UNIVERSITY OF NEW MEXICO HOSPITAL
REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

JUNE 30, 2015 AND 2014

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

UNIVERSITY OF NEW MEXICO HOSPITAL
FISCAL YEAR 2015 OFFICIAL ROSTER

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UNIVERSITY OF NEW MEXICO HOSPITAL

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REPORT OF INDEPENDENT AUDITORS

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Mr. Timothy Keller, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of UNM Hospital (the "Hospital"), a division of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, organized as the University of New Mexico Hospital, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have also audited the Comparison of Budgeted and Actual Revenues and Expenses ("budget comparison") of the Hospital presented as supplementary information, as defined by the Governmental Accounting Standards Board, for the year ended June 30, 2015.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

The University of New Mexico Hospital
Board of Trustees and
Mr. Timothy Keller, New Mexico State Auditor

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of June 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison referred to above presents fairly, in all material respects, the budgetary comparison of the Hospital for the year ended June 30, 2015 in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the Hospital adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective July 1, 2015. Upon adoption, accounting changes required by the Statement are required to be applied by restating the beginning net position for earliest period restated. Accordingly, the Hospital has restated the beginning net position as of July 1, 2015.

As discussed in Note 1 to the financial statements, the financial statements referred to above are intended to present only the activities and transactions attributable to the Hospital, a division of the University of New Mexico, not to the University of New Mexico as a whole.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 24, the schedule of postemployment benefits other than pensions schedule of funding progress on page 75, the schedule of the Hospital's proportionate share of the net pension liability on page 76, and the schedule of Hospital contributions on page 77 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements and budget comparison. The accompanying schedule of pledged collateral by banks on page 73 and schedule of individual

The University of New Mexico Hospital
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deposit and investment accounts on page 74 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedule of pledged collateral by banks and schedule of individual deposit and investment accounts are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying comparison of budgeted and actual revenues and expenses, schedule of pledged collateral by banks, and schedule of individual deposit and investment accounts are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The accompanying vendor schedule of contracts entered into greater than $60,000 on page 78 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
October 29, 2015

This section of the UNM Hospital's (the Hospital) annual financial report presents management's discussion and analysis of the financial performance of the Hospital during the fiscal years ended June 30, 2015 and 2014. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of Hospital's management.

Using the Annual Financial Report

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

The financial statements prescribed by GASB 34 (the statement of net position, statement of revenues, expenses, and changes in net position, and the statement of cash flows) present financial information in a form similar to that used by commercial corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service or goods are received, regardless of when cash is exchanged.

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

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

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

Condensed Summary of Net Position

	As of June 30,		
Assets	**2015**	**2014**	**2013**
Current assets	$ 366,830,094	299,767,628	261,331,960
Capital assets, net	231,035,321	239,078,379	254,687,891
Noncurrent assets	35,594,782	55,818,643	51,378,149
Total assets	633,460,197	594,664,650	567,398,000
Deferred Outflows			
Total deferred outflows of resources	178,603	-	-
Liabilities			
Current liabilities	195,831,266	131,275,013	104,243,261
Noncurrent liabilities	129,440,283	170,096,837	179,051,105
Total liabilities	325,271,549	301,371,850	283,294,366
Deferred Inflows			
Total deferred inflows of resources	655,095	-	-
Net Position			
Net investment in capital assets	116,035,266	92,246,355	102,310,629
Restricted net position, expendable	29,151,022	43,996,008	39,610,263
Unrestricted net position	162,525,868	157,050,437	142,182,742
Total net position	$ 307,712,156	293,292,800	284,103,634

Current assets include cash and other assets that are deemed to be consumed or convertible to cash within one year, and include cash, marketable securities and accounts receivable. The Hospital's most significant current asset was cash and cash equivalents. The cash balance was $146.5 million, $106.3 million and $102.7 million as of June 30, 2015, 2014, and 2013, respectively. A standard metric used to calculate the number of days that it would take to deplete existing cash balances is called "days cash on hand" (DCOH). This measure is used to assess how long the hospital could cover operating expenses or outflows using existing cash balances. It is calculated by taking the cash balance divided by annual expenses divided by the number of days in a calendar year. The DCOH for the Hospital was 65.19, 51.34 and 50.53 as of June 30, 2015, 2014, and 2013, respectively. The DCOH for June 2015 was 13.85 days greater than June 2014 as the result of an increase in due to UNM of $45.4 million. If the payable had been paid prior to year end, DCOH for 2015 would have been 45.17. As part of the FHA Insured Hospital Mortgage Revenue Bonds Series 2015 discussed further in footnote 8, the Hospital must meet a minimum DCOH of 21 days. As part of the cash management practice, the Hospital centrally manages all cash receipts and disbursements for all its affiliates, including the UNM Psychiatric Center (UNMPC) and the UNM Children's Psychiatric Center (UNMCPC), which are collectively referred to as "The Center."

The corresponding liability, due to affiliates, reflects the cash balances held by the Hospital on behalf of its affiliates. The second most significant current asset is patient receivables. The patient receivables balance was $129.7 million, $95.6 million and $68.3 million as of June 30, 2015, 2014, and 2013, respectively. The increase of $34.1 million as of June 30, 2015 compared to June 30, 2014 in patient receivables is primarily due to the conversion of amounts paid as Medicaid supplemental payments such as Upper Payment Limit and capitated payments such as SCI in 2014 that were billed on an individual claim basis in 2015.

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

Effective August 2013, the Radiation and Medical Oncology clinics of the UNM Cancer Center became hospital based. The accounts receivable balance at June 30, 2014 increased $2.9 million with the addition of these clinics.

At June 30, 2015, 2014, and 2013, the Hospital's current assets of $366.8 million, $299.8 million, and $261.3 million, respectively, were sufficient to cover current liabilities of $195.8 million (current ratio of 1.87), $131.3 million (current ratio of 2.28), and $104.2 million (current ratio of 2.51), respectively.

Deferred outflows of resources increased $178,603 as of June 30, 2015 over 2014 as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* ("GASB No. 68"), which is effective for financial statements for periods beginning after June 15, 2014. GASB No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. The amounts recognized as deferred outflows of resources represent cash contributions made by the Hospital to the defined benefit plan during the year ended June 30, 2015. The number of employees at the Hospital covered by the defined benefit plan was 21, the remaining 99.9% of employees are covered under a defined contribution plan.

Current liabilities are generally defined as amounts due within one year, and include accounts payable, accrued payroll, accrued compensated absences and amounts due to UNM. The most significant current liability was the amount due to the University of New Mexico (UNM).

The Due to UNM balance was $64.6 million, $19.2 million and $7.8 million as of June 30, 2015, 2014, and 2013, respectively. The increase in Due to UNM was the payable for the remaining payment for capital initiatives of $50.5 million. Capital initiatives are to provide the capital funding for the purchase and construction of additional clinical facilities. Capital initiatives are more fully discussed in Note 17. The next significant liability was the accounts payable balance of $54.1 million, $45.1 million and $31.1 million as of June 30, 2015, 2014, and 2013, respectively. This increase was primarily due to increased medical supplies and purchased services, and minor equipment purchases that had not been paid at June 30, 2015.

Deferred inflows of resources increased $655,095 as of June 30, 2015 over 2014 as a result of the implementation of GASB No. 68. The amounts recognized as deferred inflows of resources represent changes in the Hospital's net pension liability related to the defined benefit plan for the year ended June 30, 2015.

Total net position as of June 30, 2015 increased by $14.4 million to $307.7 million. The increase was due to operating income of $52.0 million offset by a deficiency in nonoperating revenue over expense and other revenue of $33.9 million and a restatement to beginning net position of $3.6 million as a result of the implementation of GASB No. 68. Unrestricted net position totaled $162.5 million at June 30, 2015.

Total net position as of June 30, 2014 increased by $9.2 million to $293.3 million, due to an operating loss of $84.0 million offset by net nonoperating revenues of $93.2 million. Unrestricted net position totaled $157 million at June 30, 2014.

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

		Year Ended June 30,		
		2015	**2014**	**2013**
Total operating revenues	$	904,873,810	702,853,479	638,053,576
Total operating expenses		(852,913,273)	(786,814,917)	(726,361,454)
Operating gain (loss)		51,960,537	(83,961,438)	(88,307,878)
Nonoperating revenues, expense and other revenues		(33,920,372)	93,150,604	94,652,898
Total increase in net position		18,040,165	9,189,166	6,345,020
Net position, beginning of year		293,292,800	284,103,634	277,758,614
Change in accounting pronouncement		(3,620,809)	-	-
Net position, beginning of year restated		289,671,991	-	-
Net position, end of year	$	307,712,156	293,292,800	284,103,634

Operating Revenues

The sources of operating revenues for the Hospital are net patient services, state and local contracts and grants, and other operating revenues, with the most significant source being net patient services revenues. Operating revenues were $904.9 million, $702.9 million, and $638.1 million for the years ended 2015, 2014, and 2013, respectively.

Net patient service revenue is comprised of gross patient revenue, net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were $880 million, $671 million and $604 million for the years ended 2015, 2014, and 2013, respectively.

Net patient service revenues for 2015 of $880 million increased $209 million from $671 million in 2014, which represents a 31% increase. This is primarily the result of increased patient volumes, increase in the acuity of care provided to patients approximating $40 million, $38 million in enhanced payments, $20.9 million in Indirect Medical Education associated with increases in Medicaid discharges, and the enactment of the Patient Protection and Affordable Care Act (ACA) on January 1, 2014 which expanded Medicaid eligibility and created the New Mexico Health Insurance Exchange (HIX) among other reforms.

Approximately $38 million of the increase in net patient service revenues is the result of collecting more on patient accounts receivable for fiscal year ended June 30, 2014 than was estimated. The largest factor in this change in estimate was a direct result of the implementation of the ACA in January 2014, and the tremendous demand for Medicaid coverage under the new regulations, which delayed processing of applications by the State of New Mexico, and the payment of claims on the part of Managed Medicaid payers under Centennial Care. As applications were approved, the State provided MCO's with retroactive capitation payment and advised the MCO's to waive timely filing and to allow the processing of claims for providers retroactive to January 1, 2014.

In May 2014, the New Mexico Human Services Department (NMHSD) projected that by June 2015 enrollment in Centennial Care would be approximately 701,000. This included estimations of the adult expansion population of approximately 163,000. In May 2015, the NMHSD revised their estimates for June 2015 to approximately 823,000, a 17% increase.

The HIX is available to individuals/families with incomes above 138% of the Federal Poverty Line (FPL) and provides subsidized health insurance up to 400% FPL. The HIX estimates approximately 187,000 adults qualify for exchange coverage, with 58,000 of those residing in Bernalillo County. The Hospital is designated as a site for enrollment with a direct connection to HIX.

In March 2015, the HIX reported enrollment in the HIX products of over 52,000, a 52% increase from the prior year.

In addition, the Radiation and Medical Oncology clinics completed the first full year as hospital-based services during fiscal year 2015, and this resulted in an increase of net patient service revenue of $12.4 million over fiscal year 2014.

Net patient service revenues for 2014 of $671 million increased $67 million from $604 million in 2013, which represents an 11% increase. This is primarily the result of the enactment of the ACA on January 1, 2014. Approximately 34,000 New Mexicans enrolled on the exchange.

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

Patient days and visits are important statistics for the Hospital and are presented below:

	Year ended June 30,		
	2015	**2014**	**2013**
Inpatient days - adult	103,314	97,273	97,182
Inpatient days - pediatric	41,665	40,560	42,385
Inpatient days - newborn & obstetrics	15,533	16,740	16,986
Total Inpatient days	160,512	154,573	156,553
Observation days	9,680	6,196	5,502
Discharges	25,328	26,955	26,593
Outpatient visits	488,423	483,362	493,682
Emergency visits	80,020	80,702	78,428
Urgent Care Clinic	23,704	21,423	16,595

Overall inpatient days for 2015 increased 5,939 from 2014, which represents a 3.8% increase. Adult and pediatric days were up 5.1%; however, there was a 7.2% decrease in newborn and obstetrics days. Significant drivers of the increased adult days were in the intensive care units (ICU). In fiscal year 2015, the patient days for trauma, neuroscience, and burn units were higher by 20%, 16% and 15%, respectively, over fiscal year 2014. In addition, observation days for 2015 increased by 3,484 from 2014. A patient is considered to be in inpatient status based upon the physician's order. Observation services are hospital outpatient services provided to help the doctor decide if the patient needs to be admitted as an inpatient or can be discharged. In the Hospital, observation services are provided in both the Emergency Room and on the inpatient units where the patient is assigned to a bed. The decision for inpatient hospital admission is a complex medical decision based on a physician's judgment and the need for medically necessary hospital care. The Hospital was operating at full or near full capacity for adult beds every month during fiscal year 2015.

Overall inpatient days for 2014 decreased 1,980 from 2013, which represents a 1.3% decrease and is primarily attributed to a decrease in pediatric days of 1,825 from 2014 to 2013. At the same time, observation days for 2014 increased by 694 from 2013. The decrease in pediatric days in 2014 is the result of abnormally high incidents of Respiratory Syncytial Virus (RSV) pediatric admissions in 2013 not repeated in 2014.

The Hospital participated in a reimbursement agreement with the State of New Mexico for the State Coverage Insurance (SCI) program which terminated with the implementation of the Centennial Care Medicaid Program (Centennial Care) in January 2014. The Funding for the SCI program was modeled after a capitated payment program. Funds were remitted to the Hospital on a per member per month basis for all state approved members.

The Hospital offers a financial assistance program called UNM Care to which all eligible patients are encouraged to apply. This program assigns patients primary care providers and enables them to receive care throughout the Hospital and at all clinic locations. This program is available to Bernalillo County residents who also meet certain income and asset thresholds. Patients applying for coverage under UNM Care must apply for coverage under Medicaid or the HIX, if eligible. Patients may continue to receive UNM Care until they receive Medicaid eligibility or notification of coverage under the HIX. Patients certified under Medicaid or the HIX may continue to qualify for UNM Care as a secondary coverage for copays and deductibles if they meet the income guidelines. The Hospital uses the same sliding income scale as the ACA to determine if insurance coverage is considered affordable. If coverage is determined not to be affordable, patients may be granted a hardship waiver to qualify for UNM Care and would not be required to pursue coverage under the HIX.

As of June 30, 2015, 2014, and 2013, there were approximately 7,002, 20,200, and 26,500 active enrollees in UNM Care, respectively. The income threshold for UNM Care is 300% of the FPL, and patients may apply for this program at various locations throughout the Hospital and various community locations. The Hospital does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The cost of charity care provided under this program for fiscal years ended June 30, 2015, 2014 and 2013 was $44.7 million, $107.3 million, and $130.8 million, respectively. The implementation of ACA resulted in a decrease in the cost of charity care of $62.6 million in 2015 from 2014.

The Hospital provides care to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance. The Hospital encourages patients to meet with a financial counselor to develop payment arrangements. Although the Hospital pursues collection of these accounts usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, liens are not placed on property or assets, and judgments are not filed against the patients. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2015, 2014 and 2013 was $63 million, $136 million, and $102.2 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, 2015, 2014 and 2013 was $33.1 million, $66.7 million, and $49.5 million, respectively. The decrease in the cost is associated with an increase in patients who have insurance due to the implementation of the HIX. Medicaid expansion was only for 0-138% of the FPL, which would have been charity patients only.

