KPMG

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

Financial Statements

June 30, 2022 and 2021

(With Independent Auditors' Report Thereon)

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

Official Roster

June 30, 2022

Board of Directors

Douglas Ziedonis, M.D.	Chairperson (Term expires 12/31/22, Regent appointed)
Michael Richards, M.D.	Member (Term expires 12/31/22, Regent appointed)
Christopher Guest, M.D.	Member (Term expires 12/31/23, Regent appointed)
Honorable Louis P. McDonald	Member (Term expires 12/31/22, County appointed)
Joanna Boothe	Member (Term expires 12/31/23, Regent appointed)
Charlotte Garcia	Member (Term expires 12/31/23, Regent appointed)
Donnie Leonard	Member (Term expires 12/31/22, Regent appointed)
Kim Hedrick	Member (Term expires 12/31/22, County appointed)
Dave Panana	Member (Term expires 12/31/23, Regent appointed)

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

Official Roster

June 30, 2022

Administrative Officers

Douglas Ziedonis, M.D.	Executive Vice President – UNM Health Sciences Center and CEO – UNM Health System
Michael Richards, M.D.	Senior Vice President for Clinical Affairs – UNM Health System and Interim Dean – UNM School of Medicine
Ava Lovell	Senior Executive Officer for Finance & Administration – UNM Health Sciences Center
Jamie Silva-Steele	Chief Executive Officer and President – Sandoval Regional Medical Center
Matthew Wilks, M.D.	Chief Medical Officer – Sandoval Regional Medical Center
Pamela Demarest	Chief Nursing Officer and Chief Operating Officer – Sandoval Regional Medical Center
Darlene Fernandez	Chief Financial Officer – Sandoval Regional Medical Center

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

Table of Contents

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

Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of UNM Sandoval Regional Medical Center, Inc. (the Medical Center), a component unit of the University of New Mexico, as of and for the years ended June 30, 2022, and 2021, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements for the years then ended as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2(L) to the basic financial statements, in fiscal year 2022, the Medical Center adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Medical Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2022 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Medical Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
October 10, 2022

The following discussion and analysis provides an overview of the financial position and activities of UNM Sandoval Regional Medical Center, Inc. (the Medical Center or SRMC) as of and for the years ended June 30, 2022, 2021 and 2020. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of the Medical Center's management.

Using This Annual Report

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

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

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

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

Overview of Entity

The Regents of the University of New Mexico (UNM) formed SRMC as a New Mexico nonprofit corporation under and pursuant to the New Mexico University Research Park and Economic Development Act (URPEDA). Under the URPEDA, research park corporations are separate and apart from the State of New Mexico and UNM. The corporation was formed to promote the social welfare of New Mexico through the advancement of healthcare. The corporation is organized for the development, construction, and operation of the Medical Center, which is a licensed general community teaching hospital located in Sandoval County, New Mexico as a component unit of the UNM Health System and, in connection therewith, to facilitate and develop the clinical and medical practices of the faculty of the University of New Mexico School of Medicine (UNM SOM). SRMC is considered a component unit of UNM even though it is a legally separate organization under the URPEDA, because UNM is the sole member of SRMC (with the rights of a member under and pursuant to the New

Mexico Nonprofit Corporation Act and as specified in the bylaws of SRMC) and the Board of Regents, as is required by the URPEDA, appoints all members of the Board of Directors of SRMC. Having said this, the long-term debt issued by SRMC as described herein is not, pursuant to the URPEDA, a debt, liability, obligation of, or a pledge of the faith and credit of either the State of New Mexico or of UNM, and is payable solely from the revenue or assets of SRMC.

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

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

Inpatient Care – Acute care provided by practitioners in 48 acute medical-surgical beds and 12 intensive care unit beds. The Medical Center is equipped with an emergency department with 18 exam rooms, 2 trauma rooms, and 1 triage room. Additionally, the Medical Center is equipped with 6 operating rooms, 3 minor procedure rooms, and 1 interventional radiology lab.

Outpatient Care – Comprehensive offering of emergency care, family practice, behavioral health, laboratory, radiology, diagnostic services, rehabilitation services, infusion, and medical and surgical specialties.

Surgical Services – Orthopedics, anesthesia, general surgery, ENT, bariatric, podiatry, otolaryngology, urologic, gynecologic, urogynecologic, gastrointestinal, breast, spine, PM&R, and outpatient laparoscopic surgery.

Practitioner Services – The Medical Center has an "open" medical staff, allowing community practitioners in addition to the UNM SOM and other employed practitioners to be members of the medical staff and who may admit patients at the Medical Center. There are currently 656 practitioners credentialed, of which 483 are UNM SOM practitioners and 173 are contracted or community practitioners.

(Continued)

Financial Summary

Condensed summary of net position

		June 30		
		2022	**2021**	**2020**
Assets:				
Current assets	$	38,491,814	42,011,428	51,573,550
Capital assets, net		97,729,274	94,706,913	95,475,016
Noncurrent assets		15,462,780	15,275,857	15,083,228
Total assets	$	151,683,868	151,994,198	162,131,794
Deferred outflows of resources	$	2,127,952	2,279,949	—
Liabilities:				
Current liabilities	$	30,000,671	29,559,960	32,515,359
Noncurrent liabilities		99,146,698	100,677,206	109,005,000
Total liabilities	$	129,147,369	130,237,166	141,520,359
Net position:				
Net deficiency in capital assets	$	(5,578,403)	(9,398,805)	(17,804,984)
Restricted net position, expendable		15,573,212	15,383,735	21,497,655
Unrestricted		14,669,642	18,052,051	16,918,764
Total net position	$	24,664,451	24,036,981	20,611,435

Total Medical Center assets at June 30, 2022 remained in line with June 30, 2021, ending at $151.7 million, a decrease of $0.3 million. Cash and cash equivalents at June 30, 2022 decreased by $8.2 million, from $27.9 million at June 30, 2021 to $19.7 million at June 30, 2022. This decrease was driven by increased operating costs related to contract labor and the COVID-19 pandemic. Net patient accounts receivable decreased by $0.6 million and Federal Emergency Management Agency (FEMA) receivables increased by $3.8 million from June 30, 2021. The Medical Center's most significant assets at June 30, 2022 were net capital assets of $97.7 million, cash and cash equivalents of $19.7 million, and restricted investments held by trustee for mortgage reserve fund of $15.5 million.

Total Medical Center assets were $152.0 million at June 30, 2021 a decrease of $10.1 million from June 30, 2020. Cash and cash equivalents decreased by $10.5 million during the year ended June 30, 2021, primarily due to the closing of a trustee account held for debt service of $6.3M, which was applied to the Medical Center's mortgage during the mortgage refinancing on July 16, 2020. Net patient accounts receivable increased by $2.1 million from June 30, 2020, primarily due to the timing of the COVID-19 stay at home orders and limitations on healthcare elective visits and procedures implemented by the Governor of New Mexico in March 2020. The Medical Center's most significant assets at June 30, 2021 were net capital assets of $94.7 million, cash and cash equivalents of $27.9 million, and restricted investments held by trustee for mortgage reserve fund of $15.3 million.

Operating cash decreased by $4.2 million during the year ended June 30, 2021, from $32.1 million at June 30, 2020 to $27.9 million at June 30, 2021. This decrease was driven by increased operating costs related to the COVID-19 pandemic.

The Medical Center's total liabilities were $129.1 million at June 30, 2022, compared to $130.2 million at June 30, 2021. At June 30, 2022, current and noncurrent mortgage payable of $100.7 million was the largest liability, followed by accounts payable of $9.3 million, and current and noncurrent lease payable of $4.8 million related to a new lease of the UNM Health Sciences Center (HSC) Center of Excellence (COE) for Orthopedic Surgery and Rehabilitation facility. The decrease in total liabilities is primarily due to scheduled mortgage payments of $5.7 million and repayment of Center for Medicare and Medicaid Services (CMS) Medicare Accelerated and Advance Payment Program of $4.5 million, offset by an increase in lease liabilities related to the new lease.

