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

JUNE 30, 2016 AND 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

UNIVERSITY OF NEW MEXICO HOSPITAL
FISCAL YEAR 2016 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 the University of New Mexico 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, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements. 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, 2016.

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.

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The University of New Mexico Health Sciences Center
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, 2016 and 2015, 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, 2016 in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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 25, the schedule of postemployment benefits other than pensions schedule of funding progress on page 76, the schedule of the Hospital's proportionate share of the net pension liability on page 77, and the schedule of Hospital contributions on page 78 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 74 and schedule of individual deposit and investment accounts on page 75 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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 79 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 21, 2016 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 21, 2016

This section of the University of New Mexico 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, 2016 and 2015. 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 outflows, liabilities, and deferred inflows. Over time, increases or decreases in net position (the difference between assets, deferred outflows, liabilities and deferred inflows) 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.

Three-Year Comparison of Financial Results

Condensed Summary of Net Position

		As of June 30		
Assets		**2016**	**2015**	**2014**
Current assets	$	392,756,160	366,830,094	299,767,628
Capital assets, net		223,548,010	231,035,321	239,078,379
Noncurrent assets		37,093,211	35,594,782	55,818,643
Total assets	$	653,397,381	633,460,197	594,664,650
Deferred Outflows				
Total deferred outflows of resources	$	432,356	178,603	-
Liabilities				
Current liabilities	$	209,052,406	195,831,266	131,275,013
Noncurrent liabilities		116,814,441	129,440,283	170,096,837
Total liabilities	$	325,866,847	325,271,549	301,371,850
Deferred Inflows				
Total deferred inflows of resources	$	1,069,220	655,095	-
Net Position				
Net investment in capital assets	$	114,583,010	116,035,266	92,246,355
Restricted net position, expendable		31,296,238	29,151,022	43,996,008
Unrestricted net position		181,014,422	162,525,868	157,050,437
Total net position	$	326,893,670	307,712,156	293,292,800

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 $143.3 million, $146.5 million, and $106.3 million as of June 30, 2016, 2015, and 2014, 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 operating expenses less non-cash items divided by the number of days in a calendar year. The DCOH for the Hospital was 57.44, 65.19, and 51.34 as of June 30, 2016, 2015, and 2014, respectively. As part of the FHA Insured Hospital Mortgage Revenue Bonds Series 2015 discussed further in Note 9, 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 $127.8 million, $129.7 million, and $95.6 million as of June 30, 2016, 2015, and 2014, respectively. The increase of $34.1 million as of June 30, 2015 compared to June 30, 2014 in patient receivables was primarily due to the implementation of the New Mexico Medicaid program called "Centennial Care" which expanded the eligibility parameters for Medicaid qualification and converted amounts paid as Medicaid supplemental payments such as Upper Payment Limit and capitated payments such as State Coverage Initiative (SCI) in 2014 that were billed on an individual claim basis in 2015.

The decrease of $2 million as of June 30, 2016 compared to June 30, 2015 in net patient receivables is primarily due to the increase in allowance for doubtful accounts as fewer accounts have been sent to collections due to delays caused by the ICD-10 conversion, Soarian implementation (new patient billing system), and charge entry. Patient cash collections during fiscal year 2016 increased by $19.9 million from fiscal year 2015.

At June 30, 2016, 2015, and 2014, the Hospital's current assets of $392.8 million, $366.8 million, and $299.8 million, respectively, were sufficient to cover current liabilities of $209.1 million (current ratio of 1.88), $195.8 million (current ratio of 1.87), and $131.3 million (current ratio of 2.28), respectively.

The Hospital's deferred outflows related to pensions increased $253,753 at June 30, 2016 compared to June 30, 2015. During the year ended June 30, 2015, the Hospital implemented 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, 2016, net of changes in actuarial assumptions impacting the net pension liability. The number of employees at the Hospital covered by the defined benefit plan was approximately 18 with the remaining 99.9% of employees 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 liability is the accounts payable balance of $64.1 million, $54.2 million, and $45.1 million as of June 30, 2016, 2015, and 2014, respectively. The increases in accounts payable were primarily due to medical supplies, including pharmaceuticals, purchased services, and minor equipment purchases that had not been paid at June 30, 2016, and 2015. The next most significant liability balance is the estimated third-party payor settlements of $49.3 million, $33.2 million, and $21.9 million as of June 30, 2016, 2015, and 2014, respectively. The increase in the estimated settlement account is primarily due to the increase in intergovernmental transfers due to the State of New Mexico. The Due to UNM balance was $47.4 million, $64.6 million, and $19.2 million as of June 30, 2016, 2015, and 2014, respectively. The decrease in this balance at June 30, 2016 was the result of paying the 2015 capital initiatives amount of $50.5 million in 2016 while not funding capital initiatives for 2016. This was offset by increased amounts for physician providers and resident programs not paid as of June 30, 2016. The increase at June 30, 2015 over June 30, 2014 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 18.