The Medicaid Supplemental Upper Payment Limit (UPL) funding was replaced with the Safety Net Care Pool (SNCP) Program effective January 1, 2014 as part of the implementation of Centennial Care. The fiscal year 2014 UPL payment was $18 million, net of intergovernmental transfers (IGT). Under the SNCP program, the State is providing for enhanced Fee For Service (FFS) rates for hospitals classified as SNCP hospitals and increasing the capitation paid to the Managed Care Organizations (MCO). The Hospital is classified as a SNCP provider and has recorded approximately $48 million and $11 million in revenue for fiscal years 2015 and 2014, respectively, net of IGT that is associated with enhanced FFS rates. The rates are effective for Medicaid discharges beginning January 1, 2014. Due to delays in the implementation of enrollment in Centennial Care, the fiscal year 2014 enhanced rate payments were based on discharges from April 1, 2014 through June 30, 2014.

For the years ended June 30, 2015, 2014 and 2013, the Hospital provided IGTs to the State of New Mexico in the amounts of $20.4 million, $18.7 million and $16.3 million, respectively. Due to the current economic conditions in the State of New Mexico and nationally, the State was unable for fiscal years 2015, 2014 and 2013 to fund a portion of the non-federal share to obtain federal matching funds as described in the (CMS) Special Conditions/Approval, thereby jeopardizing the viability of the Enhanced Payments, Indirect Medical Education, SCI program and UPL through the Sole Community Provider Program as related to the State Operated Teaching Hospital. As a result, the Hospital entered into Memorandums of Understanding with the State of New Mexico under which the Hospital agreed to make IGTs to fund the nonfederal share of the Medicaid payment pursuant to federal Medicaid regulations at 42 CFR 433.51 (Eligible Operating Funds). The loss of the Enhanced MCO rates, Indirect Medical Education, SCI program, the State-Operated UPL funding would have a large detrimental financial impact to the Hospital which provides services to the enrollees in the Managed Medicaid and Medicaid Fee-for-Service Programs. This loss would have also threatened the health, welfare and well-being of the enrollees in the Medicaid Fee-for-Service and Managed Medicaid Programs. The IGTs are recorded as a reduction of net patient service revenues in the accompanying statement of revenues and expenses.

The RAC program was created through the Medicare Modernization Act of 2003 (MMA) to recover inappropriate payments made to providers for fee-for-service

Medicare. Effective February 21, 2014, the Recovery Audit Contract (RAC) program post payment reviews were temporarily suspended due to expiring RAC contracts with the federal government. As of June 30, 2015, the new RAC contracts had not been awarded; however, effective June 4, 2015, CMS withdrew the Request for Quotes for the next round of Recovery Auditor contracts and announced its intent to update the Statement of Work and release new Requests for Proposals shortly after. It permitted the Recovery Auditors to continue active recovery auditing through at least December 31, 2015.

On August 29, 2014, CMS announced a new settlement opportunity to reduce the volume of RAC appeals that were in process at the time. CMS proposed a partial payment of 68% of the net payable amount of the denied inpatient claims. This only applied to inpatient claims that were denied for medical necessity and were still eligible for appeal. Providers had to agree to settle all eligible claims and agree to the dismissal of all associated claim appeals. The Hospital accepted the settlement agreement. In the first settlement round, 131 claims were included and the payment from CMS was $761,563. In the second settlement round, there were 2 claims for $5,649.

Other Operating

In prior years, the Hospital was not able to sufficiently provide outpatient pharmacy services for all Hospital patients due to limited outpatient pharmacy capacity at the three hospital outpatient pharmacy locations. Beginning December, 2012, the Hospital entered into contract pharmacy service arrangements. The contracted pharmacies are able to fill and re-fill prescriptions written by physicians credentialed at the Hospital for patients of the Hospital. The contracted pharmacy bills the patient's underlying insurance and remits the payments to the Hospital on a monthly basis, net of a dispensing fee. The Hospital has recorded $18.3 million, $14 million and $1.5 million for pharmacy services in other operating revenue for the years ended June 30, 2015, 2014 and 2013, respectively.

Operating Expenses

Operating expenses for the Hospital include items such as employee compensation and benefits, medical services, medical supplies, and equipment. For the year ended June 30, 2015, operating expenses, including depreciation of $33 million, totaled $853 million, an increase from 2014 of $66.2 million or 8.4%. The most significant expenditures were for employee compensation and benefits.

Compensation and benefits combined were $396.3 million, $375.2 million, and $359.1 million for the years ended June 30, 2015, 2014 and 2013, respectively. For fiscal years ended June 30, 2015, 2014, and 2013, the percentage of compensation and benefits combined to total expenses was 46%, 47% and 50%, respectively. The Hospital was able to provide an increase in wages to its employees during FY 2015.

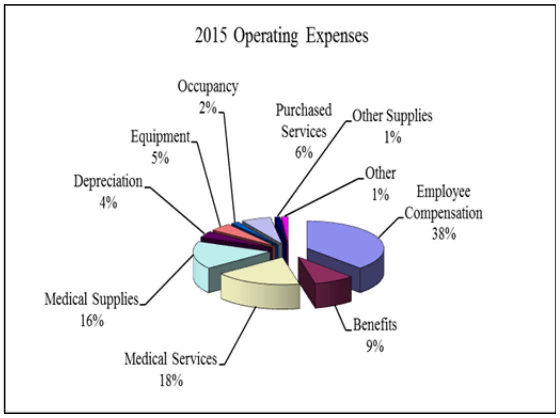
There was a general wage increase of 2.7% in July 2014 and another increase of 2% in May 2015.

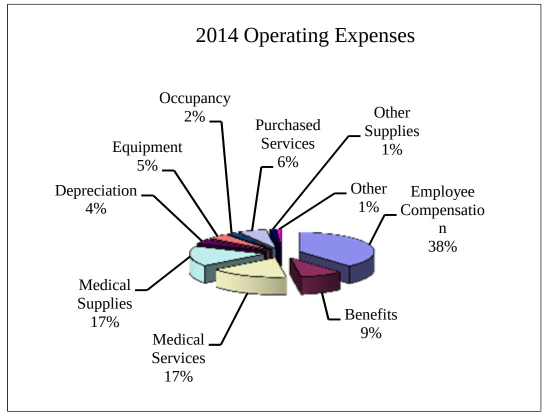
The remaining increase was primarily attributed to an increase in medical services of $22.1 million (16.6%), medical supplies of $8.1 million (6.2%), and purchased services of $4.2 million (8.6%). Medical services increased as a result of increased support of physician providers and resident programs. Medical supplies increased as a result of increased pharmaceutical and biologics costs, as well as increased utilization of supplies related to the hospital based cancer center clinics. Purchased services increased due to services related to recovery of denials and underpayments from third party payers as well as preparation for collections of accounts receivable from the patient billing system that was replaced in August 2015. The new billing system is necessary in order to comply with the requirement to implement ICD-10 by October 1, 2015.

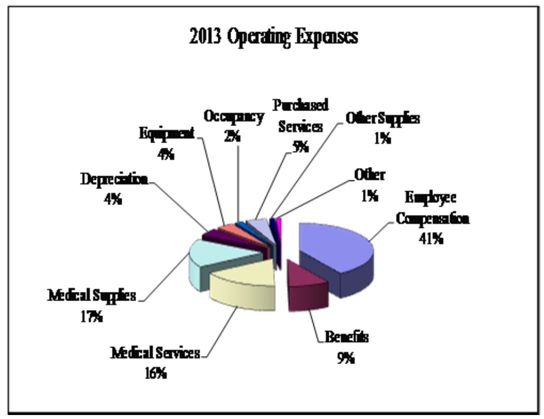
For the year ended June 30, 2014, operating expenses, including depreciation of $31 million, totaled $786.8 million, an increase from 2013 of $60.5 million or 8.3%.

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

The following pie charts depict the operating expense mix for the years ended June 30, 2015, 2014 and 2013:







Nonoperating Revenues and Expenses

For the year ended June 30, 2015, $33.9 million has been recorded as a loss to net nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position.

At June 30, 2015 and 2014, the Bernalillo County Mill Levy tax subsidy was the most significant nonoperating revenue, totaling $79.3 million in 2015 and $78.2 million in 2014. This tax subsidy is provided for the general maintenance and operations of the Hospital. The Hospital received this tax subsidy by voter endorsement.

The next largest source of nonoperating revenue in 2015 was $15.8 million in investment income compared to $41.1 million in 2014. The Hospital recognized $12.1 million from its investment in TriWest Healthcare Alliance (TriWest) in 2015 compared to $39.9 million in 2014. Approximately $12.1 million and $30 million of the revenue recognized in fiscal years 2015 and 2014, respectively, was the result of a re-capitalization completed by TriWest in 2014 (Note 5). State appropriation funding was $5.8 million compared to $5.6 million in 2014. Included in this amount for 2015 and 2014 was $5.3 million and $5.0 million for the Carrie Tingley Hospital (CTH), respectively, and $496,400 and $497,800 for the Young Children's Health

Center (YCHC), for 2015 and 2014, respectively. The Hospital did not receive any capital appropriations in 2015 compared to $30,000 in 2014. State land revenue and oil and gas royalties for CTH for 2015 and 2014 were $820,156 and $877,738, respectively.

Contribution revenue was $2.6 million for 2015 compared to $2.7 million in 2014. The primary source for contributions is the annual Children's Miracle Network fund raising drive which raised approximately $1.4 million in 2015. In addition, there were donations that were used for child life, pediatric specialty care, newborn intensive care, and intermediate care nursery. All donation monies are received by the UNM Foundation and are drawn upon by the Hospital.

The largest nonoperating expense recorded in fiscal year 2015 was $129 million for capital initiatives in collaboration with the University of New Mexico Health Sciences Center (UNMHSC) to provide for the strategic development of clinical facilities.

Included in nonoperating expense was $6.8 million and $7.6 million of interest expense on capital asset-related debt for the years ended June 30, 2015 and 2014, respectively.

Capital Assets

At June 30, 2015, the Hospital had $231 million invested in capital assets, net of accumulated depreciation of $362 million. Depreciation charges for fiscal year 2015 totaled $32.7 million compared to $31.0 million and $32.2 million in fiscal years 2014 and 2013, respectively.

As of June 30,

		2015	2014	2013
Land, building and improvements	$	184,129,590	182,659,209	182,067,206
Building service equipment		161,399,372	158,794,896	156,400,725
Fixed equipment		16,385,935	15,509,382	15,464,906
Major moveable equipment		224,610,736	217,919,198	210,374,242
Construction in progress		7,620,835	6,517,679	3,961,372
		594,146,468	581,400,364	568,268,451
Less accumulated depreciation		(363,111,147)	(342,321,985)	(313,580,560)
Net property and equipment	$	231,035,321	239,078,379	254,687,891

During 2015, the largest capital increases were within major moveable equipment ($5.7 million) and building service equipment ($2.6 million). The larger major moveable equipment purchases included a telesurgery system for operating room integration, a Somatom Definition CT scanner, and a digital diagnostic radiography system. The Somatom Definition CT scanner establishes new industry standards – from scanning without beta-blockers and without hazardous sedations, to characterizing lesions while maintaining dose neutrality, and it is used in numerous specialties including cardiology, pediatrics and oncology. The larger building service equipment projects that were capitalized included renovations in the intravenous pharmacy and eye clinic departments. Other additions to building service equipment were the result of smaller on-going upgrade projects throughout the hospital. Several new projects were initiated during fiscal year 2015 including renovations to accommodate a new Interventional Radiology CT Scanner, endoscopy procedure room renovations, and design for a discharge pharmacy location within the hospital. These projects were part of the construction in progress balance at June 30, 2015.

During fiscal year ended June 30, 2015, the Hospital opened a new clinic in the Downtown region of Albuquerque. The clinic is a family medicine clinic offering adult, women's and children's care. The project was funded from the capital initiatives fund. The amount expended from capital initiatives was $5.2 million to complete the project.

Debt Activity

The Hospital's bonds payable totaled $115.0 million and $160.3 million at June 30, 2015 and 2014, respectively. On May 14, 2015, the Hospital issued $115,000,000 in new bonds (2015 Series bonds) to refinance the Federal Housing Administration (FHA) insured Hospital Mortgage Revenue Bonds, 2004 Series, issued by the UNM Board of Regents for the purpose of financing the construction, equipping, and furnishing of the 478,000-square-foot Women's and Children's Pavilion. The project was placed into service June 2007. The 2015 Series bonds were issued pursuant to a Trust Indenture, dated as of May 1, 2015, by and between the Hospital and Wells Fargo Bank, National Association, as Trustee for the purpose of re-financing the 2004 Series bonds. The 2015 Series bonds carry interest rates that range from 0.484% to 3.532%. The Hospital refunded the 2004 Series bonds to reduce its total debt service payments over the next seventeen years by approximately $56.7 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $15.9 million. The reduction in total debt service was accomplished through a combination of lower interest rates compared to the Series 2004 Bonds and using the balances in the no longer required 2004 Series Mortgage reserve, debt service reserve, collateral, surplus and redemption accounts which resulted in a reduction of $42.9 million of the principal balance.

The first principal payment on the 2015 Series bonds will be made on June 20, 2016. The current portion of this debt was $6 million at June 30, 2015.

The loan guarantee is considered federal assistance subject to the requirements of Office of Management and Budget (OMB) Circular A-133 and the Single Audit Act. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2015 and 2014 Single Audit.

Change in Net Position

The Hospital's total change in net position showed a net increase for 2015 and 2014. Total net position (assets plus deferred outflows minus liabilities minus deferred inflows) is classified by the Hospital's ability to use these assets to meet operating needs. Unrestricted net position may be used to meet all operating needs of the Hospital. A portion of the Hospital's net position may be restricted as to use by sponsoring agencies, donors, or other nonhospital entities. Restricted net position represents funds generated by contributions and gifts. The restricted net position is further classified as to the purpose for which the funds must be used. Net position increased approximately $18 million offset by $3.6 million restatement to beginning net position for the implementation of GASB 68 in fiscal year 2015. The increase in net position is, in large part, due to the increase in operating revenue of $202 million and was only partially offset by an increase of $66 million in operating expense. The increase was also partially offset by the decrease in investment income of $25 million and the increase in capital initiatives expense of $103 million.

Factors Impacting Future Periods

In August 2015, the State communicated during a Medicaid Advisory Committee meeting that the State has a $45 million dollar shortfall in the Medicaid budget. The State indicated that they will be meeting with the Managed Medicaid payers and the Hospitals to discuss strategies on how to balance their budget. The Hospital may experience payment reductions from the Managed Medicaid payers as well as reductions in other Medicaid funding received directly from the State. Management is not able to estimate the impact, if any, of reductions in reimbursement to the Hospital with respect to the budget shortfall.

In addition, the State is proposing language changes to the section of the regulation covering Disproportionate Share Hospital (DSH) payments and how they are to be made. Currently, the Hospital is eligible for (a) 56% of the total pool as a teaching PPS hospital plus (b) the DSH reserve pool of 20%. The change would be (a) 70% for teaching PPS hospital, (b) 28.125% nonteaching PPS and (c) 1.875% to PPS exempt hospitals. This amounts to a reduction of approximately $1.7 million dollars to the Hospital.

On July 31, 2015, the CMS released the fiscal year 2016 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates will increase by a market basket increase of 2.4%, less a 0.5% productivity reduction mandated under the Patient Protection and Affordable Care Act (ACA), less a 0.8% documentation and coding reduction mandated by the American Taxpayer Relief Act of 2012, and less a 0.2% reduction to offset projected increases associated with new admission and medical review criteria for inpatient services.