The Medical Center's total liabilities were $130.2 million at June 30, 2021, compared to $141.5 million at June 30, 2020. At June 30, 2021, current and noncurrent mortgage payable of $106.4 million was the largest liability, followed by accounts payable of $7.3 million, and CMS advance of $6.7 million. The decrease in total liabilities is primarily due to the mortgage refinancing and the subsequent defeasance of previously held bonds. There were also decreases in Coronavirus Aid, Relief and Economic Stimulus (CARES) Act funding liability of $3.4 million, CMS advance payment of $0.6 million, and related-party liabilities of $0.3 million.

At June 30, 2022, 2021, and 2020, the Medical Center's current assets of $38.5 million, $42.0 million, and $51.6 million, respectively, were sufficient to cover current liabilities of $30.0 million (current ratio of 1.28), $29.6 million (current ratio of 1.42), and $32.5 million (current ratio of 1.59), respectively.

Total net position (assets plus deferred outflows minus liabilities) is classified by the Medical Center's ability to use these assets to meet operating needs. Unrestricted net position may be used to meet all operating needs of the Medical Center. A portion of the Medical Center's net position is restricted by the mortgage trust indenture. In 2020 and prior, a portion of net position was also restricted by the bond agreement, however, this restriction was eliminated when the bonds were defeased in fiscal year 2021.

Total net position as of June 30, 2022 increased by $0.6 million to $24.7 million, which included an operating loss of $9.2 million, which was driven by increased contract labor costs and the COVID-19 pandemic. The operating loss was offset by net nonoperating revenues of $9.8 million. Unrestricted net position totaled $14.6 million and expendable restricted net position totaled $15.6 million at June 30, 2022. Net deficiency in capital assets as of June 30, 2022 decreased by $3.8 million to $5.6 million, which was driven by depreciation expense on capital assets, offset by capital asset purchases and an increase in right-to-use asset associated with the new lease.

Total net position as of June 30, 2021 increased by $3.4 million to $24.0 million, which included an operating loss of $8.1 million, which was driven by the COVID-19 pandemic and mill levy program costs ramp up. The operating loss was offset by net nonoperating revenues of $11.5 million. Unrestricted net position totaled $18.1 million, with a net deficiency in capital assets of $9.4 million at June 30, 2021. Restricted net position, expendable as of June 30, 2021 decreased by $6.1 million to $15.4 million, which was driven by a $6.3 million decrease in the debt fund trust account as a result of the bond defeasance.

(Continued)

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

	Year ended June 30		
	2022	2021	2020
Total operating revenues	$ 102,467,208	86,495,929	78,203,988
Total operating expenses	(111,672,606)	(94,563,411)	(82,806,019)
Operating loss	(9,205,398)	(8,067,482)	(4,602,031)
Net nonoperating revenues	9,832,868	11,493,028	4,899,679
Total increase in net position	627,470	3,425,546	297,648
Net position, beginning of year	24,036,981	20,611,435	20,313,787
Net position, end of year	$ 24,664,451	24,036,981	20,611,435

Operating Revenues

The sources of operating revenues for the Medical Center are net patient service and other operating revenues, with the most significant source being net patient service revenues. Total operating revenues were $102.5 million, $86.5 million, and $78.2 million for the years ended June 30, 2022, 2021, and 2020, respectively.

Net patient service revenue comprises gross patient revenues, net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were $100.3 million, $84.9 million, and $76.5 million for the years ended June 30, 2022, 2021, and 2020, respectively. The increase of $15.4 million from 2021 to 2022 is primarily the result of the increased patient days, patient increased acuity related to COVID-19, and increased average length of stay (ALOS). The increase of $8.4 million from 2020 to 2021 is primarily the result of the 2020 cancellation of all nonessential healthcare services from mid-March to the beginning of June in compliance with the New Mexico Governor's Executive Order due to the COVID-19 pandemic.

The following table summarizes key operating statistics for the years ended June 30, 2022, 2021, and 2020:

	Year ended June 30		
	2022	**2021**	**2020**
Total inpatient days	15,260	13,371	10,453
Total discharges	3,152	2,911	2,575
Inpatient surgeries	518	532	686
Outpatient surgeries	2,759	2,480	2,184
Total surgeries	3,277	3,012	2,870
Outpatient visits	43,557	45,556	42,426
Emergency visits	21,520	18,327	19,520

ICU and medical/surgical inpatient days increased by 1,889 from fiscal year 2021 to 2022 primarily due to increased inpatient days for COVID-19 patients and higher acuity patients. The ICU and medical/surgical average daily census (ADC) for the year ended June 30, 2022 was 41.8 and increased by 5.2 from an ICU and medical/surgical ADC of 36.6 for the year ended June 30, 2021. ICU and medical/surgical inpatient days increased by 2,918 from fiscal year 2020 to 2021 primarily due to the cancellation of nonessential services in 2020. The ICU and medical/surgical ADC for the year ended June 30, 2021 was 36.6 and increased by 8.0 from an ICU and medical/surgical ADC of 26.6 for the year ended June 30, 2020. The ADC increase was primarily due to COVID-19 patients.

Net patient service revenues for the fiscal years ended June 30, 2022 and 2021 includes cost report estimates for the Medicare and Medicaid programs. Beginning July 1, 2016, the Medical Center was subject to the prospective federal capital rate. The Medical Center's cost reports have been audited through June 30, 2018 for Medicare and through June 30, 2020 for Medicaid. Management believes that estimated settlements accrued related to unaudited cost reports are adequate. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount once audited. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations.

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

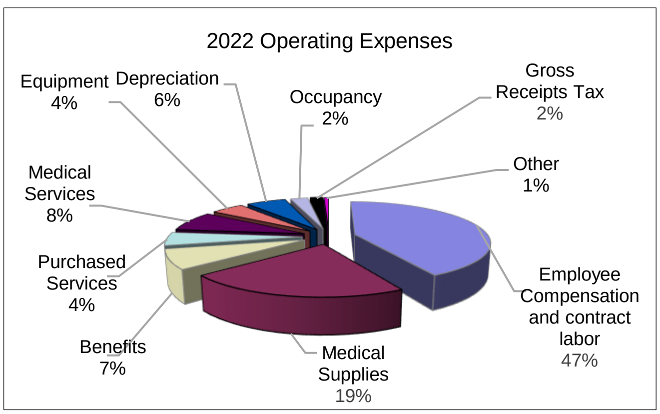
(Continued)

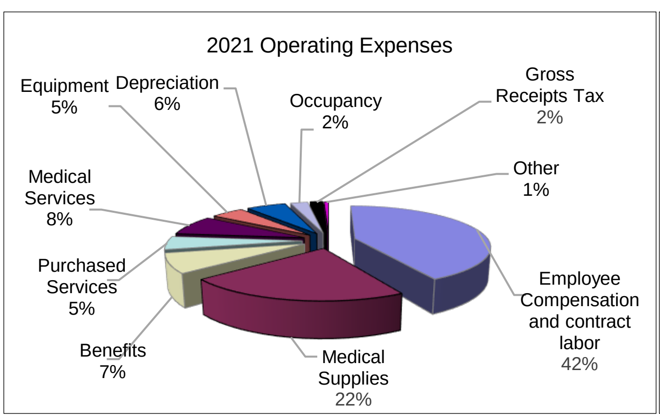
The Medical Center does not pursue collection of amounts determined to qualify as charity care. The costs of charity care provided under this program for the years ended June 30, 2022, 2021, and 2020 were approximately $1.4 million for 2022, and $0.9 million for both 2021 and 2020. The costs incurred are estimated based on the cost-to-charge ratio for the Medical Center as applied to the charity care charges.

