-term investments		$ 56,150,231	55,818,644

UNM HOSPITAL **Schedule 4**
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS SCHEDULE OF FUNDING PROGRESS
Years Ended June 30, 2014 and 2013
(Unaudited)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)		Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
July 1, 2013	—	3,469,000	3,469,000	—	$	251,020,000	1.3%
July 1, 2012	—	3,713,000	3,713,000	—	$	240,498,000	1.5%
July 1, 2011	—	3,748,000	3,748,000	—	$	219,171,000	1.7%
July 1, 2009	—	18,899,000	18,899,000	—	$	213,671,000	8.8%
July 1, 2008	—	5,305,000	5,305,000	—	$	227,182,000	2.3%

Note B: The above AAL and covered payroll balances represents UNM Hospital portion of the plan.

See accompanying independent auditors' report.

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

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

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Hector Balderas, 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 Hospital (the "Hospital") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements and the budget comparison presented as supplementary information for the year ended June 30, 2014, and have issued our report thereon dated October 29, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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.

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Hector Balderas, New Mexico State Auditor

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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*.

Purpose of this Report

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

Moss Adams LLP

Albuquerque, New Mexico
October 29, 2014

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2014

There are no current or prior year findings.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
EXIT CONFERENCE
Year Ended June 30, 2014

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

An exit conference was conducted on September 24, 2014 with a member of the Finance and Audit Committee of the Board of Trustees and a member of the Hospital's management. During this meeting, the contents of this report were discussed.

Michelle Coons	Chair, Finance and Audit Committee
Michael Olguin	Board Chairperson
Nick Estes	Board Member
Debbie Johnson	Board Member
DeVon Wiens	Engagement Partner, Moss Adams LLP
Steve McKernan	Chief Executive Officer
Paul Herzog	Chief Operations Officer
Ella Watt	Chief Financial Officer
Jim Pendergast	Administrator, Human Resources
Manu Patel	UNM Director, Internal Audit
Purvi Mody	Executive Director, Compliance and Internal Audit
Shawna Gonzales	Executive Director, Finance and Accounting
Sandra Long-Mendoza	Finance Director
Julie Alliman	Finance Director
Michael Schwantes	UNMHSC Director Finance Systems & Restricted Accounting