Hospitals not submitting either quality data or not meaningful use users of electronic health records (EHRs) in fiscal 2014 are subject to a three-quarter reduction in the initial market basket increase of 2.4%. If a hospital is subject to both reductions, they will start with a market basket rate of 0.6 percent, and will receive an update of negative 0.9 percent. The Hospital has submitted quality measures and under the final CMS rule released October 6, 2015, will have the opportunity to meet Stage 2 meaningful user requirements for a 90 day period between October 1, 2015 and December 31, 2015. If all meaningful use requirements are not met, the estimated reimbursement impact associated with the federal fiscal year 2016 IPPS final rule will be a reduction of $567,000.

Beginning in fiscal year 2014, ACA required changes to Medicare DSH payments. The Hospital receives 25% of the DSH payment previously received using the traditional formula as part of the "base" DRG payments for each Medicare inpatient discharge. The remaining 75% flows into a separate funding pool and is distributed based on each DSH-eligible hospital's ratio of uncompensated care relative to the total for all DSH-eligible hospitals. This portion of the Medicare DSH funding is paid as a flat amount on each Medicare inpatient discharge. This pool is reduced as uninsured populations decline. The national uninsured rate decreased from 13% to 11%. The estimated impact associated with the federal fiscal year 2016 Medicare Disproportionate share will be a reduction of $2.5 million.

The Final Rule implements the ACA required 1% reduction for Hospital-acquired Conditions (HACs) for hospitals scoring in the top quartile of national HAC rates. The Hospital's HAC score is in the highest quartile; therefore, the Hospital will be subject to the 1% decrease. The Hospital's payment rates will have no impact from the Hospital Readmission Reduction Program required by ACA. The estimated impact associated with the federal fiscal year 2016 HAC will be a reduction of $667,000.

On July 1, 2015, CMS issued the proposed calendar year 2016 Outpatient Prospective Payment rule. CMS proposed to raise the base OPPS Payment rate by a market basket increase of 2.7%, less a productivity adjustment of 0.6% and 0.2% for reductions required under ACA. For hospitals that do not report the required quality measures identified by CMS, the update will be decreased by 2.0 percentage points, to -0.1%. CMS has also proposed a 2.0% reduction to correct for the Office of the Actuary's prior year overestimation of the amount of packaged laboratory payments in the OPPS for laboratory tests. These laboratory tests were packaged beginning with the calendar year 2014 OPPS final rule. CMS alleges that instead these tests were paid separately under the Clinical Laboratory Fee Schedule. This proposed reduction would result in a negative payment update for hospital outpatient services for all hospitals. The estimated impact of these reductions on UNMH is a decrease of $948,000.

CMS has proposed adding nine comprehensive ambulatory payment classifications (APCs), which package related items and services into a single payment for the comprehensive primary service. Included is a new comprehensive observation services APC for non-surgical encounters with a high level visit and eight or more hours of observation. CMS also proposes comprehensive APCs for ear, nose and throat procedures, intraocular procedures, gynecologic procedures, laparoscopy, musculoskeletal procedures, urology and related procedures and for ancillary outpatient procedures when a patient expires.

Also in the proposed OPPS rule, CMS proposes a mandatory bundled payment program that would bundle payment to acute care hospitals for hip and knee replacement surgery (MS-DRGs 469 and 470). This Comprehensive Care for Joint Replacement (CCJR) payment model would hold the hospital in which the joint replacement takes place financially responsible for the entire episode of care, from the date of surgery through 90 days post-discharge. The episode of care would include the surgical procedure and inpatient stay and related services within 90 days of discharge, including inpatient and outpatient, readmission, inpatient rehabilitation, skilled-nursing and home health services. The proposal would require IPPS hospitals in 75 metropolitan statistical areas (MSAs) to participate in the model. Approximately 800 hospitals, including UNM Hospitals, are within these 75 MSAs. The hospitals would be the episode initiators and would bear the financial risk. CMS proposes to test the CCJR model for five years beginning January 1, 2016 and ending December 31, 2020. Under the model, all providers would continue to receive payment under Medicare fee-for-service. After the completion of the performance year, services in that year's episodes would be grouped into episodes and aggregated. CMS would compare the participating hospital's total episode payment to their "target price". The "target price" would reflect a hospital's hospital-specific and regional blended historical payments, less 2.0%.

If the total episode payments were below the target price, Medicare would pay the hospital the difference in the form of a "reconciliation payment." If spending was in excess of the target price, the hospital would pay Medicare the difference. No hospital would be penalized in year one of the program. In year two, hospitals would be at risk for any payments over 1% of the target price. In subsequent years, hospitals would be at risk for any payments over the target price. CMS proposes that only hospitals meeting or exceeding performance thresholds on three quality measures would be eligible for a "reconciliation payment." These quality measures, already reported in the Hospital Inpatient Quality Reporting program, include the 30 day hospital readmissions for total hip and total knee replacement, complications within 90 days of hospitalization for elective total hip and total knee replacement and the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) survey.

On October 1, 2013, CMS adopted the Two-Midnight rule that established Medicare payment policy regarding the benchmark criteria that should be used when determining whether a patient admission is reasonable and payable under Medicare Part A. In general, the Two-Midnight rule states that inpatient admissions are payable under Part A if the admitting practitioner expected the patient to require a hospital stay that crossed two midnights and the medical record supports that expectation and that Medicare Part A payment is generally not appropriate for hospital stays not expected to span at least two midnights. In the calendar year 2016 OPPS proposed rule, CMS proposed to change the standard by which inpatient admission generally qualify for Part A payment to reiterate and emphasize the role of physician judgment. CMS also proposes that Quality Improvement Organizations (QIOs) oversee the majority of patient status audits, with RACs focusing on only those hospitals with consistently high denial rates. CMS is also changing the recovery audit "look-back period" for patient status reviews to six months from the date of services, where a hospital submits the claim within three months of the date that it provides services, to allow for timely re-billing of the claim for Medicare Part B payment. Currently, a partial enforcement delay of the Two-Midnight rule expires September 30, 2015. The proposed changes would not take effect until January 1, 2016.

The RAC program encompassing New Mexico became effective in March 2009, with Connolly Consulting Associates, Inc. as the contractor. CMS is currently in the procurement process for the next round of RAC contractors. The RAC regions 1, 2 and 4 remain under pre-award protest. Region 2 encompasses New Mexico.

On August 4, 2014, due to delays in awarding RAC contracts, CMS initiated contract modifications to current RAC contracts to allow a restart of some reviews. CMS stated that most reviews will be on an automated basis, with a limited number of complex reviews of topics selected by CMS. During the extension of the current contracts, RACs will not review claims to determine if the care was delivered in the appropriate setting. The Hospital received two RAC requests subsequent to June 30, 2015 for a total of 315 medical records. The total payment on these accounts is $9.7 million. These will be reviewed primarily for DRG validation and drug quantities. If the DRG is found to be incorrect then CMS is expected to recoup the money that was paid and repay the Hospital the amount due under the revised DRG.

In January 2009, the Department of Health and Human Services (HHS) published final rules on the adoption of International Classification of Diseases, 10th Revision, Clinical Modification (ICD-10) as the Health Insurance Portability and Accountability Act of 1996 (HIPAA) standard code set to replace ICD-9. The effective date for implementation of the ICD-10 standard has been delayed multiple times; however, on July 31, 2014, HHS issued a final rule establishing October 1, 2015 as the compliance date for ICD-10. The Hospital upgraded its patient financial billing systems in August 2015 in order to prepare for ICD-10. The Hospital is also implementing computer assisted coding software in preparation for ICD-10.

The Bernalillo County mill levy that the Hospital receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially decrease as a result of reduced property values and slowdowns in the building construction industry. The voters approved the renewal of the mill levy in the November 2008 election. The mill levy is subject to approval by the Bernalillo County voters every eight years, and it will be up for renewal in the November 2016 election.

The Hospital's facilities are leased from Bernalillo County (the County) by UNM under the 1999 lease agreement, as described under Note 1 to the financial statements. Section IV. Term of this agreement provides for either party to the lease to reopen the terms and conditions by giving notices in the first three months of 2006, 2014, 2022, 2030 and 2038. On March 25, 2014, the County Commission approved Administrative Resolution AR 2014-21 to open negotiations with UNM on the lease agreement and to establish a taskforce to provide healthcare expertise to the County in support of the negotiations. The Hospital continues to work with the County to finalize negotiations on the lease agreement.

The Hospital plans to build out the second and fourth floors of the existing Cancer Center clinic. The build out will add multidisciplinary cancer clinics integrating surgical oncology specialties as well as provide for expansion of chemotherapy infusion. New cancer service lines to be added or expanded as a result of the finish out include hematologic malignancies, bone marrow and stem cell transplantation program, clinical trials program, experimental therapeutics, an adolescent and young adult oncology program (ages 16-39) as well as a Cancer Survivorship Program. The costs for the build out are estimated to be $11.6 million dollars and will be primarily funded by the Capital Initiatives.

The Hospital plans to renovate a building purchased in fiscal year 2014 as an obstetric and urogynecology clinic in the Northeast Heights. The planned clinic will be 21,000 square feet and have 22 exam rooms. The costs for the construction and renovation are estimated to be $5 million and will be funded from the Capital Initiatives.

In addition, the Hospital is the only Level I Trauma Center in the State and is at physical capacity to treat adult patients. As a result, replacing the Hospital is of the highest priority. The existing adult facility was constructed in multiple phases starting in 1954 and added on to in 1966, 1976, 1984, and 1991. The most recent large scale renovation was to replace the Children's Hospital in 2007. The older areas include 236 adult inpatient beds, surgical suites, Cardiac Catheterization Lab, Interventional Radiology and Ambulatory Care Clinics. The age and physical limitations at the Hospital – explored at greater length below – create an urgent need for a modern replacement hospital.

Factors driving the need for this replacement include:

- *Capacity*. The Hospital routinely runs at greater than 90 percent of adult acute care capacity, which leads to excessive patient waiting times in the Emergency Department due to a lack of available beds. Long wait times also result in patients leaving without being seen. National standards call for keeping occupancy below 80 percent for optimal patient care.
- *Health care technology*. Hospitals and clinics must have adaptable space in order to incorporate new technology. This is impossible in the older wings of the Hospital, due to the age and overall layout of the facilities. Hospital rooms designed for medical practice in the 1950s cannot be adapted to meet current standards of medical care.
- *Physical limitations*. The older structures are out-of-date and undersized, creating exorbitant repair and maintenance costs. The semi-private rooms (in which patients must share bathrooms) do not meet current design standards and increase the risk for hospital-acquired infections. The proportions and floor-to-floor heights cannot accommodate current health care requirements and practices. They are inflexible and do not lend themselves to renovation.
- *Layout*. Patients and visitors routinely complain about the difficulty of gaining access to the hospital and finding their way around once inside. The hospital has grown by accretion over the last 60 years, creating a confusing labyrinth of corridors and floors.
- *Parking*. Patients and visitors must choose between a parking garage with tight dimensions and surface parking that is far removed from the hospital entrance.
- *Logistics*. The delivery area and the food preparation areas are on one end of the hospital, resulting in long trips to stock areas and inefficiency in patient meal delivery. The back of hospital support areas are aged, congested, difficult to access and too small. Congested development surrounding the hospital limits transportation access for patients, family and suppliers. These factors, and the presence of a major drainage canal through the property that cannot be built over, make it impractical to construct a replacement hospital at the current site.
- *Educational space*. The continuing challenge is to provide adequate academic space in facilities that are focused on providing health care. Students gain clinical experience through rotations in various hospital and clinical settings. The spaces within clinical sites designated for learning are at a premium and limit the number of students that can be educated.
- *Operating Rooms*. Only 15 of the 17 operating rooms in the main adult hospital are functional. Located in the hospital's 1954 wing, they average 420 square feet, while contemporary operating rooms average 625 square feet. They also have serious electrical and mechanical limitations. Their physical layout does not support clean corridors and lacks sufficient storage space. The sterile processing unit is not located within the venue. These physical

constraints lead to inefficiencies and difficulty in providing support. This is the principal venue to care for Level I trauma patients, as well as those served by the oncology, stroke, transplant and cardiac programs. There is no viable backup location to care for patients if the venue becomes compromised.

- Patient Rooms. The age, size and configuration of patient rooms – the building blocks of hospital facilities – pose a major limitation to renovating the existing hospital. Nearly 80 percent of adult patient rooms are between 40 and 60 years old. This leads to a number of problems:
- Many patient rooms are still in double occupancy, which creates privacy issues and increases the risk for hospital-acquired infection. These rooms also affect the patient and family experience.
- They are too small. A typical patient room at an academic health center averages 300 square feet per bed. In the older UNMH wings, the typical patient room averages 232 square feet, about 25 percent smaller. Only the Children's Pavilion patient rooms – built in 2007 – approach contemporary room size standards.
- They lack sufficient space for teaching and there is not enough room for students and trainees to follow up on patient care requirements.
- Nursing stations and staff areas are too remote from patient rooms, and there is not enough room to comfortably accommodate family members. Some rooms fail to meet Americans with Disabilities Act accessibility requirements and lack full bathing facilities. They have smaller windows, with less natural light.

Contemporary patient room and floor designs today feature single-patient rooms, with zones of care (including family care), quieter rooms to reduce stress and improve sleep, stress-reducing views of nature, reduced staff walking, decentralized nurse stations and support areas, standardized rooms and improved patient safety and security.

The Hospital is currently constructing plans to build a new 360-bed Adult Acute Care Hospital to replace the Hospital on land west of University Boulevard. An additional 48 psychiatric and behavioral health beds would also be housed at this location. It is estimated this project would cost between $500 million and $600 million and would be 800,000 to 1 million square feet. This 60-acre site has the necessary infrastructure in place or close at hand, including electricity, water, sewer, natural gas, drainage and transportation. It is large enough to accommodate associated ancillary services and partner facilities. It has good access and visibility from Interstate 25 and represents the most cost-effective way to replace the outdated hospital.