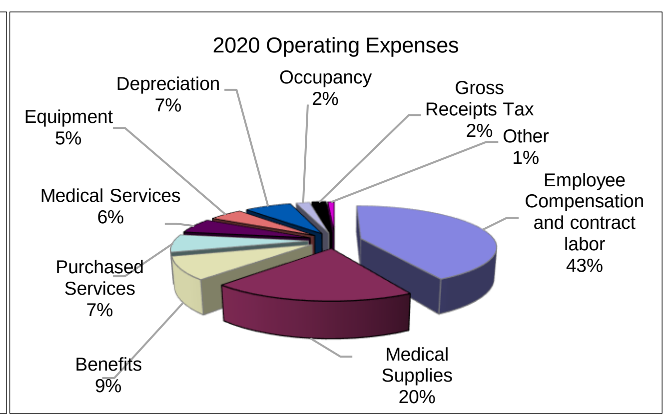
Bad debt accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2022, 2021, and 2020 was $5.6 million, $5.0 million, and $3.9 million, respectively. The cost of care provided to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance for years ended June 30, 2022, 2021, and 2020 was $2.5 million, $2.1 million, and $1.7 million, respectively.

Operating Expenses

The following pie charts depict the distribution of the operating expenses for the Medical Center for the years ended June 30, 2022, 2021, and 2020:







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

For the year ended June 30, 2022, total operating expenses were $111.7 million and represent an increase of $17.1 million from the year ended June 30, 2021. The most significant changes were increases of $12.8 million in employee compensation and contract labor of which $9.3 million was contract labor, $2.0 million in medical services of which $1.2 million was related to Tricore Lab, and $0.8 million in depreciation and amortization expense of which $0.4 was due to amortization of the right-to-use asset associated with the UNM HSC COE building lease.

For the year ended June 30, 2021, total operating expenses were $94.6 million and represent an increase of $11.8 million from the year ended June 30, 2020. The most significant changes were increases of $4.6 million in employee compensation and contract labor, $4.3 million in medical and other supplies, $2.6 million in medical services, and $0.7 million in equipment, primarily in response to COVID-19, annual wage increase, and mill levy program ramp up. These increases were partially offset by a $0.8 million decrease in purchased services, due to a consulting services agreement ending in fiscal year 2020.

Nonoperating Revenues and Expenses

For the years ended June 30, 2022, 2021 and 2020, the Medical Center recorded nonoperating revenues net of nonoperating expenses of $9.8 million, $11.5 million, and $4.9 million, respectively.

Net nonoperating revenues decreased by $1.7 million from 2021 to 2022. The decrease is primarily due to a $5.9 million decrease in CARES Act funding, which was partially offset by an increase in FEMA funding of $4.0 million. The largest source of nonoperating revenues for the year ended June 30, 2022 was the Sandoval County mill levy tax subsidy totaling $7.3 million. The second largest source of nonoperating revenues for the year ended June 30, 2022 was $4.2 million from FEMA funding. Net nonoperating revenues decreased by $6.6 million from 2020 to 2021. The decrease was primarily due to a $5.2 million decrease in bond interest expense, a $1.7 million decrease in federal bond subsidy, and a $2.3 million increase in mortgage interest expense. The largest source of nonoperating revenues for the year ended June 30, 2021 was the Sandoval County mill levy tax subsidy totaling $7.1 million. The second largest source of nonoperating revenues for the year ended June 30, 2021 was $7.0 million from CARES Act funding. The largest source of nonoperating revenues for the year ended June 30, 2020 was the Sandoval County mill levy tax subsidy totaling $6.5 million. The second largest source of nonoperating revenues for the year ended June 30, 2020 was $3.1 million from CARES Act funding.

The most significant nonoperating expense recorded for the year ended June 30, 2022 and June 30, 2021 was mortgage interest and insurance in the amount of $2.8 million and $2.3 million, respectively. The most significant nonoperating expense recorded for the year ended 2020 was bond interest expense in the amount of $5.2 million.

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Capital Assets

At June 30, 2022, the Medical Center had $97.7 million invested in capital assets, net of accumulated depreciation and amortization of $64.1 million. Depreciation and amortization expense totaled $6.3 million for the year ended June 30, 2022. Depreciation expense was $5.5 million and $5.6 million for the years ended June 30, 2021 and 2020, respectively.

		Year ended June 30		
		2022	**2021**	**2020**
Building and building improvements	$	106,208,315	105,702,629	105,650,011
Building service equipment		5,812,239	4,950,674	4,724,428
Fixed equipment		4,310,682	4,223,199	4,223,199
Major moveable equipment		38,898,004	34,658,158	35,822,042
Construction in progress		1,571,312	3,787,279	300,910
Right-to-use asset		5,038,779	—	—
		161,839,331	153,321,939	150,720,590
Less accumulated depreciation/amortization		(64,110,057)	(58,615,026)	(55,245,574)
Net property and equipment	$	97,729,274	94,706,913	95,475,016

For the year ended June 30, 2022, total depreciable capital assets increased by $10.5 million from June 30, 2021, due primarily to $5.0 million right-to-use lease asset related to the new UNM HSC lease, and $4.2 million of major movable equipment additions. Construction in process decreased $2.2 million due to prior year pharmacy renovations of $1.1 million and CT scanner of $1.4 million that were placed into service in fiscal year 2022.

For the year ended June 30, 2021, total depreciable capital assets decreased by $0.9 million from June 30, 2020, due to $1.2 million of major movable equipment additions offset by $2.1 million of retirements, primarily for software. Construction in process increased $3.5 million, with the largest increase related to a CT scanner of $1.4 million and pharmacy renovations of $1.1 million. Major moveable equipment retirements were $2.1 million, with a net book value of $31 thousand.

Debt Activity

In July 2020, the Medical Center entered into an agreement and mortgage with KeyBank National Association to refinance the Medical Center's mortgage from an APR of 4.86% (3.33% net of BAB Subsidy) to an APR of 1.98%. In connection with the mortgage refinance, in July 2020 $118.3 million was placed into irrevocable trust to make the mandatory bond redemption payments on the Government National Mortgage Association (GNMA) Collateralized Series 2010A and Series 2010B bonds through the bond callable date in January 2021. The Medical Center was released from all obligations related to the bonds in July 2020. A loss on defeasance of $2.4 million was recorded as a deferred outflow at the July defeasance date. The Medical Center entered into this refinance transaction to reduce the Medical Center's mortgage interest expense.

The Medical Center had mortgage liability of $100.7 million at June 30, 2022 and $106.4 million at June 30, 2021. The current portion of mortgage liability at June 30, 2022 and 2021 was $5.8 million and $5.7 million, respectively.

The Medical Center paid $5.7 million in mortgage principal and $2.0 million in mortgage interest expense in fiscal year 2022 and $5.3 million in mortgage principal and $2.2 million in mortgage interest expense in fiscal year 2021.

There is a loan guarantee associated with the mortgage that is considered federal assistance subject to the requirements of Office of Management and Budget Uniform Guidance. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2022, 2021, and 2020 Single Audit.

Factors Impacting Future Periods

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

(a) Provider Contracts

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

On August 1, 2022, CMS released the federal fiscal year 2023 Inpatient Prospective Payment (IPPS) Final Rule. The Medical Center's IPPS rate is estimated to increase 5.62% or a total of $0.4 million as a result of the IPPS final rule. This increase is primarily due to a 4.15% increase to the national labor and non-labor components of the DRG rate and a finalized wage index increase of 2.0%.