Deferred inflows of resources increased $414,125 as of June 30, 2016 compared to June 30, 2015. 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, 2016. The Hospital's net pension liability and related deferred inflows and outflows are discussed in Note 15.

Total net position as of June 30, 2016 increased by $19.2 million to $326.9 million. The increase was due to an operating loss of $73.2 million offset by net nonoperating and special item revenue of $92.4 million.

Total net position as of June 30, 2015 increased by $18.0 million to $307.7 million. The increase was due to a net operating gain of $52.0 million offset by a deficiency in net nonoperating revenue of $33.9 million. Unrestricted net position totaled $162.5 million at June 30, 2015.

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

		Year Ended June 30		
		2016	**2015**	**2014**
Total operating revenues	$	871,638,746	904,873,810	702,853,479
Total operating expenses		(944,881,680)	(852,913,273)	(786,814,917)
Operating loss		(73,242,934)	51,960,537	(83,961,438)
Nonoperating revenues, expense, other revenues, and special items		92,424,448	(33,920,372)	93,150,604
Total increase in net position		19,181,514	18,040,165	9,189,166
Net position, beginning of year		307,712,156	293,292,800	284,103,634
Change in accounting pronouncement		-	(3,620,809)	-
Net position, beginning of year restated		307,712,156	289,671,991	284,103,634
Net position, end of year	$	326,893,670	307,712,156	293,292,800

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 $871.6 million, $904.9 million, and $702.9 million for the years ended 2016, 2015, and 2014, 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 $848 million, $880 million, and $671 million for the years ended 2016, 2015, and 2014, respectively.

Net patient service revenues for 2016 of $848 million decreased $32 million from $880 million in 2015, which represents a 4% decrease. The primary factor that caused the decrease was a change in estimate for fiscal 2015's Disproportionate Share Medicaid reimbursement (DSH). DSH hospital reimbursement was enacted and put into regulation to assist hospitals with the burden of uncompensated care costs incurred for rendering services to both Medicaid and uninsured patients. The Affordable Care Act (ACA) through the Health Insurance Exchange and expansion of Medicaid in New Mexico has significantly reduced the uninsured patient population for UNM Hospitals. It has been estimated that this reduction in the uninsured patient population combined with the Medicaid rate increase effective January 1, 2014 for Safety Net Care Pool (SNCP) Hospitals will reduce the net uncompensated care costs for fiscal years 2015 through 2016. Given the estimated reduction of net uncompensated care costs for uninsured and Medicaid patients during fiscal 2015 upon which DSH payments would be based, the amount of $19,514,325 recognized for DSH during fiscal 2015 was refunded to the State of New Mexico in fiscal 2016 as a change in estimate. Furthermore, no further DSH was expected nor accrued during fiscal 2016. If the Hospital had not recognized DSH in fiscal 2015, net patient service revenue would have been $860 million compared to $867 million in fiscal 2016.

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.

As of June 2016, the New Mexico Human Services Department (HSD) reported that there were 877,000 members enrolled in Centennial Care, including 249,000 in the expansion population. HSD is estimating enrollment in Centennial Care will be approximately 930,000 as of June 2017.

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 estimated approximately 187,000 adults would qualify for exchange coverage, however, actual enrollment has stabilized around 50,000. Premiums have continued to increase based on the population having higher utilization than originally anticipated. The Hospital is designated as a site for enrollment with a direct connection to HIX.

In addition to Medicaid and HIX expansion which lead to increased revenue in fiscal 2015, the Radiation and Medical Oncology clinics completed their 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.