Contacting the Hospital's Financial Management

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

UNIVERSITY OF NEW MEXICO HOSPITAL
STATEMENTS OF NET POSITION
June 30, 2015 and 2014

Assets		2015	2014
Current assets:			
Cash and cash equivalents	$	146,487,777	106,308,056
Marketable securities		34,558,069	34,328,916
Restricted assets by trustee for debt service		930,652	8,788,658
Receivables:			
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $206,337,000 in 2015 and $207,229,000 in 2014)		129,736,944	95,616,735
Due from University of New Mexico		780,124	1,717,687
Estimated third-party payor settlements		31,599,418	30,873,502
Bernalillo County Treasurer		1,417,598	1,315,249
Other		4,513,132	6,270,599
Total net receivables		168,047,216	135,793,772
Prepaid expenses		3,188,852	3,859,416
Inventories		13,617,528	10,688,810
Total current assets		366,830,094	299,767,628
Noncurrent assets:			
Assets held by trustee:			
Restricted for mortgage reserve fund		14,141,252	17,361,975
Restricted for debt service reserve		70	13,513,150
Restricted for collateral		-	3,828,000
Restricted for redemption fund		-	2,005
Assets designated by UNM Hospital Board of Trustees		21,453,460	21,113,513
Total restricted and designated assets		35,594,782	55,818,643
Capital assets, net		231,035,321	239,078,379
Total noncurrent assets		266,630,103	294,897,022
Total assets		633,460,197	594,664,650
Deferred Outflows			
Total deferred outflows related to pensions		178,603	-
Liabilities			
Current liabilities:			
Accounts payable		54,170,175	45,154,522
Accrued payroll		16,230,219	16,292,193
Due to University of New Mexico		64,628,557	19,222,840
Bonds payable – current		6,035,000	5,495,000
Interest payable bonds		426,825	3,908,150
Accrued compensated absences		20,962,986	19,213,056
Estimated third-party payor settlements		33,217,127	21,911,728
Other accrued liabilities		160,377	77,524
Total current liabilities		195,831,266	131,275,013
Noncurrent liabilities:			
Bonds payable		108,965,000	154,850,166
Due to affiliates		11,217,487	9,513,711
Net OPEB obligation		6,194,964	5,732,960
Net pension liability		3,062,832	-
Total noncurrent liabilities		129,440,283	170,096,837
Total liabilities		325,271,549	301,371,850
Deferred Inflows			
Total deferred inflows related to pensions		655,095	-
Net Position			
Net investment in capital assets		116,035,266	92,246,355
Restricted, expendable			
For grants, bequests, and contributions		14,804,010	14,015,369
In accordance with the trust indenture and debt agreement		14,347,012	29,980,639
Unrestricted		162,525,868	157,050,437
Total net position	$	307,712,156	293,292,800

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2015 and 2014

		2015	2014
Operating revenues:			
Net patient service	$	879,921,079	671,034,670
Premium		-	12,021,655
State and local contracts and grants		2,182,597	1,353,088
Other operating		22,770,134	18,444,066
Total operating revenues		904,873,810	702,853,479
Operating expenses:			
Employee compensation		323,441,033	302,558,952
Benefits		72,844,619	72,622,852
Medical services		155,452,701	133,338,676
Medical supplies		139,761,909	131,637,150
Purchased services		53,211,029	49,007,243
Equipment		40,171,576	36,397,282
Depreciation		32,737,640	30,982,823
Occupancy		14,029,790	12,742,222
Other		12,188,468	9,320,820
Other supplies		9,074,508	8,206,897
Total operating expenses		852,913,273	786,814,917
Operating gain (loss)		51,960,537	(83,961,438)
Nonoperating revenues (expenses):			
Bernalillo County mill levy		79,261,909	78,217,226
State appropriation		5,824,000	5,545,264
Capital appropriation		-	30,000
State of New Mexico Land and Permanent Fund proceeds		820,156	877,738
Capital initiatives		(128,981,761)	(26,000,000)
Investment income (interest, dividends, gains, and losses)		15,776,284	41,060,298
Equity in income (loss) of TriCore and TriCore Lab Svc Corp.		339,947	(372,177)
Interest on capital asset-related debt		(6,867,704)	(7,566,691)
Bequests and contributions		2,568,287	2,673,552
Other nonoperating revenue		319,784	-
Other nonoperating expense		(2,981,274)	(1,314,606)
Net nonoperating (expense) revenues		(33,920,372)	93,150,604
Increase in net position		18,040,165	9,189,166
Net position, beginning of year		293,292,800	284,103,634
Impact of change in accounting pronouncement		(3,620,809)	-
Net position, beginning of year as restated		289,671,991	-
Net position, end of year	$	307,712,156	293,292,800

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Cash received from Medicaid and Medicare	$ 509,256,119	319,556,891
Cash received from insurance and patients	367,501,283	350,869,500
Cash received from contracts and grants	1,290,881	1,404,923
Cash payments to employees	(321,834,562)	(304,977,042)
Cash payments to suppliers	(346,602,215)	(296,797,759)
Cash payments to University of New Mexico	(141,680,989)	(149,699,845)
Cash payments to State of New Mexico for intergovernmental transfer	(15,353,372)	(9,018,014)
Cash payments from (to) affiliates	1,703,776	(3,638,177)
Other receipts	26,006,302	17,778,872
Net cash provided by (used in) operating activities	80,287,223	(74,520,651)
Cash flows from noncapital financing activities:		
Cash received from Bernalillo County mill levy	79,159,560	78,163,533
Cash received from state general fund and other state fund appropriations	5,824,000	5,545,264
Cash received from State of New Mexico Land and Permanent Fund	918,901	773,393
Cash payments for other than capital or operating purposes	(574,520)	(159,043)
Cash received from contributions for other-than-capital purposes	2,568,287	2,564,600
Net cash provided by noncapital financing activities	87,896,228	86,887,747
Cash flows from capital financing activities:		
Cash received from the issuance of bonds	115,000,000	-
Principal payments of bonds	(159,420,000)	(5,240,000)
Interest payments on capital assets-related to debt	(11,274,195)	(7,984,387)
Purchases of capital assets	(24,700,800)	(15,577,075)
Cash payments to University of New Mexico	(89,481,761)	(15,000,000)
Cash received from state general fund and other state fund capital appropriations	-	30,000
Cash payments for debt-related activities	(2,080,754)	(842,848)
Net cash (used in) capital financing activities	(171,957,510)	(44,614,310)
Cash flows from investing activities:		
Bond trustee funds released by refinancing	42,591,086	-
Establish 2015 bond reserve fund	(15,071,979)	-
Proceeds from sales and maturities of investments	25,970,260	74,096,302
Purchase of investments	(25,377,274)	(48,794,958)
Interest and dividends on investments	15,841,687	10,603,452
Net cash provided by investing activities	43,953,780	35,904,796
Net increase in cash and cash equivalents	40,179,721	3,657,582
Cash and cash equivalents, beginning of year	106,308,056	102,650,474
Cash and cash equivalents, end of year	$ 146,487,777	106,308,056

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2015 and 2014

		2015	2014
Reconciliation of operating loss to net cash used in operating activities:			
Operating gain (loss)	$	51,960,537	(83,961,438)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense		32,737,640	30,982,823
Provision for doubtful accounts		62,804,301	136,033,949
Deferred outflow of resources related to pensions		(81,486)	-
Change in assets and liabilities:			
Patient receivables		(96,924,510)	(163,388,797)
Due from University of New Mexico		937,563	(1,580,674)
Estimated third-party payor settlements receivables		(725,916)	(4,418,799)
Other receivables and prepaid expenses		2,344,461	(613,359)
Inventories		(2,928,718)	(309,536)
Due to University of New Mexico		5,905,717	405,098
Estimated third-party payor settlements liabilities		11,305,399	491,372
Due to affiliates		1,703,776	(3,638,177)
Accrued expenses		2,149,960	(1,933,935)
Accounts payable		9,098,499	17,410,822
Net cash provided by (used in) operating activities	$	80,287,223	(74,520,651)

See accompanying notes to financial statements.

NOTE 1. DESCRIPTION OF BUSINESS

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

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

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

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

NOTE 1. DESCRIPTION OF BUSINESS (CONTINUED)

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

	2015	2014
Total operating revenues	$ 10,969,719	11,113,895
Total operating expenses	(17,578,293)	(17,181,775)
Operating loss	(6,608,574)	(6,067,880)
Nonoperating revenue	6,364,121	6,097,999
Total (decrease) in net position	(244,453)	30,119
Net position, beginning of year	3,201,822	3,171,703
Net position, end of year	$ 2,957,369	3,201,822

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for healthcare organizations, and are presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and *GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resource, and Net Position*. The Hospital follows the business-type activities' requirements of GASB Statement No. 34 and No. 63. This approach requires the following components of the Hospital's financial statements:

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Notes to financial statements.

GASB Statement No. 34 and subsequent amendments including GASB Statement No. 63 as discussed below, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- *Net Investment in Capital Assets* – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted Net Position – Expendable* – Assets whose use by the Hospital is subject to externally imposed constraints that can be fulfilled by actions of the Hospital pursuant to those constraints or that expire by the passage of time.
- *Unrestricted Net Position* – Assets that are not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Trustees or the UNM Board of Regents or may otherwise be limited by contractual agreements with outside parties.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with GASB Statement No. 68, the Hospital restated the Net Position as of July 1, 2014 to reflect the recording of the net pension liability.

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. During the fiscal year ended June 30, 2015, such a change in the estimate used in determining collectible accounts receivable from patient services for the prior fiscal year did occur. As more experience with respect to the conversion of patients from self-pay and indigent programs to the Medicaid program, including Centennial Care, was acquired, it was determined that net patient revenue for the fiscal year ended June 30, 2014 was much higher than was anticipated based upon evidence available at the time the estimate was made. Approximately $38 million more was collected on patient accounts receivable for fiscal year ended June 30, 2014 than was estimated and is included in net patient service revenue for the year ended June 30, 2015. The largest factor in this change in estimate was a direct result of the implementation of the Affordable Care Act in January 2014, and the tremendous demand for Medicaid coverage under the new regulations, which delayed processing of applications by the State of New Mexico, and claims on the part of Managed Medicaid payers under Centennial Care.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the NM Education Retirement Board (ERB) plan and additions to/deductions from ERB's fiduciary net position have been determined to be the same basis as they are reported by ERB. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

Intergovernmental Transfers. Intergovernmental transfers (IGT) are recognized in the period in which the Hospital incurs an obligation to make payments to other governmental entities as evidenced by executed Memorandums of Understanding (MOU) between the State of New Mexico and the Hospital. Approximately $14.7 million of the total $20.4 million recorded IGT obligations were not paid as of the end of fiscal year 2015. Approximately $9.6 million of the total $18.6 million recorded IGT obligations were not paid as of the end of fiscal year 2014. All amounts not paid as of the end of fiscal year 2014 were subsequently paid in fiscal year ended June 30, 2015. Due to the nature of the MOU to fund a portion of the non-federal share to obtain federal matching funds for the Medicaid Centennial Care and since the Medicaid Centennial Care program is for the provision of patient care, intergovernmental transfers (IGT) were recorded as a reduction of net patient service and premium revenues.

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

Investments and Investment Return. Investments are recorded at fair market value. At June 30, 2015 and 2014, investments consist of obligations of the

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U.S. government and U.S. government agencies. Investment income includes interest and realized and unrealized gains and losses on investments. Investment income is reported as nonoperating revenue when earned.

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

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

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

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

Capital Assets. Capital assets are stated at cost or at estimated fair value on date of acquisition. Donated property and equipment are stated at fair market value when received. The Hospital's capitalization policy for assets includes all items with a unit cost of more than $5,000. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets as indicated in the "Estimated Useful Lives of Depreciable Hospital Assets," Revised 2013 Edition published by the American Hospital Association. Repairs and maintenance costs are charged to expense as incurred. On a quarterly basis, the Hospital assesses long-lived assets in order to determine whether or not it is necessary to retire, replace, or impair based on condition of the assets and their intended use. During fiscal year 2015 and 2014, the Hospital recognized impairment of capital assets totaling $986,000 and $166,000, respectively, as the result of a significant, unexpected decline in the service utility of the assets in accordance with GASB 42, *"Accounting and Financial Reporting for Impairment of Capital Assets."*

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Contractual adjustments resulting from agreements with various organizations to provide services for amounts that differ from billed charges, including services under Medicare, Medicaid, and certain managed care programs, are recorded as deductions from patient revenues. The Hospital was eligible for and received additional Medicaid reimbursement for the difference between the amount that would be equal to the Medicare reimbursement per discharge compared to the Medicaid payment per discharge. This upper payment limit (UPL) was based on the reimbursement that would use Medicare reimbursement principles. This amount was recorded as an offset to contractual adjustments. The UPL program was terminated effective December 31, 2013 with the implementation of the Affordable Care Act and the Centennial Care Program on January 1, 2014.

As part of the New Mexico Medicaid managed care program "Centennial Care", the Human Services Department (HSD) established a Safety Net Care Pool (SNCP) to support uncompensated care (UC) and delivery system reform. Eligible SNCP hospitals are sole community hospitals and UNM Hospital as the state-operated teaching hospital in New Mexico. Through the SNCP, Medicaid FFS and managed care reimbursement rates were enhanced to compensate eligible hospitals for uncompensated care costs incurred effective April 1, 2014. The Centennial Care waiver requires annual initial and final reconciliation UC applications to determine uncompensated care costs (UCC) and offsetting revenues. Any UCC disbursements that exceed the calculated UCC costs will be recouped by the HSD. The Centennial Care program also provides for a Hospital Quality Improvement Incentive (HQII) Pool to compensate hospital providers that report quality measures. The first payment is expected in calendar year 2015.

The Hospital participated in the State Coverage Initiative (SCI) program which was modeled after a capitated payment program. The SCI program was terminated effective December 31, 2013 with the implementation of the Medicaid Centennial Care program on January 1, 2014. Revenue with respect to SCI was recognized in the period in which the Hospital was obligated to provide care to the enrolled members. Capitated payments were received on a monthly basis and were recorded as an offset to premium revenue in the amount of approximately $19,602,000 for the year ended June 30, 2014.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care. The Hospital provides care to patients who meet certain criteria under its charity care policy without expectation of payment or at amounts less than established rates. The Hospital does not pursue collection of amounts determined to qualify as charity care with the exception of copayments. Charity care is treated as a deduction from gross revenue.

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

Bond Premium. The premium associated with the issuance of the FHA Insured Hospital Revenue Bonds was amortized using the effective-interest method over the life of the series of bonds until fiscal year ended June 30, 2015 when the remaining balance of the premium was amortized in full.

Income Taxes. As part of a state institution of higher education, the income of the Hospital is generally excluded from federal and state income taxes under Section 115(1) of the Internal Revenue Code. However, income generated from activities unrelated to the Hospital's exempt purpose is subject to income taxes under Internal Revenue Code, Section 511(a)(2)(B). During the years ended June 30, 2015 and 2014, there was no income generated from unrelated activities.

Net Investment in Capital Assets. Net investment in capital assets, represents the Hospital's total investment in capital assets, net of outstanding debt related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. There were $13.5 million in unspent bond proceeds at June 30, 2014, reserved for debt service as required by the trustee. There were no unspent bond proceeds at June 30, 2015.

Risk Management. The Hospital sponsors a self-insured health plan in which the Center (UNM Psychiatric Center and UNM Children's Psychiatric Center, collectively, the Center) also participate, as all employees are under the centralized umbrella of the Hospital. Blue Cross and Blue Shield of New Mexico and HMO New Mexico (BCBSNM and HMONM) provide administrative claim payment services for the Hospital's plan. Liabilities are based on an estimate of claims that have been incurred but not reported (IBNR) and claims received but not yet paid. At June 30,

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2015 and 2014, the estimated amount of the Hospital's IBNR and accrued claims was $3.6 million and $4.0 million, respectively, which is included in accrued payroll. As the Hospital receives all cash and pays all obligations of the Center, the estimated amount of the Center's IBNR and accrued invoices recorded in the Hospital's accrued payroll was approximately $314,000 and $346,000 at June 30, 2015 and 2014, respectively. The liability for IBNR was based on actuarial analysis calculated using information provided by BCBSNM.

Changes in the reported Hospital liability during fiscal years 2015 and 2014 resulted from the following:

	Beginning of fiscal year liability	Current year claims and changes in estimates	Claim payments	Balance at fiscal year-end
2014 – 2015	$ 3,973,557	34,004,868	(34,371,526)	3,606,899
2013 – 2014	$ 3,214,795	34,131,619	(33,372,857)	3,973,557

Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The Hospital and the Center provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment medical and dental healthcare provided separately from a benefit or pension plan. GASB Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and required supplementary information (RSI) in the financial reports of state and local governmental employers.

Estimates for 2015 were based upon the 2014 actuarial calculations, as permitted by GASB 45. The OPEB obligation estimate was actuarially determined for the combined operations (the Hospital and the Center), and the liabilities and expenses were allocated to each reporting entity based on the applicable full-time equivalent (FTE) based on the information from the 2010 report.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State Appropriation. The funding for the state appropriation is included in the General Appropriation Act, which is approved by the House and Senate of the State Legislature and signed by the governor before going into effect. Total funds appropriated for 2015 include $5,990,200 in the General Fund.

Included in the General Fund is $662,600 of Out-of-County Indigent funds, which are reported in net patient service revenue. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Sub-section J, Higher Education. Other State Funds are defined as nonreverting in House Bill 2, Section 2, Sub-section I Definitions.