The 2023 IPPS final rule suppressed the ACA provision that hospitals scoring in the top quartile of the nation for Hospital-Acquired Conditions (HACs) are subject to a 1.0% penalty reduction in payments; however, CMS intends to resume use of measure data for purposes of scoring and payment in federal fiscal year (FFY) 2024. The Medical Center's HAC score has never been in the highest quartile, and thus has never been subject to the 1% decrease. The Medical Center's payment rate is expected to have a 2.61% negative impact under the Hospital Readmission Reduction Program. CMS finalized a special scoring methodology for FFY 2023 that results in each hospital receiving a value-based incentive payment amount that matches their 2% reduction to the base operating DRG payment amount. The Medical Center expects to receive this VBP Payment adjustment of 2%. The estimated impact of these quality pay-for-performance programs is a decrease of 0.85% or $70 thousand for FFY 2023.

On July 27, 2022, CMS issued the proposed calendar year (CY) 2023 Outpatient Prospective Payment System (OPPS) rule. CMS proposes to raise the base OPPS Payment rate by 2.7%. CMS proposed continuation of average sales price minus 22.5% for 340b drugs; however, in light of the Supreme Court's June 15, 2022 decision in American Hospital Association v. Becerra, in which the Court struck down a CMS rule providing payment for average sales price (ASP) minus 22.5% as a violation of the Medicare Act, upon finalizing the proposed rule CMS fully intends to revert back to ASP plus 6% in the OPPS Final Rule for CY 2023. CMS intends to make this 340b budget neutral and will be reducing the conversion factor to accommodate for the 340b reimbursement increase. The overall impact of the proposed OPPS rule on the Medical Center's reimbursement is estimated to be an increase of 3.98% or $0.3 million.

(b) Medicare Disproportionate Share Hospital (DSH)

The Medical Center's Uncompensated Care (UC) DSH payments are estimated to decrease $0.1 million in fiscal year 2023. Under the 2023 Final IPPS Rule, CMS finalized to use two year of UC data from worksheet S-10 of the Medicare cost report to calculate each hospital's share of UC in the DSH calculation. For fiscal year 2023 UC-based DSH payments, CMS finalized to use federal fiscal year 2018 and 2019 cost report data, which is the Medical Center's fiscal year ending June 30, 2019 and 2020, which CMS has audited.

(c) Coronavirus Disease "COVID-19" Pandemic

On March 11, 2020, the World Health Organization declared the novel coronavirus disease (COVID-19) outbreak a global pandemic. COVID-19 is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). It was first identified in December 2019 in Wuhan, Hubei, China, and has resulted in an ongoing pandemic. On January 31, 2020, Health and Human Services Secretary Alex Azar II declared a Public Health Emergency (PHE) for the United States to help the healthcare community respond to COVID-19. On March 13, 2020, the American College of Surgeons issued Recommendations for Management of Elective Surgical Procedures, which included recommendations on minimizing, postponing, or cancelling elective surgeries, endoscopies, or other invasive procedures. On March 24, 2020, the New Mexico Department of Health issued a Public Health Order prohibiting hospitals and other healthcare facilities from providing nonessential healthcare services, procedures, and surgeries. The Medical Center resumed nonessential healthcare services, procedures, and surgeries in early June 2020, shortly after the New Mexico Public Health Order for nonessential healthcare services was lifted. Although nonessential services have resumed, ambulatory and ancillary volumes did not return to budgeted levels until part way through fiscal year 2022. The COVID-19 pandemic is ongoing and the national PHE order is still in place.

In response to the economic impact of COVID-19, the CARES Act was enacted by Congress and was subsequently signed into law on March 27, 2020. The Medical Center suspended non-emergent or non-critical surgeries, procedures and appointments from mid-March 2020 through various times in fiscal year 2021 and 2022. The CARES Act authorizes $100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (PHSSEF). Payments from the PHSSEF are intended to compensate healthcare providers for lost revenues and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. In fiscal years 2022, 2021, and 2020, the Medical Center received approximately

$1.1 million, $3.4 million and $6.7 million, respectively, in payments from the CARES Act. The Medical Center recognized a total of $5.3 million, $7.3 million, and $3.0 million in the years ended June 30, 2022, 2021, and 2020, respectively, from CARES Act, other provider relief funding, and FEMA funding related to the COVID-19 pandemic.

Under the CARES Act, the Medical Center also received $7.3 million in advance payment from CMS in fiscal year 2020 to increase cash flow to Medicare providers impacted by the COVID-19 pandemic. Inpatient acute care hospitals could request accelerated payments of up to 100% of the Medicare payment amount for a 6-month period (not including Medicare Advantage payments). CMS-based payment amounts for inpatient acute care hospitals were based on the provider's Medicare fee-for-service reimbursements in the last 6 months of 2019. Such accelerated payments are interest free for inpatient acute care hospitals for 18 months, and the program requires CMS to recoup the payments. As of June 30, 2022, CMS has recouped $5.1 million of the Medical Center's Medicare Advance. The Medicare Accelerated and Advance Payment Program liability was $2.2 million, $6.7 million and $7.3 million as of June 30, 2022, 2021, and 2020, respectively. The advance payments were made for services a healthcare entity has provided or will provide to its Medicare patients and are therefore considered exchange transactions that will be recognized in patient service revenue, net, once services have been provided.

Lastly, the CARES Act provides for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020, with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The Medical Center began deferring the employer portion of social security taxes in mid-April 2020. The Medical Center had a deferred liability of $0.5 million and $0.6 million in social security taxes as of June 30, 2022 and June 30, 2021, respectively.

CMS has issued multiple 1135 waivers since the PHE was declared. The waivers help ensure that sufficient healthcare items and services are available to meet the needs of individuals enrolled in the Medicare, Medicaid, and Children's Health Insurance Program programs. One of the waivers expanded the use of telehealth and telephone visits. The waiver implemented payment for telephone visits under the physician fee schedule, which previously were not payable on the fee schedule. The telehealth visits for professional fees are paid at the same rate as an in-person visit under the physician fee schedule. The Medical Center is only able to bill and be paid for one code. The payment for this code is significantly less than what the payment would be for an in-person visit. In December 2020, CMS permanently expanded some telehealth services. There is support to continue to expand telehealth and telephone services. The New Mexico Human Services Department (HSD) issued a letter of direction to New Mexico Managed Care Organizations to increase hospital inpatient payment rates from April 1, 2020 through September 30, 2020 for COVID-19 DRG and ICU hospital admissions.

The Medical Center continues to monitor and assess the potential impact of future stimulus measures, other laws, regulations, and guidance related to COVID-19, to operations, financial condition, and cash flows.

(d) Sandoval County Mill Levy

On November 6, 2018, voters approved a new eight-year tax levy at 1.9 mill on property owned within Sandoval County. The mill levy funds expansion of outpatient behavioral health services and an increase in staffing to achieve a level III trauma center designation at the Medical Center. The mill levy contract with Sandoval County was effective July 1, 2019.

(e) Expansion Projects

The Medical Center has partnered with UNM HSC in the development, construction, and operation of the UNM HSC COE for Orthopedic Surgery and Rehabilitation. The facility in Rio Rancho, New Mexico was completed in November 2021. The two-story 50,000 square foot structure is located adjacent to SRMC in Rio Rancho's City Center. It includes exam rooms for patients to consult with surgeons, an extensive orthopedics research laboratory, and a rehabilitation facility for physical therapy. The majority of the UNM Health System's joint replacement surgeries, including total hip, total knee, foot and ankle, elbow and shoulders, are already being performed at SRMC. The new facility provides ample space for research, a cadaver lab, and two Biosafety Level 2 workstations. The UNM HSC COE property and building are owned by UNM HSC. The Medical Center leases space in the building from UNM HSC.