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

	Year ended June 30,				
	2016	2015	2014	2013	2012
Licensed Beds Adult	308	308	308	308	308
Licensed Beds OB	39	39	39	39	39
Licensed Beds Peds	154	154	154	154	154
Licensed Beds Newborn	36	36	36	36	36
Total Licensed Beds	537	537	537	537	537
Inpatient % of Occupancy - Adult	86.6%	93.9%	88.8%	88.6%	90.2%
Inpatient % of Occupancy - OB	61.4%	58.6%	62.7%	64.5%	65.5%
Inpatient % of Occupancy - Peds	73.8%	74.1%	72.2%	75.4%	71.8%
Inpatient % of Occupancy - Newborn	33.0%	37.3%	40.1%	40.9%	38.3%
Percent of Occupancy (Staffed Beds)	81.2%	81.9%	78.9%	79.9%	79.7%
Discharges	24,827	25,328	26,955	26,593	27,095
Patient Days	158,610	160,512	154,573	156,553	156,124
Observation days	13,411	9,680	6,196	5,502	3,453
Average Length of Stay	6.4	6.3	5.7	5.9	5.8
Outpatient Visits	520,038	488,423	483,362	493,682	474,900
Emergency Visits	84,523	80,020	80,702	78,428	77,682
Urgent Care Visits	17,665	23,704	21,423	16,595	12,280
Surgeries	19,947	19,460	18,654	18,747	19,098
Break down of Days and Discharges:					
Adults	14,740	14,815	15,908	15,471	15,608
Obstetrics	3,331	3,364	3,799	3,845	3,940
Pediatrics	4,457	5,009	4,914	4,814	5,076
Newborns	2,299	2,140	2,334	2,463	2,471
Total discharges	24,827	25,328	26,955	26,593	27,095
Adults	104,168	105,601	99,822	99,620	101,420
Obstetrics	8,768	8,347	8,925	9,176	9,329
Pediatrics	40,353	41,665	40,560	42,385	40,343
Newborns	5,321	4,899	5,266	5,372	5,032
Total Patient Days	158,610	160,512	154,573	156,553	156,124

Overall patient days for 2016 decreased 1,902 from 2015, which represents a 1% decrease. Adult days decreased 1% and pediatric days decreased 3%; however, there was a 9% increase in newborn days and 5% increase in obstetrics days. The decrease in total adult patient days was primarily due to a shift from inpatient admissions to observation days, which is considered outpatient. Observation days for 2016 increased by 3,731 from 2015. The physician's assessment and resulting order determines whether patients are admitted as an inpatient or under observation. 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 slight decrease in adult days is mostly attributed to decreases in neuroscience and orthopedics, down 5% and 4% from fiscal year 2015, respectfully. The decrease in pediatric days is mostly attributed to decreases in the newborn intensive care unit (ICU) and general pediatrics, 11% and 9% respectively, as many patients insured by Presbyterian are now part of the closed Presbyterian network. The increase in newborn and obstetric days correlates with the increase in births.

The Hospital was operating at full or near full capacity after taking into account both the inpatient days and the observation volumes during fiscal years 2016 and 2015.

Overall patient days for 2015 increased 5,939 from 2014, which represents a 4% increase. Adult days were up 6% and pediatric days were up 3%; however, there was a 7% decrease in newborn and 6% decrease in obstetrics days. Significant drivers of the increased adult days were in the 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. Observation days for 2015 increased by 3,484 from 2014.

Patients Originating in the Designated Service Area

	2014		2015		2016, Projected based upon 9 months of data		Change Between 2014 to 2016	
Hospital	Discharges	Market Share	Discharges	Market Share	Discharges	Market Share	Discharges	Market Share
UNM Hospital	17,702	29.9%	16,091	27.4%	16,775	28.1%	(927)	-1.8%
Lovelace Health System								
Lovelace Medical Center	6,800	11.5%	6,729	11.4%	6,799	11.4%	(1)	-0.1%
Lovelace Rehabilitation Center	694	1.2%	564	1.0%	640	1.1%	(54)	-0.1%
Lovelace Westdside Hospital	1,387	2.3%	1,958	3.3%	1,803	3.0%	416	0.7%
Lovelace Women's Hospital	6,608	11.2%	7,386	12.6%	7,067	11.8%	459	0.7%
Presbyterian Health Services								
Presbyterian Hospital	19,506	32.9%	18,487	31.4%	18,305	30.6%	(1,201)	-2.3%
Presbyterian Kaseman Hospital	2,194	3.7%	3,082	5.2%	3,272	5.5%	1,078	1.8%
Presbyterian Rust Medical Center	4,033	6.8%	4,186	7.1%	4,716	7.9%	683	1.1%
Subtotal	58,924	99.5%	58,483	99.4%	59,376	99.4%	452	0.0%
Other New Mexico Hospitals	309	0.5%	333	0.6%	369	0.6%	60	0.1%
Total All Patients Originating in DSA	59,233	100.0%	58,816	100.0%	59,745	100.0%	512	