Capital Appropriation. There were no capital appropriations made by the State Legislature for UNM Hospitals in 2014 or 2015 for the Hospital's fiscal year ended June 30, 2015. The Hospital received $30,000 in capital appropriation funding for the purchase and installation of equipment in the Young Children's Health Center in fiscal year 2014. This funding was made by the State Legislature and is included in Senate Bill 60, section 44.6 from 2013 for UNM Hospital's fiscal year ended June 30, 2014.

Classification. Certain 2014 amounts have been reclassified to conform to the 2015 presentation.

NOTE 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

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

The carrying amounts of the Hospital's deposits with financial institutions at June 30, 2015 and 2014 are $146,487,777 and $106,308,056, respectively.

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

Bank balances are collateralized as follows:

	June 30, 2015	June 30, 2014
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 500,000	500,000
Amount collateralized with securities held in the Hospital's name	136,118,901	112,518,742
Uncollateralized cash	30,013,810	—
	$ 166,632,711	113,018,742

Interest-bearing deposit accounts are subject to FDIC's standard deposit insurance amount of $250,000 per type of account. Approximately $136,000,000 and $113,000,000 at June 30, 2015 and 2014, respectively, is collateralized by U.S. government agency securities held by the financial institution in the Hospital's name.

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital has a custodial risk policy for deposits that requires collateral in an amount greater than or equal to 50% of the deposit not insured by the FDIC. A greater amount of collateral is required when the Hospital determines it is prudent. As of June 30, 2015, $30,013,810 of the Hospital's bank deposits were exposed to custodial credit risk. As of June 30, 2014, the Hospital's bank deposits were not exposed to custodial credit risk.

Marketable Securities

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

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

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

	June 30, 2015		
	Fair value	Less than 1 year	1 – 5 years
Items subject to interest rate risk:			
Money market funds	$ 97,774	97,774	—
U.S. Treasury notes	25,703,596	849,737	24,853,859
U.S. government agency obligations:			
FHLB	3,437,773	1,080,956	2,356,817
FNMA	5,318,926	—	5,318,926
Total items subject to interest rate risk	34,558,069	2,028,467	32,529,602
Total marketable securities	$ 34,558,069	2,028,467	32,529,602

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

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral that is in the possession of an outside party. Marketable securities of $34,460,295 and $34,191,477 at 2015 and 2014, respectively, are insured, registered, and held by the counterparty's agent in the Hospital's name.

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

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

Credit Risk – Debt Investments – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Hospital is required to disclose credit ratings of its debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. government, and nondebt investments are excluded from this requirement. Currently, the Hospital has a policy that restricts short-term investments to specific investment ratings issued by nationally recognized statistical rating organizations. The policy states that cash equivalent reserves shall consist of interest-bearing or discount instruments of the U.S. government or agencies thereof.

A summary of the marketable securities at June 30, 2015 and 2014 and their exposure to credit risk is as follows:

	2015		2014	
	Rating	**Fair Value**	**Rating**	**Fair Value**
Items not subject to credit risk:				
U.S. Treasury securities:				
Treasury notes	N/A	$ 25,703,596	N/A	$ 15,918,882
Items subject to credit risk:				
Money market deposits	Not rated	—	Not rated	1,094
Money market funds	Not rated	97,774	Not rated	136,346
U.S. government agency obligations:				
FHLB	Moody's - Aaa	3,437,773	Fitch – AAA	3,430,787
FHLMC	N/A	—	Fitch – AAA	666,736
FNMA	Moody's - Aaa	5,318,926	Fitch – AAA	14,175,073
Total items subject to credit risk		8,854,473		18,410,036
Total marketable securities		$ 34,558,069		$ 34,328,918

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

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

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

The Hospital's exposure to concentrated credit risk is as follows: $3,437,773, which is invested in Federal Home Loan Bank (FHLB) securities and equates to 9.9% of marketable securities held at June 30, 2015. An additional $5,318,926 is invested in Federal National Mortgage Association (FNMA) securities, which equates to 15.4% of marketable securities held as of June 30, 2015.

Short-Term Investments

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

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

	June 30, 2015	
	Fair Value	Less than 1 Year
Items subject to interest rate risk:		
Money market fund	$ 930,657	930,657
Total items subject to interest rate risk	930,657	930,657
Total short-term investments	$ 930,657	930,657

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

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

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

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2015, there were no short-term investments subject to custodial credit risk. At June 30, 2014, the short-term investments of $2,122,570 in U.S. government obligations were insured, registered, and held by the counterparty's agent in the Hospital's name.

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

Credit Risk – Debt Investments – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill their obligations. The Hospital is required to disclose credit ratings of its debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. government, and nondebt investments are excluded from this requirement. Currently, the Hospital has a policy that restricts short-term investments to specific investment ratings issued by nationally recognized statistical rating organizations. The policy states that cash equivalent reserves shall consist of interest-bearing or discount instruments of the U.S. government or agencies thereof.

A summary of the short-term investments at June 30, 2015 and 2014 and their exposure to credit risk is as follows:

	2015		2014	
	Rating	**Fair Value**	**Rating**	**Fair Value**
Items subject to credit risk:				
Money market deposits	Not rated	$ —	Not rated	$ 1,376,484
Money market fund	Not rated	930,657	Not rated	5,289,604
U.S. government agency obligations:				
FNMA		—	Fitch – AAA	1,061,469
FHLMC		—	Fitch – AAA	1,061,101
Total items subject to credit risk		930,657		8,788,658
Total short-term investments		$ 930,657		$ 8,788,658

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

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

Long-Term Investments

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

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

	June 30, 2015	
	Fair Value	Less than 1 Year
Items not subject to interest rate risk:		
Cost and equity method investments*	$ 21,453,460	—
Items subject to interest rate risk:		
Money market fund	14,141,322	14,141,322
Items subject to interest rate risk	14,141,322	14,141,322
Total long-term investments	$ 35,594,782	14,141,322

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

Custodial Credit Risk – Debt Investments – As of June 30, 2015 and 2014, the Hospital held no U.S. government obligations for long-term investment purposes.

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

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

The Hospital held a repurchase agreement at June 30, 2014 which was redeemed during the fiscal year ended June 30, 2015 and there were no other repurchase agreements held by the Hospital at June 30, 2015. The State of New Mexico requires that securities underlying repurchase agreements have a market value of at least 102% of the cost of the repurchase agreement. The market value of the securities underlying the repurchase agreements was at or above the required level during the year ended June 30, 2014.

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

Credit Risk – Debt Investments – The Hospital is required to disclose credit ratings of its debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. government, and nondebt investments are excluded from this requirement. Currently, the Hospital has a policy that restricts long-term investments to specific investment ratings issued by nationally recognized statistical rating organizations. The policy states that cash equivalent reserves shall consist of interest-bearing or discount instruments of the U.S. government or agencies thereof.

A summary of the investments at June 30, 2015 and 2014 and their exposure to credit risk is as follows:

	2015		2014	
	Rating	**Fair Value**	**Rating**	**Fair Value**
Items not subject to credit risk:				
Cost and equity method investments*	N/A	$ 21,453,460	N/A	$ 21,113,513
Items subject to credit risk:				
Money market deposits	Not rated	—	Not rated	1,731
Money market fund	Not rated	14,141,322	Not rated	21,285,987
Repurchase agreements	N/A	—	Moody's – Baa1	13,417,413
Total items subject to credit risk		14,141,322		34,705,131
Total long-term investments		$ 35,594,782		$ 55,818,644

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

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

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

NOTE 4. CONCENTRATION OF RISK

The Hospital receives payment for services rendered to patients under payment arrangements with payors, which include: (i) Medicare and Medicaid, (ii) other third-party payors including commercial carriers and health maintenance organizations, and (iii) others. The other payor category includes United States Public Health Service, self-pay, counties and other government agencies. The following summarizes patient accounts receivable and the percentage of gross accounts receivable from all payors as of June 30:

	2015		2014	
Medicare and Medicaid	$ 215,590,792	64%	$ 175,302,705	58%
Other third-party payors	91,138,694	27	81,594,255	27
Others	29,344,749	9	45,948,839	15
Total patient accounts receivable	336,074,235	100%	302,845,799	100%
Less allowance for uncollectible accounts and contractual adjustments	(206,337,291)		(207,229,064)	
Patient accounts receivable, net	$ 129,736,944		$ 95,616,735	

NOTE 5. RESTRICTED AND DESIGNATED ASSETS

The following summarizes restricted assets as of June 30:

	2015	2014
Current:		
Restricted for debt service	$ 930,652	8,788,658
Noncurrent:		
Restricted for mortgage reserve fund	14,141,252	17,361,975
Restricted for debt service reserve	56	13,513,150
Restricted for collateral	14	3,828,000
Restricted for redemption fund	—	2,005
Designated by UNM Hospital Board of Trustees	21,453,460	21,113,513
	$ 36,525,434	64,607,301

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

NOTE 5. RESTRICTED AND DESIGNATED ASSETS (CONTINUED)

As of June 30, 2015, $931,000 in the held by trustee for debt service account represents a portion of the bond interest payment due December 20, 2015. As of June 30, 2014, $3.9 million of the $8.8 million balance in the held by trustee for debt service account represents the bond interest payment due July 1, 2014.

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

Assets Restricted by Board of Trustees – In 1997, the Hospital contributed $2,612,500 to TriWest, an organization formed to administer healthcare benefits to military retirees and dependents of active duty personnel in the CHAMPUS/TriCare Central Region, in exchange for 2,613 shares of common stock, which represented an approximate 10.8% ownership of TriWest as of June 30, 2013. On March 31, 2014, TriWest completed a recapitalization in which the Hospital's shares were re-purchased by TriWest in exchange for cash and tracking common stock shares. The Hospital received 289.7 shares of tracking stock with a cost basis of $5 million as well as $40,098,791, paid during fiscal years ended June 30, 2014 and 2015, as a result of the recapitalization. The Hospital recognized $12,029,637 and $30,456,654 as return on investment during the years ended June 30, 2015 and 2014, respectively, which is reflected in the accompanying Statements of Revenues, Expenses and Changes in Net Position. The investment in TriWest is accounted for using the cost method.

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

The Hospital contributed $3,999,965 in cash and equipment during 1998 related to the affiliation agreement, titled TriCore. During 2004, TriCore reorganized its business activities into two entities: TriCore whose business consists of laboratory testing services for nonmembers; and TriCore Laboratory Services Corporation (TLSC), which organized solely to perform laboratory services, on a centralized basis, for its members, the Hospital, and Presbyterian Healthcare Services. TLSC is a

NOTE 5. RESTRICTED AND DESIGNATED ASSETS (CONTINUED)

tax-exempt, cooperative hospital service organization under Section 501(e) of the Internal Revenue Code of 1986.

UNM, through the Hospital, has a 50% interest in TriCore totaling approximately $11,622,000 and $10,549,000 at June 30, 2015 and 2014, respectively, which is being accounted for using the equity method.

The Hospital has a 50% interest in TLSC totaling approximately $4,832,000 and $5,565,000 at June 30, 2015 and 2014, respectively, which is being accounted for using the equity method. The Hospital recorded laboratory expenses of approximately $29,177,000 in 2015 and approximately $28,100,000 in 2014.

NOTE 6. CAPITAL ASSETS

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

	Year Ended June 30, 2015				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
UNM Hospital Capital Assets not being depreciated:					
Land	$ 1,747,245	-	-	-	1,747,245
Construction in Progress	6,517,679	8,749,428	(7,646,272)	-	7,620,835
	8,264,924	8,749,428	(7,646,272)	-	9,368,080
UNM Hospital depreciable capital assets:					
Land Improvements	11,464,437	-	213,267	-	11,677,704
Building and building improvements	169,447,527	-	1,274,978	(17,864)	170,704,641
Building Service Equipment	158,794,896	6,925	2,624,220	(26,669)	161,399,372
Fixed Equipment	15,509,382	207,316	669,237	-	16,385,935
Major Moveable Equipment	217,919,198	15,737,131	2,864,570	(11,910,163)	224,610,736
Total depreciable capital assets	573,135,440	15,951,372	7,646,272	(11,954,696)	584,778,388
Less Accumulated depreciation for:					
Land Improvements	(6,968,867)	(823,849)	-	-	(7,792,716)
Building and building improvements	(79,238,766)	(5,271,928)	-	17,864	(84,492,830)
Building Service Equipment	(73,611,630)	(9,199,119)	(73,980)	26,669	(82,858,060)
Fixed Equipment	(11,198,946)	(630,801)	-	-	(11,829,747)
Major Moveable Equipment	(171,303,776)	(16,811,943)	73,980	11,903,945	(176,137,794)
Total Accumulated depreciation	(342,321,985)	(32,737,640)	-	11,948,478	(363,111,147)
UNM Hospital depreciable capital assets, net	230,813,455	(16,786,268)	7,646,272	(6,218)	221,667,241
UNM Hospital Capital Assets not being depreciated	8,264,924	8,749,428	(7,646,272)	-	9,368,080
UNM Hospital total cost of capital assets	581,400,364	24,700,800	-	(11,954,696)	594,146,468
Less Accumulated Depreciation	(342,321,985)	(32,737,640)	-	11,948,478	(363,111,147)
UNM Hospital capital assets, net	$ 239,078,379	(8,036,840)	-	(6,218)	231,035,321

NOTE 6. CAPITAL ASSETS (CONTINUED)

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

NOTE 7. COMPENSATED ABSENCES

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

Sick Leave. Full-time employees accrue four hours of sick leave each two-week pay period (13 days per annum) up to a maximum of 1,040 hours to be used for major and minor sick leave. Seven of these days are accumulated into a minor sick leave bank. Part-time employees who are at least 0.5 FTE earn sick leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange for annual leave, major sick leave or cash all hours accumulated in excess of 24 hours on an hour-for-hour basis. At termination, only employees who retire from the Hospital and qualify under the Hospital's policy or estates of employees who die as the result of a compensable occupational illness or injury are eligible for payment of unused accumulated hours. Accrued sick leave as of June 30, 2015 and 2014 of $3,380,000 and $3,012,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

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

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

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

NOTE 7. COMPENSATED ABSENCES (CONTINUED)

Annual Leave. Full-time employees accrue annual leave based on their length of employment up to a maximum of 480 hours. Part-time employees who are at least 0.5 FTE earn annual leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange for cash up to 80 annual leave hours accumulated in excess of 240 hours. At termination, employees are eligible for payment of unused accumulated hours, not to exceed 480 hours. Accrued annual leave as of June 30, 2015 and 2014 of approximately $17,160,000 and $15,835,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

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

During the years ended June 30, 2015 and 2014, the following changes occurred in accrued compensated absences:

Balance July 1, 2014	Increase	Decrease	Balance June 30, 2015
$ 19,213,056	25,636,596	(23,886,666)	20,962,986

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

The balances above include annual leave and sick leave, disclosed above, in addition to compensatory time and holiday, totaling approximately $423,000 and $366,000 in fiscal years 2015 and 2014, respectively. The portion of accrued compensated absences due after one year is not material and, therefore, is not presented separately.

NOTE 8. BONDS PAYABLE

On June 9, 2004, the Regents adopted a Parameters Resolution authorizing the construction of the Children's Hospital and Critical Care Pavilion (CHCCP) and issuing bonds insured by HUD. On October 14, 2004, the Regents adopted Resolutions authorizing the amendment of the Lease to accommodate the requirements of HUD and to authorize execution of the HUD documents. On October 14, 2004, UNM Board of Regents issued FHA insured Hospital Mortgage Revenue Bonds (University of New Mexico Hospital Project), Series 2004 in the

NOTE 8. BONDS PAYABLE (CONTINUED)

aggregate principal amount of $192,250,000. Interest on the bonds ranged from 2% to 5% and was paid semi-annually on each January 1 and July 1,commencing January 1, 2005. The Series 2004 bonds were issued for the purpose of financing the construction, equipping, and furnishing of the CHCCP, which provides care to patients requiring trauma, children's and women's services, funding the Debt Service Reserve Fund, and paying costs of issuance associated with the bonds.