Contacting the Medical Center's Financial Management

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

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

Statements of Net Position

June 30, 2022 and 2021

Assets		**2022**	**2021**
Current assets:			
Cash and cash equivalents	$	19,719,255	27,906,640
Receivables:			
Patient (net of allowance for uncollectible accounts and contractual adjustments of $17,652,730 in 2022 and $19,067,248 in 2021)		9,277,420	9,913,976
Due from related parties		902,037	275,108
Estimated third-party settlements		1,164,117	648,008
Due from FEMA		3,924,076	99,668
Other		15,000	103,606
Total net receivables		15,282,650	11,040,366
Prepaid expenses		603,000	483,431
Inventories		2,886,909	2,580,991
Total current assets		38,491,814	42,011,428
Noncurrent assets:			
Restricted investments:			
Held by trustee for mortgage reserve fund		15,462,780	15,275,857
Capital assets, net		97,729,274	94,706,913
Total noncurrent assets		113,192,054	109,982,770
Total assets		151,683,868	151,994,198
Deferred Outflows			
Deferred outflows of resources – loss on bond defeasance		2,127,952	2,279,949
Total assets and deferred outflows	$	153,811,820	154,274,147
Liabilities			
Current liabilities:			
Accounts payable	$	9,273,707	7,303,682
Accrued payroll		4,232,207	3,262,172
Due to related parties		3,139,322	1,230,503
Estimated third-party settlements		2,644,170	3,123,295
Mortgage payable – current		5,822,520	5,708,461
Lease liability – current		466,410	—
Medicare Accelerated and Advance Payment Program		2,245,243	6,742,718
Accrued compensated absences		2,177,092	2,189,129
Total current liabilities		30,000,671	29,559,960
Noncurrent liabilities:			
Mortgage payable		94,854,686	100,677,206
Lease liability		4,292,012	—
Total noncurrent liabilities		99,146,698	100,677,206
Total liabilities		129,147,369	130,237,166
Net Position			
Net deficiency in capital assets		(5,578,403)	(9,398,805)
Restricted, expendable:			
Expendable bequests and contributions		110,432	107,878
In accordance with the trust indenture and debt agreement		15,462,780	15,275,857
Unrestricted		14,669,642	18,052,051
Total net position		24,664,451	24,036,981
Total liabilities and net position	$	153,811,820	154,274,147

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2022 and 2021

		2022	2021
Operating revenues:			
Net patient service revenues	$	100,348,942	84,893,742
Other operating revenues		2,118,266	1,602,187
Total operating revenues		102,467,208	86,495,929
Operating expenses:			
Employee compensation and contract labor		52,641,300	39,882,696
Medical and other supplies		21,301,352	20,550,916
Medical services		9,470,487	7,425,614
Benefits		7,893,074	7,219,482
Depreciation and amortization		6,251,115	5,452,586
Equipment		4,454,742	4,498,991
Purchased services		4,601,985	4,888,992
Occupancy		2,531,416	2,390,376
Gross Receipts Tax		1,824,379	1,627,978
Other		702,756	625,780
Total operating expenses		111,672,606	94,563,411
Operating loss		(9,205,398)	(8,067,482)
Nonoperating revenues (expenses):			
Sandoval County mill levy		7,335,396	7,149,790
Federal bond subsidy		—	7,333
Interest income, net		4,614	4,913
Interest expense on lease		(60,692)	—
Mortgage interest and insurance		(2,752,782)	(2,314,784)
Bequests and contributions		14,544	23,111
CARES Act funding		1,134,200	7,017,914
FEMA funding		4,167,760	172,791
Other nonoperating expense		(10,172)	(568,040)
Net nonoperating revenues		9,832,868	11,493,028
Increase in net position		627,470	3,425,546
Net position, beginning of year		24,036,981	20,611,435
Net position, end of year	$	24,664,451	24,036,981

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Cash received from patient services	$ 95,492,789	83,520,597
Cash payments to employees	(36,911,613)	(34,537,849)
Cash payments to suppliers and contractors	(57,588,332)	(45,526,199)
Cash payments to related parties	(4,828,638)	(5,383,328)
Cash payments to Department of Revenue	(1,798,550)	(2,215,013)
Other receipts	1,650,355	1,357,716
Net cash used in operating activities	(3,983,989)	(2,784,076)
Cash flows from noncapital financing activities:		
Cash received from Sandoval County mill levy	7,381,981	6,878,846
Cash received from CARES Act funding	1,134,200	3,400,000
Cash received from FEMA	343,352	172,792
Cash received from contributions	14,544	23,111
Net cash provided by noncapital financing activities	8,874,077	10,474,749
Cash flows from capital financing activities:		
Purchases of capital assets	(4,244,870)	(4,714,674)
Principal payments on mortgage	(5,708,461)	(5,134,468)
Payments for mortgage interest and insurance	(2,600,785)	(2,162,787)
Payments into mortgage reserve fund	(182,309)	(187,827)
Principal and interest payments on lease	(341,048)	—
Cash received from federal bond subsidy	—	877,713
Interest payments on bonds	—	(2,573,150)
Cash payment to refunded bond escrow agent	—	(2,431,946)
Principal payments on bonds	—	(113,280,000)
Cash received from mortgage refinancing	—	111,440,227
Net cash used in capital financing activities	(13,077,473)	(18,166,912)
Cash flows from investing activities:		
Interest on investments	—	104
Net cash provided by investing activities	—	104
Net decrease in cash and cash equivalents	(8,187,385)	(10,476,135)
Cash and cash equivalents, beginning of year	27,906,640	38,382,775
Cash and cash equivalents, end of year	$ 19,719,255	27,906,640

(Continued)

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

Statements of Cash Flows

Years ended June 30, 2022 and 2021

		2022	2021
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(9,205,398)	(8,067,482)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:			
Depreciation expense		6,251,115	5,452,586
Provision for doubtful accounts		5,606,781	4,951,343
Change in assets and liabilities:			
Patient receivables		(4,970,225)	(7,004,123)
Due from related parties		(626,929)	130,329
Estimated third-party settlements		(995,234)	1,267,683
Other receivables and prepaid expenses		(77,548)	199,209
Inventories		(305,918)	(315,247)
Accounts payable		1,970,025	1,287,199
Medicare Accelerated and Advance Payment Program		(4,497,475)	(588,047)
Due to related parties		1,908,819	(344,462)
Accrued payroll		970,035	75,956
Accrued compensated absences		(12,037)	170,980
Net cash used in operating activities	$	(3,983,989)	(2,784,076)

See accompanying notes to financial statements.

(1) Description of Business

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

The healthcare-related education, research, and clinical programs and services offered by UNM and/or provided in UNM's facilities and those of certain of its URPEDA subsidiaries are designated as the UNM Health Sciences Center (HSC), which is a component unit of UNM. The clinical elements of UNM HSC are intended to be a fully integrated academic health center and healthcare delivery system and are collectively administered as the UNM Health System. As part of ongoing operations, the Medical Center engages in certain related-party transactions as described further in note 14.

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

- Management's discussion and analysis

- Basic financial statements, including statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows
- Notes to financial statements

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

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

(b) Recent Accounting Pronouncements

GASB Statement No. 96, *Subscription-Based Information Technology Agreements*, was issued in May 2020 and provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement is effective for fiscal years beginning after June 15, 2022 and requires recognition of SBITAs as intangible assets with a corresponding subscription liability based on the payment provisions of the contract. GASB Statement No. 96 also provides capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Medical Center is evaluating the impact this standard will have on future financial statements.

(c) Use of Estimates

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

(d) Operating Revenues and Expenses

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

(e) Nonoperating Revenues and Expenses

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as government levies and subsidies, and gifts or income not directly related to the provision of patient care, such as investment income. These revenue streams are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Investment income is recognized in the period when it is earned. The mill levy is recognized in the period it is collected by Sandoval County. Coronavirus Aid, Relief and Economic Stimulus (CARES) Act funding, Federal Emergency Management Agency (FEMA) funding, and bequests and contributions are recognized when all applicable eligibility or contingent requirements have been met. Nonoperating expenses include mortgage interest and servicing fees, mortgage insurance premium, interest expense on lease, and other.