DSA - Designated Service Area

Source: Truven Health Analytics

The decline in discharges from patients originating in the designated service area from 2014 to 2016 is largely due to limited capacity at UNM Hospital in adult beds. It is also a result of adult patients being diverted to Sandoval Regional Medical Center and Lovelace Medical Center when beds were full. Discharges increased from 2015 to 2016 as a result of increased births at UNM Hospitals during 2016 as obstetric vacancies were filled.

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, 2016, 2015, and 2014, there were approximately 6,800, 7,002, and 20,200 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, 2016, 2015 and 2014 was $37.3 million, $44.7 million, and $107.3 million, respectively. The implementation of the ACA resulted in a decrease in the cost of charity care of $7.4 million in 2016 from 2015 and $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 2016, 2015, and 2014 was $52 million, $63 million, and $136 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, 2016, 2015, and 2014 was $29.2 million, $33.1 million, and $66.7 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. Under the SNCP program, the State is providing 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 $36.3 million, $48 million, and $11 million in revenue for fiscal years 2016, 2015, and 2014, respectively, net of the Intergovernmental Transfer (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 to June 30, 2014.

For the years ended June 30, 2016, 2015, and 2014, the Hospital provided IGTs to the State of New Mexico in the amounts of $23.1 million, $20.4 million, and $18.7 million, respectively. Due to the economic conditions in the State of New Mexico and nationally, the State has been unable in prior fiscal years to fund a portion of the non-federal share to obtain federal matching funds (the "State's Portion") to obtain federal matching funds for certain aspects of Indirect Medical Education and enhanced capitation payments, thereby jeopardizing the viability of the Enhanced Payments and Indirect Medical Education. The State of New Mexico continues to have a negative outlook on State revenues and is unlikely in the future to be able to provide the State's Portion for certain aspects of Medicaid funding. The loss of the Enhanced MCO rates and Indirect Medical Education funding would have a large detrimental financial impact on the Hospital which provides services to the enrollees in the Managed Medicaid and Medicaid Fee-for-Service Programs. This loss would also threaten the health, welfare and well-being of the enrollees in the Medicaid Fee-for-Service and Managed Medicaid Programs. As a result, the Hospital may, in the next fiscal year, enter into Memorandums of Understanding with the State of New Mexico under which the Hospital would agree 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 IGTs are recorded as a reduction of net patient service revenues in the accompanying statements of revenues and expenses.

The Medicare Recovery Audit Contract (RAC) program was created through the Medicare Modernization Act of 2003 (MMA). This is a program to review healthcare claims in order to identify and recover inappropriate payments made to providers for fee-for-service Medicare. The RAC program encompassing New Mexico became effective in March 2009, with Cotiviti Healthcare (formerly known as Connolly Consulting) as the current contractor. Currently, the RAC contractor can request up to 74 records every 45 days from the Hospital. Claims can be requested for up to three (3) years after the payment date. Since inception of the RAC program, the Hospital has received requests for 3,108 records, representing approximately $41.5 million in Medicare payments. A total of $36 million has been approved and $5.2 was denied.

CMS is currently in the procurement process for the next round of RAC contractors. The new RAC contracts are expected to be awarded by the end of calendar year 2016. October 1, 2016 is the last day that current RAC contractors can submit claim adjustments to MAC for overpayment or underpayments. Once new contracts have been awarded, the RAC contractors can begin sending additional documentation requests.

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 $15.2 million, $18.3 million, and $14 million for pharmacy services in other operating revenue for the years ended June 30, 2016, 2015, and 2014, respectively.