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

On August 12, 2008 the Regents adopted Resolutions authorizing the Final Endorsement of the HUD Insurance.

On December 12, 2014, the Regents adopted a Parameters Resolution authorizing the issuance of the GNMA-Backed, HUD-Insured Mortgage Bonds to redeem and refinance the remaining 2004 bonds. On May 7, 2015, the Regents adopted Resolutions authorizing the execution of amended FHA Documents and Loan Modification Documents in connection with the redemption and refinancing of the remaining 2004 bonds.

On May 14, 2015, the Hospital issued $115,000,000 in new bonds (2015 Series bonds) to refinance the remaining 2004 bonds. The Bonds were issued pursuant to a Trust Indenture, dated as of May 1, 2015, by and between the Hospital and Wells Fargo Bank, National Association, as Trustee for the purpose of re-financing the CHCCP.

The Regents granted the Bond Trustee in respect of the UNMH HUD-Insured Bonds a security interest in all of UNM Hospital's cash (with the exception of the proceeds of the UNM Hospital mil levy and state appropriations), accounts receivable, contract rights, and the proceeds of the same. In addition, in that certain Regulatory Agreement signed by the Regents, that is still in effect today, the University agreed and committed to HUD that it would not "assign, transfer, dispose of, or encumber any personal property of the project including revenues from any source…" Lastly, in accordance with the terms of the Lease under which the University leases a portion of the UNM Hospital facility from Bernalillo County, all reserves of the UNM Hospital covered by the Lease are restricted to use for operation and maintenance of the UNM Hospital.

The 2015 Series bonds carry interest rates that range from 0.484% to 3.532%. The Hospital refunded the 2004 Series bonds to reduce its total debt service payments over the next seventeen years by approximately $56.7 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of $15.9 million.

NOTE 8. BONDS PAYABLE (CONTINUED)

The 2015 Series bonds were issued as special limited obligations of the Hospital and are secured primarily by fully modified mortgage backed securities in the aggregate principal amount of $115,000,000 (the "GNMA Securities"), issued by Prudential Huntoon Paige Associates, Ltd. (the "Lender"), guaranteed as to principal and interest by the Government National Mortgage Association ("GNMA"), with respect to the Mortgage Note.

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

Issuance costs associated with the 2015 Series bonds were recorded as an expense in fiscal year 2015 and were paid from operating funds. The issuance costs are detailed as follows:

Financing and placement fees	$ 862,500
Rating agency fees	108,500
Legal fees	334,588
Title fees	251,251
Consulting fees	174,377
Other fees	21,800
	$ 1,753,016

Interest expense associated with the bonds payable was approximately $6,868,000 and $7,567,000, net of amortization of bond premium totaling approximately $925,000 and $305,000 for the years ended June 30, 2015 and 2014, respectively. Interest income earned from the investment of the bond proceeds was approximately $683,000 and $796,000 for the years ended June 30, 2015 and 2014, respectively.

NOTE 8. BONDS PAYABLE (CONTINUED)

Bonds payable activity consists of the following:

	Year ended June 30, 2015				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts due Within One Year
FHA Insured Hospital Mortgage Revenue:					
Bonds Series 2004	$ 159,420,000	—	(159,420,000)	—	—
Bond premium	925,162	—	(925,162)	—	—
Bonds Series 2015	—	115,000,000	—	115,000,000	6,035,000
	$ 160,345,162	115,000,000	(160,345,162)	115,000,000	6,035,000

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

Future debt service (including mandatory redemptions) as of June 30, 2015 for the bonds follows:

Years ending June 30,	Principal	Interest	Total
2016	$ 6,035,000	3,521,307	9,556,307
2017	5,540,000	3,171,979	8,711,979
2018	5,605,000	3,120,623	8,725,623
2019	5,700,000	3,040,023	8,740,023
2020	5,815,000	2,937,537	8,752,537
2021 - 2025	31,510,000	12,487,339	43,997,339
2026 - 2030	37,645,000	6,788,063	44,433,063
2031 - 2032	17,150,000	764,237	17,914,237
	$ 115,000,000	35,831,108	150,831,108

NOTE 8. BONDS PAYABLE (CONTINUED)

On November 15, 2004, the Hospital established a mortgage reserve fund in accordance with the requirements and conditions of the 2004 FHA Regulatory Agreement. On May 13, 2015, a new mortgage reserve fund was established for the 2015 series bonds. Future Mortgage Reserve Fund contributions are summarized as follows:

Years ending June 30,		Annual Contribution
2016	$	1,910,199
2017		1,910,199
	$	3,820,398

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

The Mortgage Note bears interest at 3.29%. The Mortgage Note has a term of 205 months following the commencement of amortization and matures on June 1, 2032. Principal and interest are payable in equal monthly installments upon commencement of amortization. A mortgage servicing fee of 12 basis points and a GNMA guaranty fee of 13 basis points are also included in the monthly payment, for a total of 3.54%.

NOTE 9. NET PATIENT SERVICE REVENUES

The majority of the Hospital's revenue is generated through agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established charges. Approximately 55% and 46% of the Hospital's gross patient revenue for the fiscal years ended June 30, 2015 and 2014, respectively, was derived from the Medicare and Medicaid programs, the continuation of which are dependent upon governmental policies. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. The implementation of the Affordable Care Act on January 1, 2014 profoundly impacted not only the proportion of patients covered by Medicaid, but it also affected the reimbursement rates paid by Medicaid for hospital services. See Note 2, *Use of Estimates,* for further discussion of the change in estimate for the fiscal year ended June 30, 2014 net patient revenue. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established charges for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from major third-party payors follows:

NOTE 9. NET PATIENT SERVICE REVENUES (CONTINUED)

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

Medicaid – Inpatient acute care services rendered to Medicaid Fee-for-Service (FFS) program beneficiaries are paid at prospectively determined rates per discharge based upon the MS-DRG system. These rates vary according to clinical factors, patient diagnosis, and negotiated base rates for each Medicaid Managed Care Organization (MCO). During fiscal year ended June 30, 2014, the Hospital was eligible for and received additional Medicaid reimbursement (UPL) for the difference between the Medicaid reimbursement per discharge and the Medicare reimbursement per discharge. The Hospital recorded UPL for the fiscal year ended June 30, 2014 in the amount of approximately $22.7 million. During 2014, the hospital entered into an agreement with the State of New Mexico to fund intergovernmental transfers (IGT) in the amount of $4.7 million in order to receive the full amount of available UPL funding. With the adoption of the Affordable Care Act and Centennial Care program, the UPL program ended effective December 31, 2013. As a state operated teaching hospital, the Hospital is eligible for enhanced reimbursement rates under the Safety Net Care Pool (SNCP) program, effective April 1, 2014. These enhanced reimbursement rates have been recorded in the financial statements in net patient service revenue. For outpatients, payments are made based upon an Outpatient Prospective Payment System (OPPS).

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

The Hospital entered into a reimbursement agreement for the SCI program during fiscal year 2007. This program is part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico HSD. Funding is modeled after a capitated payment program. Funds are remitted to the Hospital on a per-member-per-month basis for all state-approved members. Revenue is recognized in the period in which

NOTE 9. NET PATIENT SERVICE REVENUES (CONTINUED)

the Hospital is obligated to provide care to the enrolled members. The Hospital's funding under the SCI program for the fiscal year ended June 30, 2014 was $19.6 million, and is presented net of IGT in premium revenue. The State of New Mexico terminated its SCI Medicaid program effective December 31, 2013.

Other – The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined per diem rates.

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

		2015	2014
Charges at established rates	$	1,650,633,756	1,628,615,515
Charity care		(85,955,680)	(218,960,405)
Contractual adjustments		(621,952,696)	(590,564,836)
Provision for doubtful accounts		(62,804,301)	(136,033,949)
Net patient and premium revenues	$	879,921,079	683,056,325

The Hospital is reimbursed by the Medicare and Medicaid programs on a prospective payment basis for hospital services, with certain items reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Hospital. The annual cost reports are subject to audit by the Medicare Administrative Contractor and the Medicaid audit agent. Cost reports through 2011 have been final settled for the Medicaid programs. Cost reports through 2010, except for 2005, have been final settled for the Medicare program. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Current year estimates, settlements of prior-year cost reports, and changes in prior - year estimates resulted in net increases to net patient service revenue of approximately $7,262,000 and $8,877,000 for the years ended June 30, 2015 and 2014, respectively. During the fiscal year ended June 30, 2015, $3,045,000 liability for Medicare and $1,093,000 liability for Medicaid were accrued as estimates for the fiscal year 2015 cost report. During the fiscal year ended June 30, 2014, $2,433,000 liability for Medicare and $445,000 liability for Medicaid were accrued as estimates for the fiscal year 2014 cost report. UNM Hospital's cost reports are typically filed by November 30. Management believes these estimates are appropriate. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility

NOTE 9. NET PATIENT SERVICE REVENUES (CONTINUED)

that recorded estimates will change by a material amount in the near term. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations. During fiscal years 2015 and 2014, the hospital received aggregate settlements of $653,000 and $3,202,000, respectively, from Tri-Care, and U.S. Public Health Services which are included in the totals above.

NOTE 10. CHARITY CARE

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

		2015	2014
Charges foregone, based on established rates	$	85,955,679	218,960,405
Estimated costs and expenses incurred to provide charity care		44,696,953	107,290,598
Equivalent percentage of charity care charges foregone to total gross revenue		5%	13%

NOTE 11. MALPRACTICE INSURANCE

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

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

NOTE 11. MALPRACTICE INSURANCE (CONTINUED)

Public Liability Fund, and therefore UNM Hospitals, cannot exceed $1,050,000. The NMTCA prohibits the award of punitive or exemplary damages against the Hospital.

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

NOTE 12. RELATED-PARTY TRANSACTIONS

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

	2015	2014
UNMMG	$ 6,608,860	6,127,450
UNM Health Sciences Center	1,321,464	1,440,187
UNM Health System	1,736,323	2,189,694
	$ 9,666,647	9,757,331

The Hospital reimburses UNM and other entities associated with UNM, for the cost of utilities and the salaries of various medical and administrative personnel incurred on behalf of the Hospital. The Hospital incurred expenses, included in total expenses in the accompanying statements of revenues, expenses, and changes in net position, related to the following entities during the years ended June 30:

	2015	2014
UNM Health Sciences Center	$ 288,751,646	171,027,083
UNM	2,446,112	3,497,186
UNMMG	7,956,388	3,034,853
UNM Health Systems	10,304,120	10,862,376
	$ 309,458,266	188,421,498

NOTE 13. DEFINED CONTRIBUTION BENEFIT PLANS

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

The expense for the defined contribution plan was $12,505,000 and $12,800,000 in fiscal years 2015 and 2014, respectively. Total employee contributions under this plan were $13,663,000 and $12,597,000 in fiscal years 2015 and 2014, respectively. In 2012, a Roth 403b defined contribution plan option was added. Total employee contributions were $900,000 and $651,000 in fiscal years 2015 and 2014, respectively. The Hospital also has a deferred compensation plan, called the UNM Hospital 457(b) Deferred Compensation Plan, which provides employees with additional retirement savings plan. The Hospital does not contribute to this plan. Employees can make voluntary contributions to this plan. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. The plan is administered by the Hospital's Human Resources Department.

There was no expense for the deferred compensation plan in 2015 and 2014, respectively, as the Hospital does not contribute to this plan. Total employee contributions under this plan were $2,546,000 and $2,520,000 in 2015 and 2014, respectively.

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

The expense for the 401(a) defined contribution plan was $458,000 and $361,000 in fiscal years 2015 and 2014, respectively. Only the Hospital contributes to this plan.

NOTE 14. DEFINED BENEFIT PENSION PLAN

A small portion (approximately 21) of the Hospital's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act.

Plan description. ERB was created by the state's Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost-sharing , multiple employer plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico legislature has the authority to set or amend contribution rates.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmerb.org.

Benefits Provided. The Plan provides retirement and disability benefits. Retirement benefits are determined by taking 2.35 percent of the employee's final average annual salary multiplied by the employee's years of service. Employees employed before July, 1, 2010 are eligible to retire when one of the following events occur: the employee's age and earned service credit sum to 75 or more; the employee is at least sixty-five years of age and has five or more years of earned service credit; or the employee has service credit totaling 25 years or more. Employees hired on or after July 2, 2010 are eligible to retire when one of the following events occur: the employee's age and earned service credit sum to 80 or more; the employee is at least sixty-seven years of age and has five or more years of earned service credit; or the employee has service credit totaling 30 years or more. Employees are eligible for service-related disability benefits provided they have credit for at least 10 years of service and the disability is approved by the Plan.

Contributions. For the fiscal year ended June 30, 2015 employers contributed 13.90% of employees' gross annual salary to the Plan, and 10.70% of participating employees' gross annual salary for those earning more than $20,000. Employees earning $20,000 or less contributed 7.90%. For the fiscal year ending June 30, 2016, employers will continue to contribute 13.90%, and employees earning more than $20,000 will contribute 10.70% of their gross annual salary. Employees earning $20,000 or less will continue to contribute 7.9%. The Hospital's cash contributions to the ERB for fiscal years ended June 30, 2015, 2014, and 2013 were $175,000, $185,000, and $160,000, respectively.

NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

At June 30, 2015, the Hospital reported a liability of $3,063,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on a projection of the Hospital's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Hospital's proportion was 0.05368 percent, which was a decrease of 0.005 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of $97,000. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	—	45,627
Net difference between projected and actual earning on pension plan investments		—	278,434
Changes in proportion and differences between Hospital contributions and proportionate share of contributions		—	331,034
Hospital contributions subsequent to the measurement date		178,603	—
	$	178,603	655,095

NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The $179,000 reported as deferred outflows of resources related to pensions resulting from Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016	$	152,764
2017		152,764
2018		152,764
2019		141,115
2020		55,688
	$	655,095

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 percent
Salary increases	3 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period of July 1, 2012 through June 30, 2013.

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.); application of key economic projections (inflation, real growth, dividends, etc.); and structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class.

NOTE 14. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return
Equities - Domestic	20%	6.25%
Equities - International	15%	8.08%
Fixed Income	28%	3.07%
Alternatives	36%	6.68%
Cash	1%	1.50%
	100%	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's proportionate share of the net pension liability to changes in the discount rate. The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Hospital's proportionate share of the net pension liability	4,167,337	3,062,832	2,140,337

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial report available at www.nmerb.org.

NOTE 15. OTHER POSTEMPLOYMENT BENEFIT PLAN

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

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

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

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

At the date of valuation, July 1, 2014, there were a total of 9 Hospital and 1 Center retirees receiving benefits, 599 active employees fully eligible to receive benefits, and 5,033 active employees currently not fully eligible to receive benefits.

Funding Policy. The contribution requirements of the plan members and the Hospital are established, and may be amended by recommendation of the Human Resource Administrator and approval by the Chief Executive Officer. The retired employees that elect to participate in the postemployment benefit plan are required to make contributions in the form of monthly premiums based on current rates established under the health and dental plans. For the medical and dental plans, there are both implicit and explicit subsidies provided by the Hospital. The explicit subsidy is for employees that retire with sick and annual leave (compensated absence) accruals. The Hospital subsidizes for the retiree only, the current "employee only" premium amount for the health and dental plans for the period of the length of leave (compensated absence) accrual. The implicit subsidy arises because the retiree pays a contribution that is based on a combined active and retiree claim experience. If the retirees were to pay based solely on retiree claim experience, they would be paying a higher amount as typically retirees incur higher claims. This "discount" is called the implicit subsidy.