(f) Cash and Cash Equivalents

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

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

(g) Net Patient Accounts Receivables

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

(h) Inventories

Inventories consisting of medical and surgical supplies and pharmaceuticals are stated at the lower of cost or market. Cost is determined using the first-in, first-out valuation method.

(i) Restricted Investments Noncurrent

The Medical Center has established a mortgage reserve fund in accordance with the requirements and conditions of the Federal Housing Administration (FHA) Regulatory Agreement. Notwithstanding any other provision in the Regulatory Agreement, the mortgage reserve fund may be used by Housing and Urban Development if the Medical Center is unable to make a mortgage note payment on the due date. The Medical Center is required to make contributions to the fund based on the mortgage reserve fund schedule.

(Continued)

(j) Capital Assets

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

(k) Net Deficiency in Capital Assets

Net deficiency in capital assets represents the Medical Center's total investment in capital assets, net of outstanding debt and related deferred outflows of resources related to those capital assets. Since the outstanding debt at June 30, 2022 and 2021 is greater than the investment in capital assets, this category of net position is reported as a negative amount in the statements of net position.

(l) Leases

The Medical Center adopted GASB Statement No. 87, *Leases*, in the year ended June 30, 2022, with retrospective application to all periods presented. The Medical Center had no significant agreements prior to fiscal year 2022 that meet the definition of a lease under GASB Statement No. 87, therefore no restatement of prior year balances upon adoption of this statement is necessary.

Short-Term Leases

For leases with a maximum possible term of 12 months or less at commencement, the Medical Center recognizes expense based on the provisions of the lease contract.

Leases Other Than Short-Term

For all other leases, the Medical Center recognizes a lease liability and an intangible right-to-use lease asset. The Medical Center initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into depreciation and amortization expense on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. If the Medical Center is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

The Medical Center uses its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor charges is known. The Medical Center's incremental borrowing rate for leases is based on the rate of interest it would need to pay if it issued general obligation bonds to borrow an amount equal to the lease under similar terms at the commencement or remeasurement date. The lease term includes the noncancellable period of the lease, plus any additional periods covered by either a Medical Center or lessor option to (1) extend for which it is reasonably certain to be exercised, or (2) terminate for which it is reasonably certain not to be exercised. Periods in which both the Medical Center and the lessor have a unilateral option to terminate (or if both parties have to agree to extend) are excluded from the lease term. Payments are evaluated by the Medical Center to determine if they should be included in the measurement of the lease liabilities.

(m) Net Patient Service Revenues

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

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

(n) Charity Care

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

(o) Sandoval County Mill Levy Taxes

On November 6, 2018, voters approved a new eight-year, 1.9 mill tax levy on property owned within Sandoval County. The mill levy is intended to fund expansion of outpatient behavioral health services and an increase in staffing to achieve a level III trauma center designation at the Medical Center. The mill levy contract with Sandoval County was effective July 1, 2019. Mill levy revenues recognized in fiscal years 2022 and 2021 were $7.3 million and $7.1 million, respectively.

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

Any taxes remitted to the Medical Center by the County Treasurer are paid after any potential impacts related to GASB Statement No. 77, *Tax Abatement Disclosures*. Foregone mill levy proceeds resulting from Sandoval County tax abatements are not included in any mill levy proceeds received by the Medical Center, and the financial impacts are the responsibility of the taxing agency to disclose. The

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proceeds of the levy were reduced by approximately $48 thousand and $44 thousand during the years ended June 30, 2022 and 2021, respectively, as a result of the exemptions and abatements granted. Throughout the course of the mill levy period, distribution of mill levy proceeds by the County Treasurer is contingent on existence of a Health Facilities Contract between the County and the Medical Center.

(p) Income Taxes

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

(q) Risk Management

The Medical Center sponsors a self-insured health plan for employees. Blue Cross and Blue Shield of New Mexico (BCBS NM) and HMO New Mexico provide administrative claim payment services for the Medical Center’s plan. Liabilities are based on an estimate of claims that have been incurred but not reported (IBNR) and claims received but not yet paid. At June 30, 2022 and 2021, the estimated amount of the Medical Center’s IBNR and accrued claims is $0.3 million, which is included in accrued payroll. The liability for IBNR is based on actuarial analysis calculated using information provided by BCBS NM and management estimates.

	Balance at beginning of fiscal year	Claims and changes in estimates	Claim payments	Balance at fiscal year-end
2021–2022	$ 339,724	3,412,572	(3,468,544)	283,752
2020–2021	391,634	3,071,838	(3,123,748)	339,724

(r) Reclassifications

Certain fiscal year 2021 amounts have been reclassified to conform to fiscal year 2022 presentation.

(3) Cash and Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

(i) Deposits

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

The carrying amounts of the Medical Center’s deposits with financial institutions at June 30, 2022 and 2021 are $19.7 million and $27.9 million, respectively.

Bank balances are categorized at June 30 as follows:

		2022	2021
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$	250,000	250,000
Other cash		20,423,417	29,504,902
Total	$	20,673,417	29,754,902

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

(b) Long-Term Investments

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

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

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

As of June 30, 2022 and 2021, there are no investments subject to custodial credit risk.

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

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

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

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

	2022			2021		
	Rating		Fair value	Rating		Fair value
Items subject to credit risk:						
Money market fund	Not rated	$	15,462,780	Not rated	$	15,275,857
Total items subject to credit risk			15,462,780			15,275,857
Total long-term investments		$	15,462,780		$	15,275,857

(4) Concentration of Risk

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

	2022		2021	
Medicare	$ 7,595,545	28 %	$ 8,220,557	28 %
Medicaid	4,025,042	15	5,116,174	18
Other third-party payors	10,418,483	39	10,974,368	38
Others	4,891,080	18	4,670,125	16
Total patient accounts receivable	26,930,150	100 %	28,981,224	100 %
Less allowance for uncollectible accounts and contractual adjustments	(17,652,730)		(19,067,248)	
Patient accounts receivable, net	$ 9,277,420		$ 9,913,976	

(5) Federal Legislative Relief Funds

Congress appropriated funds to reimburse eligible healthcare providers for healthcare expenses incurred and/or loss in revenue due to the COVID-19 pandemic. The Health Resources and Services Administration administered the distribution of the payments, which were funded through the Coronavirus Aid, Relief and Economic Security (CARES) Act (P.L. 116-136). These distributions are not subject to repayment, provided management is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. The Federal Government declared the COVID-19 pandemic a federal emergency, which allowed the FEMA to issue monetary assistance for COVID-19 expenses. FEMA funding is for specific projects submitted for reimbursement and is recognized in revenues once fully obligated. For the years ended June 30, 2022 and 2021, the Medical Center recognized nonoperating revenue for CARES Act relief of $1.1 million and $7.0 million and for FEMA funding of $4.2 million and $0.2 million, respectively.

The methodology used to recognize CARES Act relief funding is based on COVID-19 costs to prevent, prepare for, and respond to COVID-19 and for lost patient revenue from March 2020 through June 2022.

In April 2020, the Medical Center received $7.3 million in accelerated Medicare payments as provided for in legislation passed by Congress and the Center for Medicare and Medicaid Services (CMS), which allowed eligible healthcare facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other healthcare providers. Under the

Continuing Appropriations Act, 2021 and Other Extensions Act, recoupments of 25% of Medicare payments began one year after the advance and continued for 11 months, at which time the recoupment increased to 50% for 6 months with any remaining balance due within 30 days. The Medical Center recoupments began in April 2021. Recoupments of $4.5 million and $0.6 million were recorded for fiscal years 2022 and 2021, respectively, resulting in a liability on the statements of net position of $2.2 million and $6.7 million as of June 30, 2022 and June 30, 2021, respectively.