Operating Expenses

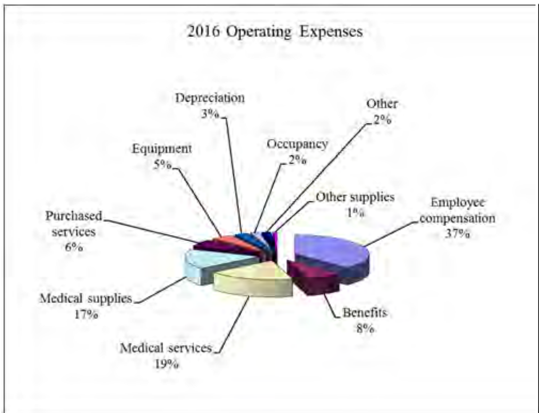
Operating expenses for the Hospital include items such as employee compensation and benefits, medical services, medical supplies, and equipment. For the year ended June 30, 2016, operating expenses, including depreciation of $32 million, totaled $944.9 million, an increase from 2015 of $92.0 million or 10.8%. The most significant expenditures were for employee compensation and benefits.

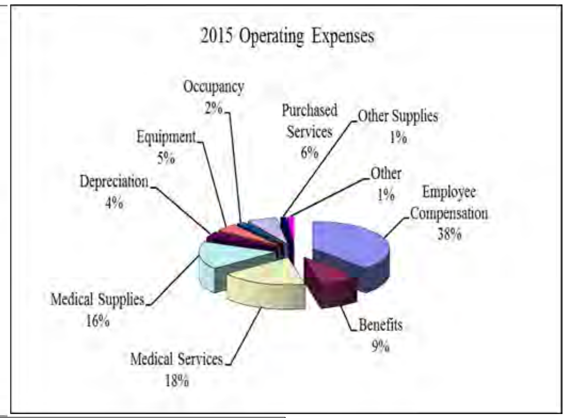
Compensation and benefits combined were $438.1 million, $396.3 million, and $375.2 million for the years ended June 30, 2016, 2015 and 2014, respectively. For fiscal years ended June 30, 2016, 2015, and 2014, the percentage of compensation and benefits combined to total operating expenses was 46%, 46%, and 47%, respectively. The $41.8 million increase from fiscal year 2015 to 2016 is attributed to the 2.0% employee wage increase that was awarded in May and June of 2015 and merit-based increases awarded throughout fiscal year 2016 at employees' anniversary dates. These averaged between 2-3.2% for employees whose performance was determined to be satisfactory or higher. The increase is also partially attributed to an increase in full time equivalents (FTEs). The need for additional resources was driven by need to support expanded clinical services including the opening of the 4th Street clinic, specialty clinics, digestive disease, cystic fibrosis, women's ultrasound, lifeguard rotary, care management services, rehabilitation, radiology, neuropsychology, neurodiagnostics, as well as the need to support coding during the ICD-10 conversion and implementation of the new billing system.

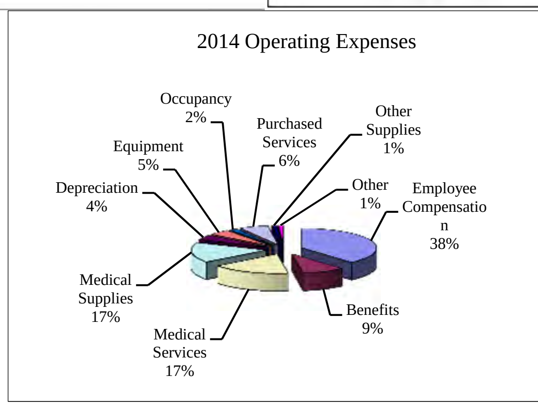
The remaining increase in operating expense in 2016 compared to 2015 was primarily attributed to an increase in medical services of $19.7 million (12.7%), medical supplies of $19.4 million (13.9%), and equipment of $6.7 million (16.7%). Medical services increased as a result of increased support of physician providers for wage increases, coverage of locum tenens for services with specialty provider vacancies (dermatology and neurology), additional Cancer Center physician coverage, provider coverage for the newly opened 4th Street clinic, and increases in resident positions. Medical supplies increased as a result of increased pharmaceutical and biologics costs, as well as increased costs related to implantable devices. The sharp increase in the cost of pharmaceuticals was the result of rampant inflation across the nation in that industry. Equipment expenses increased due to software maintenance and subscriptions as well as increased minor equipment purchases.