NOTE 15. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

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

		Retiree (coverage extension/ compensated absence accrual period)			Retiree (after coverage extension)		
		Standard Network	Extended Network	Delta Dental	Standard Network	Extended Network	Delta Dental
Rate tier:							
Retiree only	$	—	470	31	767	2,035	31
Retiree + Spouse/DP		299	1,259	66	1,572	4,166	66
Retiree + Children		142	845	—	1,150	3,048	—
Retiree + family		328	1,337	98	1,650	4,373	98

The Hospital does not use a trust fund to administer the financing and payment of benefits. Instead, the Hospital funds the plan on a pay-as-you-go basis. The pay-as-you-go expense is the net expected cost of providing retiree benefits. This expense includes all expected claims and related expenses and is offset by the retiree contribution. Expected monthly claim costs were developed from a combination of historical claim experience and manual claim cost developed using a representative database. Nonclaim expenses are based on the current amounts charged to employees. The Hospital's and Center's pay-as-you-go expense for the period of July 1, 2014 to June 30, 2015 is approximately $49,000. The pay-as-you-go expense includes the medical and dental claims, administration expenses, and implicit subsidy and is net of any retiree contributions.

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

A 4% annual discount rate was used assuming the Hospital will fund the postemployment benefit on a pay-as-you-go basis. For an unfunded plan, the investment return assumption is based on the expected return on employer assets that generally consist of short-term liquid investments.

The July 1, 2014 actuarial valuation considers an annual healthcare cost trend on a select (8%) and ultimate (4.5%) basis. Select rates are reduced 0.5% each year until reaching the ultimate trend. The unfunded AAL is amortized over the maximum acceptable period of 30 years. It is calculated assuming a level percentage of projected payroll, with a 1.5% per annum salary increase.

Annual retirement probabilities and the rate of withdrawal for reasons other than death and retirement have been determined based on the New Mexico Educational Retirement Board ("NMERB") Actuarial Valuation as of June 30, 2014. It is assumed that 30% of future pre-retirees participate in the Hospital's postretirement health plan and that none continue coverage once attaining Medicare eligibility.

NOTE 15. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

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

The Hospital's postemployment benefit plan includes employees from the Center. The OPEB cost and net OPEB obligation (NOO) were calculated and allocated to each reporting entity based on the Hospital's and Center's employee data as of July 1, 2014. The allocation is as follows: the Hospital – 92% and the Center – 8%. The OPEB cost and NOO information presented below are the Hospital's calculated portion.

The NOO is the cumulative difference between the ARC and the employer's contribution to the plan. The Hospital's NOO as of July 1, 2014 is equal to $6,194,964, which was determined based on the applicable FTE of the entity as of June 30, 2014.

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

		2015 Unfunded	**2014 Unfunded**
NOO – beginning of year	$	5,732,960	5,248,805
ARC		544,000	564,000
Interest on prior year NOO		233,090	238,497
Adjustment to ARC		(269,942)	(261,342)
Annual OPEB cost		507,148	541,155
Employer contributions		(45,144)	(57,000)
Increase in NOO		462,004	484,155
NOO – end of year	$	6,194,964	5,732,960

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the NOO for fiscal years ended June 30, 2015 and 2014 are as follows:

Fiscal Year Ended		**Annual OPEB Cost**	**Percentage of Annual OPEB Cost Contributed**		**Net OPEB Obligation**
June 30, 2015	$	507,148	9.0%	$	6,194,964
June 30, 2014		541,155	11.0%		5,732,960

NOTE 15. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

Funding Status and Progress. As of July 1, 2014, the most recent actuarial valuation date, the plan was not funded. The plan's actuarial accrued liability (AAL, the present value of all future expected postretirement medical payments and administrative cost, which are attributable to past service) is $3,487,000 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $3,487,000.

		Unit Credit Method Unfunded Plan June 30, 2015
AAL	$	3,487,000
Actuarial value of plan assets		—
UAAL		3,487,000
Funded ratio (actuarial value of plan assets/AAL)		0%
Covered payroll (active plan members)		244,578,832
UAAL as a percentage of covered payroll		1.4%

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

NOTE 16. COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Hospital is committed under various leases for building and office space and data processing equipment. Rental expenses on operating leases and other nonlease equipment amounted to $10,221,000 in 2015 and $10,106,000 in 2014.

The Hospital has entered into an MOU with UNM to lease the medical facility referred to as the Ambulatory Care Center and usage of the related parking structure through fiscal year 2019. The Hospital pays semiannual installments of approximately $975,000 under this MOU.

NOTE 16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2015, under noncancelable operating leases and memorandums of understanding, are as follows:

	Amount
Years ending June 30,	
2016	$ 4,804,745
2017	4,187,684
2018	3,926,878
2019	1,974,430
2020	1,679,359
2021 - 2025	3,879,709
2026 - 2030	4,364,174
2031 - 2035	4,147,227
2036 - 2040	701,654
	$ 29,665,860

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

NOTE 17. CAPITAL INITIATIVES

In fiscal year 2015, the Hospital and the UNM HSC entered into an MOU for a ninth year, to collaborate on strategic capital projects. Per the agreement, the Hospital recorded a nonoperating expense of approximately $129 million and $26 million in fiscal years 2015 and 2014, respectively, to provide for the development of clinical facilities pursuant to the agreement. All capital facilities are owned by UNM HSC for use by the Hospital. Capital project disbursements from capital initiatives funds held by UNM HSC in 2015 and 2014 and the ending balances for each year are reflected in the table below.

As of June 30, 2015, the ending balance of $221,925,844 is comprised of $171,425,844 in cash with a due from UNMH for the remainder. As of June 30, 2014, the ending balance of $98,250,189 was comprised of $88,250,189 in cash with a payable from UNMH for the remainder.

The Regents granted the Bond Trustee in respect of the UNMH HUD-Insured Bonds a security interest in all of UNM Hospital's cash (with the exception of the proceeds of the UNM Hospital mil levy and state appropriations), accounts receivable, contract rights, and the proceeds of the same. In addition, in that certain Regulatory Agreement signed by the Regents, that is still in effect today, the University agreed and committed to HUD that it would not "assign, transfer, dispose of, or encumber any personal property of the project including revenues from any source…" Lastly, in accordance with the terms of the Lease under which the University leases a portion of the UNM Hospital facility from Bernalillo County, all reserves of the UNM Hospital covered by the Lease are restricted to use for operation and maintenance of the UNM Hospital.

		July 1 Beginning Balance	UNMH Contributions to Fund	Capital Project Disbursements From Fund	June 30 Ending Balance
Fiscal Year 2015	$	98,250,189	128,981,761	(5,306,106)	221,925,844
Fiscal Year 2014	$	75,013,413	26,000,000	(2,763,224)	98,250,189

NOTE 18. RISKS AND UNCERTAINTIES

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

UNIVERSITY OF NEW MEXICO HOSPITAL **Schedule 1**
COMPARISON OF BUDGETED AND ACTUAL REVENUES AND EXPENSES
Year Ended June 30, 2015

	Budget (Original)	Budget (Final)	Actual	Budget Variance
Operating revenues:				
Net patient service and premium	$ 712,324,984	806,415,684	879,921,079	73,505,395
Other operating revenue	22,881,599	24,187,457	24,952,731	765,274
Total operating revenues	735,206,583	830,603,141	904,873,810	74,270,669
Operating expenses	(826,015,648)	(879,959,227)	(852,913,273)	27,045,954
Operating (loss) gain	(90,809,065)	(49,356,086)	51,960,537	101,316,623
Nonoperating revenues and other revenues, net	93,151,320	56,182,370	(33,920,372)	(90,102,742)
Increase in net assets	$ 2,342,255	6,826,284	18,040,165	11,213,881

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

UNIVERSITY OF NEW MEXICO HOSPITAL
PLEDGED COLLATERAL BY BANKS
Year Ended June 30, 2015

Schedule 2

	Pledged Collateral			Bank Balance	
	Type of Security	CUSIP	Maturity	Bank of America Albuquerque, New Mexico	Total
Funds on deposit:					
Demand deposits				$ 166,632,711	166,632,711
FDIC insurance				(500,000)	(500,000)
Total uninsured public funds				$ 166,132,711	166,132,711
50% collateral requirement per Section 6-10-17 NMSA				$ 83,066,356	83,066,356
				Fair Market Value of Securities in Safekeeping	
Pledged collateral*					
	FHLMC	3128NGR31	8/1/2035	116,817	116,817
	FHLMC	3128QLQQ7	12/1/2035	1,064,731	1,064,731
	Gold PC	31294KNX9	2/1/2018	2,681	2,681
	Gold PC	31294KSF3	7/1/2018	2,261,185	2,261,185
	Gold PC	3132GRHL8	2/1/2042	4,895,012	4,895,012
	FHLMC	3132GUBR4	6/1/2042	1,101,553	1,101,553
	Gold PC	31335HHS5	12/1/2018	462	462
	FNMA	31371KXT3	1/1/2018	4,048	4,048
	FNMA	3138EGJZ8	10/1/2038	9,281,050	9,281,050
	FNMA	3138EHXR8	2/1/2042	7,349,737	7,349,737
	FNMA	3138MQTB9	12/1/2042	5,969,620	5,969,620
	FNMA	3138WTQN9	6/1/2043	128,497	128,497
	FNMA	31391WVD0	1/1/2018	129,183	129,183
	FNMA	31391Y3N5	2/1/2018	107,447	107,447
	FNMA	31402HRL7	7/1/2018	56	56
	FNMA	31402XNG7	9/1/2018	957	957
	FNMA	31404AQ64	9/1/2033	197,743	197,743
	FNMA	31404AQY3	10/1/2028	132	132
	FNMA	31404LV64	6/1/2028	6,788	6,788
	FNMA	31404LV80	6/1/2033	1,739,457	1,739,457
	FNMA	31404LX39	10/1/2028	148,502	148,502
	FNMA	31405FH39	1/1/2033	223,197	223,197
	FNMA	31405FHP0	6/1/2033	625,798	625,798
	FNMA	31405FHQ8	6/1/2033	953,119	953,119
	FNMA	31405FHW5	10/1/2033	841,762	841,762
	FNMA	31405MA64	49126	380,141	380,141
	FNMA	31410GZC0	3/1/2037	1,566,150	1,566,150
	FNMA	31416BL71	9/1/2037	20,042	20,042
	FNMA	31416XBU3	11/1/2040	7,921,349	7,921,349
	FNMA	31417AR50	12/1/2041	6,404,477	6,404,477
	FNMA	31417B6D4	6/1/2042	2,853,011	2,853,011
	FNMA	31417BZU4	5/1/2042	2,590,817	2,590,817
	FNMA	31417EY70	2/1/2043	6,639,822	6,639,822
	FNMA	31418ANH7	11/1/2042	11,044,479	11,044,479
	FNMA	31418QZL0	5/1/2034	45,320	45,320
	FNMA	31419A4N4	2/1/2041	4,015,238	4,015,238
	FNMA	31419AAZ0	9/1/2038	3,930,885	3,930,885
	FNMA	31419ABB2	4/1/2039	592,251	592,251
	FNMA	31419ADD6	10/1/2036	1,776,241	1,776,241
	FNMA	31419ADV6	12/1/2035	10,619,181	10,619,181
	FNMA	31419AGL5	4/1/2037	8,908,858	8,908,858
	FNMA	31419ALS4	9/1/2038	376,204	376,204
	FNMA	31419ANK9	10/1/2039	1,946,291	1,946,291
	FNMA	31419AVF1	4/1/2039	6,792,071	6,792,071
	FNMA	31419AVM6	12/1/2037	1,535,169	1,535,169
	FNMA	31419AXA0	10/1/2038	420,668	420,668
	FNMA	31419BB61	5/1/2040	6,599,698	6,599,698
	FNMA	31419EBC2	9/1/2040	5,489,024	5,489,024
	FNMA	31419FAU0	4/1/2041	2,807,651	2,807,651
	FNMA	31419GA79	10/1/2040	43,088	43,088
	FNMA	31419HFF4	10/1/2040	544,855	544,855
	FNMA	31419HH47	11/1/2040	3,106,386	3,106,386
Total pledged collateral				136,118,901	136,118,901
(Excess) of pledged collateral over the required amount				$ (53,052,545)	(53,052,545)

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

UNIVERSITY OF NEW MEXICO HOSPITAL **Schedule 3**
SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS
Year Ended June 30, 2015

Name of Bank/Broker	Account Type	Balance per Bank Statement	Reconciled Balance per Financial Statement
UNM Hospital cash:			
Bank of America:			
Operating	Checking	$ 166,632,711	146,450,356
Petty Cash	Cash on hand	-	37,421
Total UNM Hospital cash		$ 166,632,711	146,487,777
UNM Hospital short-term investments:			
Morgan Stanley	Money market funds	$ 97,774	97,774
Wells Fargo	Money market funds	930,657	930,657
Morgan Stanley	U.S. Treasury notes	25,703,596	25,703,596
Morgan Stanley	FNMA	5,318,926	5,318,926
Morgan Stanley	FHLB	3,437,773	3,437,773
Total UNM Hospital short-term investments		$ 35,488,726	35,488,726
UNM Hospital long-term investments:			
Wells Fargo	Money market funds	$ 14,141,322	14,141,322
Investment in TriWest	Equity securities	5,000,000	5,000,000
Investment in TriCore Reference Lab (TRL)	Equity securities	11,621,629	11,621,629
Investment in TLSC	Equity securities	4,831,831	4,831,831
Total UNM Hospital long-term investments		$ 35,594,782	35,594,782

UNIVERSITY OF NEW MEXICO HOSPITAL **Schedule 4**
POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS SCHEDULE OF FUNDING PROGRESS
Years Ended June 30, 2015 and 2014
(Unaudited)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) – Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
July 1, 2014	—	3,487,000	3,487,000	—	$ 244,578,832	1.4%
July 1, 2013	—	3,469,000	3,469,000	—	$ 251,020,000	1.3%
July 1, 2012	—	3,713,000	3,713,000	—	$ 240,498,000	1.5%
July 1, 2011	—	3,748,000	3,748,000	—	$ 219,171,000	1.7%
July 1, 2009	—	18,899,000	18,899,000	—	$ 213,671,000	8.8%

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

UNIVERSITY OF NEW MEXICO HOSPITAL **Schedule 5**
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

		2015
Hospital's proportion of the net pension liability		0.05368%
Hospital's proportionate share of the net pension liability	$	3,062,832
Hospital's covered-employee payroll	$	1,479,662
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll		207%
Plan fiduciary net position as a percentage of the total pension liability		66.54%

UNIVERSITY OF NEW MEXICO HOSPITAL
SCHEDULE OF HOSPITAL CONTRIBUTIONS

Schedule 6

		2015
Contractually required contribution	$	178,603
Contributions in relation to the contractually required contribution		178,603
Contribution deficiency (excess)	$	—
Hospital's covered-employee payroll	$	1,479,662
Contributions as a percentage of covered-employee payroll		12.07%