(6) Estimated Third-Party Payor Settlements

The Medical Center is reimbursed by the Medicare and Medicaid programs on a prospective payment basis for hospital services, with certain items reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Medical Center. The annual cost reports are subject to audit by the Medicare Administrative Contractor and the Medicaid audit agent. The Medical Center is subject to the prospective federal capital rate. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. In fiscal years 2022 and 2021, the Medical Center recognized $0.9 million and $0.4 million of net patient service revenues, respectively, related to prior year settlements.

(7) Capital Assets

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

	Year ended June 30, 2022				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
SRMC capital assets not being depreciated:					
Construction in progress	$ 3,787,279	1,145,519	(3,316,975)	(44,511)	1,571,312
SRMC depreciable capital assets:					
Building and building improvements	105,702,629	126,074	379,612	—	106,208,315
Building service equipment	4,950,674	194,384	667,181	—	5,812,239
Fixed equipment	4,223,199	38,390	241,252	(192,159)	4,310,682
Major moveable equipment	34,658,158	2,785,014	2,028,930	(574,098)	38,898,004
Total depreciable capital assets	149,534,660	3,143,862	3,316,975	(766,257)	155,229,240

	Year ended June 30, 2022				
	Beginning balance	**Additions**	**Transfers**	**Retirements**	**Ending balance**
Less accumulated depreciation for:					
Building and building improvements	(23,897,359)	(2,761,427)	—	—	(26,658,786)
Building service equipment	(2,721,864)	(394,459)	—	—	(3,116,323)
Fixed equipment	(2,768,511)	(263,960)	—	192,158	(2,840,313)
Major moveable equipment	(29,227,292)	(2,524,743)	—	563,926	(31,188,109)
Total accumulated depreciation	(58,615,026)	(5,944,589)	—	756,084	(63,803,531)
SRMC depreciable capital assets, net excluding lease assets	90,919,634	(2,800,727)	3,316,975	(10,173)	91,425,709
Right-to-use lease assets, net					4,732,253
SRMC capital assets, net	$ 94,706,913	(1,655,208)	—	(54,684)	97,729,274

	Year ended June 30, 2021				
	Beginning balance	**Additions**	**Transfers**	**Retirements**	**Ending balance**
SRMC capital assets not being depreciated:					
Construction in progress	$ 300,910	3,486,369	—	—	3,787,279
SRMC depreciable capital assets:					
Building and building improvements	105,650,011	52,618	—	—	105,702,629
Building service equipment	4,724,428	226,246	—	—	4,950,674
Fixed equipment	4,223,199	—	—	—	4,223,199
Major moveable equipment	35,822,042	949,441	—	(2,113,325)	34,658,158
Total depreciable capital assets	150,419,680	1,228,305	—	(2,113,325)	149,534,660

	Year ended June 30, 2021				
	Beginning balance	**Additions**	**Transfers**	**Retirements**	**Ending balance**
Less accumulated depreciation for:					
Building and building improvements	$ (21,218,701)	(2,678,658)	—	—	(23,897,359)
Building service equipment	(2,383,045)	(338,819)	—	—	(2,721,864)
Fixed equipment	(2,514,319)	(254,192)	—	—	(2,768,511)
Major moveable equipment	(29,129,509)	(2,180,917)	—	2,083,134	(29,227,292)
Total accumulated depreciation	(55,245,574)	(5,452,586)	—	2,083,134	(58,615,026)
SRMC depreciable capital assets, net	95,174,106	(4,224,281)	—	(30,191)	90,919,634
SRMC capital assets, net	$ 95,475,016	(737,912)	—	(30,191)	94,706,913

(8) Compensated Absences

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

As of June 30, 2022 and 2021, full-time and part-time employees accrue PTO every pay-period based on hours worked and number of years of service up to a maximum of 360 to 416 hours, based on years of service.

At termination, employees are eligible for payment of unused accumulated hours at 100% of their regular hourly rate. Accrued PTO as of June 30, 2022 and 2021 of $2.2 million is computed by multiplying each employee’s current hourly rate by the number of hours accrued.

EIB hours are accrued per pay period for full-time employees and are pro-rated for part-time employees based on hours paid. EIB hours are not eligible for payment at termination therefore they are not reflected as a liability in the Medical Center financial statements.

For the years ended June 30, 2022 and 2021, the following changes occurred in accrued compensated absences, which includes annual leave, sick leave, and holiday.

Balance June 30, 2022	Balance June 30, 2021	Decrease
$ 2,177,092	2,189,129	(12,037)

	Balance June 30, 2021	Balance June 30, 2020	Increase
$	2,189,129	2,018,148	170,981

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

(9) Debt

In November 2010, the Medical Center issued $133,425,000 in aggregate principal amount of Taxable Revenue Build America Bonds (Direct Pay) (GNMA Collateralized – UNM Sandoval Regional Medical Center Project) Series 2010A with a maturity date of July 20, 2036 with an interest rate of 4.5% and $10,000,000 in aggregate principal amount of Taxable Revenue Recovery Zone Economic Development Bonds (Direct Pay) (GNMA Collateralized – UNM Sandoval Regional Medical Center Project) Series 2010B with a maturity date of July 20, 2037 with an interest rate of 5.0%. The Series 2010A and 2010B bonds became callable in January 2021. The bonds were issued pursuant to a trust indenture, dated October 1, 2010, by and between the Medical Center and Wells Fargo Bank, National Association, the Trustee for the purpose of financing the Medical Center facility and to pay certain costs associated with the issuance of the bonds.

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

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

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

In July 2020, the Medical Center entered into an agreement and mortgage with KeyBank National Association to refinance the Medical Center’s mortgage from an APR of 4.86% (3.33% net of BAB Subsidy) to an APR of 1.98%. In connection with the mortgage refinance, in July 2020 the outstanding principal of the Series 2010A and Series 2010B bonds, net of the original issue discount, totaling $113.3 million, along with $5.1 million for interest payments due in fiscal year 2021 through the January 2021 bond call date, were placed in an irrevocable trust from which the remaining debt service payments for bond defeasance were paid in January 2021. The Medical Center was released from all obligations related to the bonds in July 2020. A loss on defeasance of $2.4 million was recorded as a deferred outflow at the

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July 2020 defeasance date. The deferred outflow will be amortized over the life of the mortgage, which is the same as the life of the defeased bonds. The Medical Center completed the mortgage refinance to reduce its total debt service payments over the next 16 years by $17.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $13.7 million.

The mortgage note with KeyBank National Association has an original outstanding principal amount of $111.5 million with monthly principal payments of $0.6 million until July 2037, for a total of 204 installments. The note is insured by the United States Department of Housing and Urban Development and is collateralized by the Medical Center building.

Mortgage payable activity consists of the following:

	Year ended June 30, 2022				
	Beginning balance	Principal additions	Principal payments	Ending balance	Amounts due within one year
Mortgage payable	$ 106,385,667		(5,708,461)	100,677,206	5,822,520
Total	$ 106,385,667	—	(5,708,461)	100,677,206	5,822,520

	Year ended June 30, 2021				
	Beginning balance	Principal additions	Principal payments	Ending balance	Amounts due within one year
Mortgage payable	$ —	111,520,135	(5,134,468)	106,385,667	5,708,461
Total	$ —	111,520,135	(5,134,468)	106,385,667	5,708,461

The following schedule summarizes the required future principal and interest mortgage payments as of June 30, 2022:

Fiscal year	Principal	Interest
2023	$ 5,822,520	1,940,758
2024	5,938,858	1,824,420
2025	6,057,520	1,705,758
2026	6,178,553	1,584,724
2027	6,302,005	1,461,273
2028–2032	33,449,879	5,366,510
2033–2037	36,927,871	1,888,518
	$ 100,677,206	15,771,961

(10) Leases

At June 30, 2022, the Medical Center is a lessee for a lease, from UNM, of the UNM HSC Center of Excellence for Orthopedic Surgery and Rehabilitation building. The Medical Center leases 35,599 square feet of clinic space from UNM, with payments of $46,719 due monthly. The lease has a noncancellable term of 10 years and is discounted at the Medical Center's incremental borrowing rate of 1.98%.