For the year ended June 30, 2015, operating expenses, including depreciation of $32.7 million, totaled $852.9 million, an increase from 2014 of $66.2 million or 8.4%. The most significant expenditures were for employee compensation and benefits. The overall increase was primarily attributed to increased compensation and benefits of $21.1 million (5.6%), 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%). The $21.1 million increase in compensation and benefits from fiscal year 2014 to 2015 is mostly attributed to the 2.7% general wage increase that was awarded in July 2014. 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 was necessary in order to comply with the requirement to implement ICD-10 by October 1, 2015.

The following pie charts depict the operating expense mix for the years ended June 30, 2016, 2015 and 2014:







Nonoperating Revenues and Expenses

For the year ended June 30, 2016, $86.2 million has been recorded as a gain to net nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net position.

At June 30, 2016 and 2015, the Bernalillo County Mill Levy tax subsidy was the most significant nonoperating revenue, totaling $81.5 million in 2016 and $79.3 million in 2015. This tax subsidy is provided for the operations and maintenance of the Hospital. The proceeds of the mill levy may not be repurposed for any purpose other than that which the voters approved.

The next largest source of nonoperating revenue in 2016 was State appropriation funding of $5.8 million in both 2016 and 2015. Included in this amount was $5.3 million for the Carrie Tingley Hospital (CTH) in both 2016 and 2015 and $493,400 and $496,400 for the Young Children's Health Center (YCHC) in 2016 and 2015, respectively. In 2016, the Hospital recognized approximately $480,000 thousand in investment income compared to $15.8 million in 2015. The Hospital recognized $12.1 million from its investment in TriWest Healthcare Alliance (TriWest) in 2015 as a result of a recapitalization completed by TriWest in 2015

(Note 6). This was a non-recurring item which resulted in increased investment income in 2015. State land revenue and oil and gas royalties for CTH for 2016 and 2015 were $850,430 and $820,156, respectively.

Contribution revenue was $2.1 million for 2016 compared to $2.6 million in 2015. The primary source for contributions is the annual Children's Miracle Network fundraising drive which raised approximately $1.1 million in 2016. 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. There were no expenses related to capital initiatives in fiscal year 2016.

Included in nonoperating expense was $3.2 million and $6.9 million of interest expense on capital asset-related debt for the years ended June 30, 2016 and 2015, respectively.

Special Item

For the year ended June 30, 2016, the Hospital recognized a $6.2 million special item gain. Special items are defined by GASB as "significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence." The special item gain of $6.2 million is related to the reversal of the OPEB liability as this single employer defined-benefit plan was terminated December 31, 2015. This liability was originally recorded by the Hospital based on the actuarially determined net OPEB obligation as of June 30, 2014.

Capital Assets

At June 30, 2016, the Hospital had $223.5 million invested in capital assets, net of accumulated depreciation of $387 million. Depreciation charges for fiscal year 2016 totaled $32.0 million compared to $32.7 million and $31.0 million in fiscal years 2015 and 2014, respectively.

As of June 30,

		2016	2015	2014
Land, building and improvements	$	188,642,900	184,129,590	182,659,209
Building service equipment		163,535,895	161,399,372	158,794,896
Fixed equipment		16,613,021	16,385,935	15,509,382
Major moveable equipment		237,144,047	224,610,736	217,919,198
Construction in progress		4,827,786	7,620,835	6,517,679
		610,763,649	594,146,468	581,400,364
Less accumulated depreciation		(387,215,639)	(363,111,147)	(342,321,985)
Net property and equipment	$	223,548,010	231,035,321	239,078,379

During 2016, the largest capital increases were within major moveable equipment ($12.5 million) and land, building and improvements ($4.5 million). IT systems are included within the major moveable equipment category. The larger major moveable equipment purchases included a new patient financial billing system, a Gammacell 3000 blood irradiator, a Selenia Dimensions 3D mammography system, and several microscopes. The Gammacell 3000 is a blood irradiator which is used to process blood prior to a transfusion and is designed to reduce the occurrence of transfusion associated diseases in patients with compromised immune systems. The Selenia Dimensions 3D mammography system provides a more accurate mammography by increasing the early detection of invasive cancers by 41% and reducing false positive readings by 40%. The larger building improvement projects that were capitalized included renovations in the main hospital laboratory, rehabilitation, 4th floor outpatient pharmacy, and the endoscopy procedure rooms. Several new projects were initiated during fiscal year 2016 including renovations to the orthopedic rehabilitation clinic, and renovations to accommodate new pediatric sedation bays. These projects were part of the construction in progress balance at June 30, 2016.