UNIVERSITY OF NEW MEXICO HOSPITAL
CONTRACTS ENTERED INTO GREATER THAN $60,000

Schedule 7

Procurement Type	Vendors that responded	In-State	Out-of-State	Residential Preference	In-state vs Veteran Preference	Scope of Work	Vendor(s) Awarded	Amount of Contract
P253-13	1. Health Business Systems 2. Cerner 3. QS/1	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	Retail Pharmacy Management System Software/Hardware	1. QS1 Data Systems	$704,136
P255-13	1. Medtronic 2. Boston Scientific 3. St Jude 4. Depuy	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	Spinal Cord Stimulation and Pain Management Products	1. Medtronic 2. Boston Scientific 3. St Jude	1. $378,720 2. $559,930 3. $420,000
P256-13	1. Cardinal Health 2. UNM TRP	1. No 2. Yes	1. Yes 2. No	1. No 2. Yes	1. NA 2. NA	Radioactive Pharmaceutical Supplies and Reporting and Tracking Solution	1. Cardinal Health 2. UNM TRP	$2,400,000
P269-13	1. Zimmer 2. Biomet 3. Depuy 4. Stryker 5. Microport Ortho 6. Smith & Nephew	1. No 2. No 3. No 4. No 5. No 6. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. No 4. No 5. No 6. No	1. NA 2. NA 3. NA 4. NA 5. NA 6. NA	Hip and Knee Implants	1. Zimmer 2. Biomet 3. Depuy 4. Stryker 5. Microport Ortho 6. Smith & Nephew	1. $224,567 4. $2,120,000 5. $26,175
P278-13	1. Catapult Health 2. Quest Diagnostics 3. Humana 4. Maxim Healthcare 5. Mobile Health Exams 6. RecLectix	1. No 2. No 3. No 4. No 5. No 6. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. No 4. No 5. No 6. No	1. NA 2. NA 3. NA 4. NA 5. NA 6. NA	Employee Health Plan Biometrics Screening Services	Humana	$600,000
P280-14	1. Cook Medical 2. W. L. Gore	1. No 2. No	1. Yes 2. Yes	1. No 2. No	1. NA 2. NA	Abdominal and Thoracic Intervention	1. Cook Medical Inc. 2. W. L. Gore	$358,420
P281-14	1. Biomet 2. Skeletal Dynamics 3. Smith & Nephew 4. Accumed 5. Stryker	1. No 2. No 3. No 4. No 5. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes	1. No 2. No 3. No 4. No 5. No	1. NA 2. NA 3. NA 4. NA 5. NA	Distal Radius System	1. Biomet 2. Skeletal Dynamics 3. Smith & Nephew 4. Accumed 5. Stryker	3. $6,051 4. $125,851 5. $90,000
P285-14	1. Cook Medical	1. No	1. Yes	1. No	1. NA	Cook Radiology Products	Cook Medical Inc.	
P286-14	1. Smiths Medical 2. Teleflex 3. Bbraun	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	Epidural Kits	Arrow International	
P287-14	1. Wolter Kluwer 2. Cerner 3. Pitts Management 4. SPI Healthcare 5. Altegra Health 6. The Advisory Board Company 7. Xerox, 8. Healthstream Inc., 9. HCRS, 10. Kforce Healthcare 11. Navigant Consulting 12. Alvarez & Marsal 13. Code Smart Group.	1. No 2. No 3. No 4. No 5. No 6. No 7. No 8. No 9. No 10. No 11. No 12. No 13. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes 7. Yes 8. Yes 9. Yes 10. Yes 11. Yes 12. Yes 13. Yes	1. No 2. No 3. No 4. No 5. No 6. No 7. No 8. No 9. No 10. No 11. No 12. No 13. No	1. NA 2. NA 3. NA 4. NA 5. NA 6. NA 7. NA 8. NA 9. NA 10. NA 11. NA 12. NA 13. NA	ICD-10 Provider Documentation Training	Healthstream Inc	$178,580
P288-14	1. Cascade 2. SPS Southern Pros Sup	1. No 2. No	1. Yes 2. Yes	1. No 2. No	1. NA 2. NA	UNMH CTH Orthotic and Prosthetic Supplies and Services	Cascade Orthopedic	$732,753
P292-14	1. Redwood Toxicology Laboratory 2. American Screening Corp 3. Drug Testing Corporation	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	Drug Screen Dipcard with and without Adulteration Tests	Redwood Toxicology Laboratory	$172,437
P293-14	1. AAA Pest Control 2. Preventive Pest Control	1. Yes 2. Yes	1. No 2. No	1. Yes 2. Yes	1. NA 2. NA	Pest Control Services	AAA Organic Pest Control	$142,500

Procurement Type	Vendors that responded	In-State	Out-of-State	Residential Preference	In-state vs Veteran Preference	Scope of Work	Vendor(s) Awarded	Amount of Contract
P295-14	1. Xerox 2. DSI 3. POA 4. TIG 5. CDWG 6. MicroAge 7. Ricoh	1. No 2. Yes 3. No 4. No 5. No 6. No 7. No	1. Yes 2. No 3. Yes 4. Yes 5. Yes 6. Yes 7. Yes	1. Yes 2. Yes 3. No 4. No 5. No 6. No 7. No	1. NA 2. NA 3. NA 4. NA 5. NA 6. NA 7. NA	Printer Hardware Purchase Only	1. TIG 2. POA	
P297-14	1. NurseWise 2. NurseAdvise	1. No 2. Yes	1. Yes 2. No	1. Yes 2. No	1. NA 2. NA	Nurse Advice Line aka Telephone Nurse Triage	Nurse Advise New Mexico	$945,750
P298-14	1. Vistar Technologies 2. Cactus Software	1. No 2. No	1. Yes 2. Yes	1. No 2. No	1. NA 2. NA	Credentialing Software	Cactus Software	$346,919
P300-14	1. MedInt Holdings, LLC 2. Bayer HealthCare	1. No 2. No	1. Yes 2. Yes	1. No 2. No	1. NA 2. NA	UNMH Dose Monitoring Software	Bayer Healthcare	$181,239
P301-14	1. Jani King 2. Sparkle 3. Adelante 4. Kleen Tech	1. Yes 2. Yes 3. Yes 4. Yes	1. No 2. No 3. No 4. No	1. Yes 2. Yes 3. Yes 4. Yes	1. NA 2. NA 3. NA 4. NA	Custodial Services at 1650 University Building (1650 Building)	Adelante	$260,163
P303-14	1. Ambercare 2. Advantage	1. Yes 2. Yes	1. No 2. No	1. Yes 2. Yes	1. NA 2. NA	UNM Home Healthcare Program for UNM Care (Indigent)	Ambercare	$218,160
P304-14	1. Turnkey Pharmacy 2. Visante Inc 3. Deloitte & Touche LLp 4. Ponaman Healthcare Consulting 5. Rx/X Consulting	1. No 2. No 3. No 4. No 5. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes	1. No 2. No 3. No 4. No 5. No	1. NA 2. NA 3. NA 4. NA 5. NA	UNMH 340B Review and Support Services	Turnkey Pharmacy Solutions	$60,000
P306-15	1. Core Med Imaging, Inc	1. No	1. Yes	1. No	1. NA	Gastrointestinal (GI) Specific Fluoroscopy	Core Med Imagine	$486,500
P307-14	1. Oticon Medical LLC	1. No	1. Yes	1. No	1. NA	Only Osseo-Integrated (Bone-Anchored) Aids Products and Accessories	Oticon Medical	$422,769
P309-14	1. Veolia 2. ACT 3. Clean Harbors 4. Stericycle	1. No 2. No 3. No 4. No	1. Yes 2. Yes 3. Yes 4. Yes	1. No 2. No 3. No 4. No	1. NA 2. NA 3. NA 4. NA	Disposal of 1) Laboratory Chemical and Pathological, 2) Pharmaceutical/RCRA and Chemotherapy Hazardous Waste Transport and, 3) Universal Disposal and Treatment.	Clean Harbors	$375,000
P312-15	1. Maxim 2. Precyse 3. Harmony 4. 3M 5. Med Partners 6. United Audit Systems 7. GeBBs 8. Navigant 9. Coding Aid 10. Himagine 11. Peak 12. Edifics	1. No 2. No 3. No 4. No 5. No 6. No 7. No 8. No 9. No 10. No 11. No 12. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes 7. Yes 8. Yes 9. Yes 10. Yes 11. Yes 12. Yes	1. No 2. No 3. No 4. No 5. No 6. No 7. No 8. No 9. No 10. No 11. No 12. No	1. NA 2. NA 3. NA 4. NA 5. NA 6. NA 7. NA 8. NA 9. NA 10. NA 11. NA 12. NA	ICD and CPT Coding Overflow Services	3M	
P316-15	1. Healthcare Source 2. Infor 3. Talent Plus	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	Pre-Employment Assessment Software	HealthcareSource HR Inc	$204,000
P321-15	1. Angiodynamics 2. Convidien 3. Healthtronics	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	UNMH Microwave System	Covidien Sales LLC	$79,425
Sole Source	Cerner Corp.	No	Yes	No	NA	EMR Software/Hardware Maintenance and Support	Cerner Corp.	$3,000,360
RFP 1579-13	1. Beaudin Ganze 2. Bridgers & Paxton 3. Coupland-Moran 4. Assurance Engineering					A/E Services for HVAC inside the Adult Psychiatric Center (UPC)	Bridgers & Paxton	$170,582

UNIVERSITY OF NEW MEXICO HOSPITAL **Schedule 7**
CONTRACTS ENTERED INTO GREATER THAN $60,000

Procurement Type	Vendors that responded	In-State	Out-of-State	Residential Preference	In-state vs Veteran Preference	Scope of Work	Vendor(s) Awarded	Amount of Contract
RFP 1658-14	1. Donner Plumbing	Yes	No	No	NA	Construction services for the replacement of selected domestic water and sewer risers at the main hospital	Donner Plumbing	$2,173,230
IFB I44-14	1. Tryco 2. SuperDimension/Covidien	1. No 2. No	1. Yes 2. Yes	No	NA	Purchase of the Electromagnetic Navigational Bronchoscopy System	Tryco	$172,350
P299-14	1. Nuance 2. 3M 3. Optum 4. Dolbey 5. Cerner	1. No 2. No 3. No 4. No 5. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes	1. No 2. No 3. No 4. No 5. No	1. NA 2. NA 3. NA 4. NA 5. NA	Computer Assisted Coding, Charge Capture and Provider Documentation Improvement (CAC, CC, and CDI) Software	3M	$843,350
RFP 1681-14	1. Richardson & Richardson 2. Klinger Constructors 3. HB Construction 4. Gerald Martin 5. Enterprise Builders Corporation 6. Jaynes Corporation	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. No 4. No 5. No 6. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. Yes 4. Yes 5. No 6. No	New construction of the UNM Hospitals-North Valley Center for Family and Community Health (North 4th Street Clinic)	Richardson & Richardson	$3,784,000
RFP 1688-14	1. Consolidated Builders	Yes	No	Yes	NA	UH Main IR CT Renovation	Consolidated Builders	$518,623
RFP 1630-14	1. SW Architects 2. Design Group 3. Smith Group JJR 4. SMPC Architects 5. FBT Architects 6. Integrated Design & Architects	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. No 4. No 5. No 6. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. No 4. No 5. No 6. No	Architectural Design Services for UNM Hospitals CPC Inpatient Units	FBT Architects	$469,024
SPD Contract 50-000-14-00033	1. Don Chalmers Ford 2. Reliable Chevrolet	1. Yes 2. Yes	1. No 2. No	No	NA	Cargo Vans	Don Chalmers	$67,443
Sole Source		Yes	No	No	NA	Power switch equipment and preventative maintenance	ASCO Services	$60,000 per yr
Sole Source		No	Yes	No	NA	RT 600 Functional Electrical Stimulation Stepping System	Restorative Therapies, Inc.	$97,000
Sole Source		No	Yes	No	NA	Software upgrade of Aquarius iNtuition i3-6000	TeraRecon Inc.	$235,548
Sole Source		No	Yes	No	NA	Selenia Dimensions 3D with AWS 8000 Mammography	Hologic, Inc.	$1,112,500
Sole Source		No	Yes	No	NA	Automatic scrub distribution and service	IPA One	$114,000 per yr
Invitation for Bid	Zimmer US, Inc.	No	Yes	No	NA	Dermatone and Skin Graft Mesher	Zimmer US, Inc.	$5,000 per year
Sole Source		No	Yes	No	NA	Ophthalmologic Surgery Products and	Alcon Laboratories, Inc.	$257,000
Sole Source		No	Yes	No	NA	Gammacell 3000 Elan Blood Irradiator	Best Theratronics, Ltd.	$568,000
Invitation for Bid	Stryker Surgical	No	Yes	No	NA	Neptune and Docking Station	Stryker Surgical	$190,000
Emergency Procurement		No	Yes	No	NA	Radiology products	Bard Peripheral Vascular, Inc.	n/a
Emergency Procurement		Yes	No	No	NA	Exit and egress Light Testing Services	Systems Engineering Services	$61,000 per yr
RFP P174-11	1. True North 2. NCO 3. UCB	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	NA	Outsourcing and Management of Accounts Receivable	United Collection Bureau, Inc.	
RFP P189-11	1. Emboider- ISM 2. We've Got Scrubs 3. Standard Textile 4. Ameri-Pride 5. Staples 6. Scrubs Direct					Employee Scrubs and Uniforms	Scrubs Direct, Inc.	
RFP P234-13	1. Accretive PAS 2. Executive Ehealth Resources 3. Schumacher Group	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	NA	Physician Advisory Services	Accretive PAS	
RFP P285-14	Cook Medical Inc	No	Yes	No	NA	Radiology products	Cook Medical Inc.	
Invitation for Bid	EKOS Corporation	No	Yes	No	NA	Intelligent Drug Delivery Catheters for Ultrasound Thrombolysis	EKOS Corporation	
RFP 1720-15	Brycon Construction	Yes	No	No	Yes	UNMH Tricore Lab Repair Renew and Replacement	Brycon Construction	$1,220,856
RFP 1721-15	1. AIC General Contractors 2. Klinger Constructors 3. ESA Construction	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No			UNMH Gross Room Renovation	AIC General Contractors	$370,000
RFP 1718-15	1. B&D Industries 2. US Electrical	1. Yes 2. Yes	1. No 2. No			Children's Psychiatric Center Emergency Generator Installation	B&D Industries	$215,000
Sole Source		No	Yes	No	NA	Coblation Wands and Unit	Arthrocare	$88,273

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of UNM Hospital (the "Hospital") as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, as listed in the table of contents, and the Comparison of Budged and Actual Revenues and Expenses ("budget comparison"), presented as supplementary information, as defined by the Governmental Accounting Standards Board, for the year ended June 30, 2015, and have issued our report thereon dated October 29, 2015.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Moss Adams LLP

Albuquerque, New Mexico
October 29, 2015

There are no current or prior year findings.

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

An exit conference was conducted on October 28, 2015 with a member of the Finance and Audit Committee of the Board of Trustees and a member of the Hospital's management. During this meeting, the contents of this report were discussed.

Jerry McDowell	Chairman, Finance/Audit Committee
Nick Estes	Finance/Audit Committee Member
Michael Olguin	Finance/Audit Committee Member
Steve McKernan	UNMH Chief Executive Officer
Michael Schwantes	Director Finance Systems & Restricted Accounting
Manu Patel	Director of Internal Audit Department
Shawna Gonzales	Executive Director/Controller, Finance and Accounting
Purvi Mody	Executive Director, Compliance and Internal Audit
Sandra Long-Mendoza	Finance Director
Berenice Lopez	Finance Director
Julie Alliman	Finance Director
Lawrence Pineda	SRMC Finance Director
DeVon Wiens	Engagement Partner, Moss Adams LLP
Josh Lewis	Senior Manager, Moss Adams LLP