A summary of lease asset activity during the year ended June 30, 2022 is as follows:

		Balance beginning of year	Additions	Remeasure ments	Deductions	Balance end of year
Right-to-use asset	$	—	5,038,779	—	—	5,038,779
Less accumulated amortization		—	(306,526)	—	—	(306,526)
Total lease assets, net	$	—	4,732,253	—	—	4,732,253

A summary of changes in the related lease liability during the year ended June 30, 2022 is as follows:

		Balance beginning of year	Additions	Remeasure ments	Deductions	Balance end of year	Amounts due within one year
Lease liability	$	—	5,038,779	—	280,357	4,758,422	466,410
Total lease liability	$	—	5,038,779	—	280,357	4,758,422	466,410

The following schedule summarizes the future annual lease payments as of June 30, 2022:

Fiscal year		Principal	Interest
2023	$	466,410	94,217
2024		475,645	84,982
2025		485,063	75,564
2026		494,667	65,960
2027		504,462	56,165
2028–2032		2,332,175	124,428
	$	4,758,422	501,316

The Medical Center has no leases with variable payments or residual value guarantees. As of June 30, 2022, the Medical Center has no significant commitments for leases that have not yet commenced. No impairment of leases has been recorded at June 30, 2022 or 2021.

(11) Net Patient Service Revenues

The majority of the Medical Center’s revenue is generated through agreements with third-party payors that provide for reimbursement to the Medical Center at amounts different from its established gross charges. Approximately 39% and 23% of the Medical Center’s gross patient revenue for the year ended June 30, 2022 was derived from the Medicare and Medicaid programs, respectively, the continuation of which is dependent upon governmental policies and government funding. For the year ended June 30, 2021, the approximate gross patient revenue was 41% and 23%, respectively, for income derived from the Medicare and Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the Medical Center’s billings at established charges for services and amounts reimbursed by third-party payors. A summary of payment arrangements with major third-party payors is as follows:

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

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

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

Other – The Medical Center has 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.

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

		2022	2021
Charges at established rates	$	246,956,776	221,117,494
Charity care		(3,134,954)	(2,135,208)
Contractual adjustments		(137,866,099)	(129,137,201)
Provision for doubtful accounts		(5,606,781)	(4,951,343)
Net patient service revenues	$	100,348,942	84,893,742

(12) Charity Care

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

		2022	2021
Charges foregone, based on established rates	$	3,134,954	2,135,208
Estimated costs and expenses incurred to provide charity care		1,416,999	918,139
Equivalent percentage of charity care charges foregone to total gross revenue		1.3 %	1.0 %

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

(13) Malpractice Insurance

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

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

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

(14) Related-Party Transactions

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

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

		2022	2021
UNM (excluding UNM Hospital)	$	3,017,635	1,882,634
UNM Hospital		3,439,942	3,270,443
UNM Medical Group		990,553	802,781
	$	7,448,130	5,955,858

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

	2022	2021
UNM (excluding UNM Hospital)	$ 827,032	314,703
UNM Hospital	1,833,113	855,658
UNM Medical Group	479,177	60,142
	$ 3,139,322	1,230,503

In addition, UNMH and UNM Health System provide overhead support and some management oversight for centralized administrative personnel, and support with analytics, cost reports, and audit. The support is not an incremental cost to UNMH or UNM Health System; therefore, it is not reimbursed by the Medical Center. The estimated value of the support and overhead is $1.0 million and $0.8 million for the years ended June 30, 2022 and 2021, respectively. The value of the support is estimated based on various units of measure that are standard to the industry's practice, such as gross revenue, FTEs, purchase orders issued, and AP invoices keyed.

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

	2022	2021
UNM Hospital	$ 737,554	574,626
UNM Medical Group	100,261	64,307
UNM (excluding UNM Hospital)	746,556	388,043
	$ 1,584,371	1,026,976

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

	2022	2021
UNM Hospital	$ 552,904	250,136
UNM Medical Group	16,164	24,972
UNM (excluding UNM Hospital)	332,969	—
	$ 902,037	275,108

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

UNM and the Medical Center are parties to a building lease for the UNM HSC Center of Excellence for Orthopedic Surgery and Rehabilitation building (note 10).

(15) Benefit Plans

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

Contributions to the Plan are made through employee deferrals on earned compensation. Participants may contribute, on a tax-deferred basis, up to the annual limitations as prescribed by the IRS. Participants may designate all or a portion of 403(b) elective deferral contributions as Roth elective deferral contributions. Participants may also make rollover contributions representing distributions from other qualified plans. Participants direct the investment of their contributions into various investment options offered by the Plan. The Plan currently offers various mutual funds and an insurance investment contract as investment options for participants. The Medical Center may make matching contributions equal to a percentage of participant contributions. If matching contributions are made, the percentage contributed is determined by the Medical Center. The Medical Center may also make a discretionary contribution each plan year. Contributions are subject to regulatory limitations. The Medical Center’s expense for the Plan was $1.0 million for each of the years ended June 30, 2022 and 2021. Total employee contributions under the Plan were $2.1 million and $1.8 million for the years ended June 30, 2022 and 2021, respectively.

(16) Contingencies

The Medical Center is currently a party to various claims and legal proceedings. The Medical Center makes provisions for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Medical Center believes it has adequate provisions for potential liability in litigation matters. The Medical Center 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.

UNM Health System was subject to a network intrusion that occurred on April 2, 2021 and was initially detected by the organization on April 30, 2021. The organization responded quickly to contain the incident. On June 4, 2021, further investigation determined that certain systems containing patient information were accessed by an unauthorized party on May 2, 2021. UNM Health System notified all affected patients and the Office for Civil Rights pursuant to HIPAA, as well as the Governor and Attorney General of New Mexico.

Based on the information that is currently available to the Medical Center, the Medical Center 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.

(17) Subsequent Events

The Medical Center has evaluated subsequent events from the date of the statement of net position through October 10, 2022, the date at which the financial statements were available to be issued. FEMA funding of $3.8 million included in due from FEMA in the statement of net position as of June 30, 2022 was received by the Medical Center in August 2022. No additional matters requiring adjustment to or disclosure in the financial statements have been identified.

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of UNM Sandoval Regional Medical Center, Inc. (the Medical Center), a component unit of the University of New Mexico, which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2022.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 Medical Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Medical Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
October 10, 2022

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

Summary of Audit Results

June 30, 2022

Type of auditor report issued: Unmodified opinion

Fiscal year 2022 findings and responses:

Material weaknesses: No matters to report

Significant deficiencies: No matters to report

Material noncompliance: No matters to report

2021-001. User Access Review – Other Findings as Required by Section 12-6-5 NMSA 1978

Current status: Resolved

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

Exit Conference

June 30, 2022

An exit conference was conducted on October 4, 2022, with members of the board of directors and members of SRMC management. During this meeting, the contents of this report were discussed with the following board members, management personnel, and KPMG LLP representatives present:

Kim Hedrick	Board Member
Michael Richards, MD	Senior Vice President for Clinical Affairs
Jamie Silva-Steele	Chief Executive Officer and President, SRMC
Darlene Fernandez	Chief Financial Officer, SRMC
Pam Demarest	Chief Operating Officer and Chief Nursing Officer, SRMC
Robin Cole	Controller, SRMC
Angela Vigil	Executive Director of Compliance, UNM Hospital
Victor Griego	Director, Internal Audit
Emily Young	Associate University Counsel
Matthew Wilks, MD	Chief Medical Officer, SRMC
Dave Stryzewski	Clifton Larson Allen
Ajay Gupta	Clifton Larson Allen
Randy Romes	Clifton Larson Allen
Javier Young	Clifton Larson Allen
John Kennedy	Partner, KPMG LLP
Susan Warren	Partner, KPMG LLP