Debt Activity

The Hospital's bonds payable totaled $109 million and $115 million at June 30, 2016 and 2015, respectively. On May 14, 2015, the Hospital issued $115 million 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 through 2032 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 current portion of this debt was $5.5 million and $6 million at June 30, 2016 and 2015, respectively.

The loan guarantee is considered federal assistance subject to the requirements of Office of Management and Budget (OMB) Uniform Guidance. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2016 and 2015 Single Audit.

Change in Net Position

The Hospital's total change in net position showed a net increase for 2016 and 2015. 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. The restricted net position is further classified as to the purpose for which the funds must be used. Restricted net position represents funds generated by contributions, gifts and grants as well as funds restricted for use in accordance with the trust indenture and debt agreements. Net position increased approximately $19.2 million in fiscal year 2016. The increase in net position is due to net nonoperating revenue of $86.2 million and a $6.2 million special item gain, partially offset by $73.2 million in net operating loss.

Factors Impacting Future Periods

In the 2016 New Mexico State legislative session, House Bill 2 was issued which stated that the Human Services Department (HSD) "…shall reduce reimbursement rates to Medicaid providers…" This was in response to significant shortfalls in State revenues, largely related to reduced oil and gas taxes. On April 29, 2016, HSD published Medical Assistance Program Manual Supplement Number 16-01 announcing that the HSD would be implementing payment rate reductions to be effective July 1, 2016. The HSD convened a subcommittee of the Medicaid Advisory

Committee (MAC) to provide recommendations for reductions. On June 29, 2016, HSD issued Supplement Number 16-03 that finalized the reductions that were effective July 1, 2016. Inpatient hospital reimbursement rates at acute care and critical access hospitals were decreased by 5%. This reduction applies to all payment methodologies for inpatient hospital services, including DRG methodology, reimbursement for capital costs and outlier payments. Supplemental 16-03 also adjusted Safety Net Care Pool (SNCP) rates for other hospitals within the State from 62% to 49.5%. This rate for the Hospital remains unchanged at 45% above the base rate.

Hospital outpatient reimbursement rates at acute care, critical access and outpatient rehabilitative hospitals were reduced by 3%. Outpatient hospital laboratory services were reduced by 6% to align with the Medicaid fee schedule for laboratory services and to reflect movement of the Medicaid fee schedule to 94% of Medicare rates for laboratory services. The Hospital's reimbursement from Medicaid managed care organizations (MCO) is based on the State outpatient fee schedules. Reimbursement rates for both fee-for-service and Medicaid MCO patients are impacted by this outpatient reduction.

Supplement 16-03 delayed implementation of certain fee schedule reductions for physicians and other practitioners until August 1, 2016, to allow for further analysis by HSD. On July 20, 2016, HSD published Supplement Number 16-07 with final reductions that were effective August 1, 2016. HSD considers the fee schedule for the Medicare program to be the "standard for fee-for-service payment methodology in America … and intends to move its reimbursement policy for the Medicaid program toward greater alignment with a percentage of Medicare rates." The Supplement states that "New Mexico's Medicaid rates were 7th highest in the nation in 2014, at an average of 91% of Medicare and 25% above the national average for state Medicaid programs." HSD implemented a first phase of reductions effective August 1, 2016 and a second phase of reductions to be effective January 1, 2017. The practitioner reductions effective August 1, 2016, range from 0% to 6% depending on a comparison of each CPT code's current reimbursement rate to Medicare reimbursement rates, with a goal of reimbursement being at or below 94% of Medicare reimbursement rates. For the reductions effective January 1, 2017, HSD intends to move any rates that are above 100% of Medicare rates to 94% of Medicare rates. The State does not expect these reductions in inpatient and outpatient hospital and practitioner reimbursement to have an impact on Medicaid recipient access to providers. The impact of these inpatient, outpatient and practitioner reductions on the Hospital is estimated at $8.4 million.

The Hospital receives Medicaid Indirect Medical Education (IME) payments as outlined in the New Mexico Administrative Code §8.311.3.12F(8). The State has proposed to remove the cap on resident FTE counts. The proposed change has been submitted to CMS for review and approval. If approved, we anticipate the net impact of the increase in IME payments along with any increase to the IGT to support the increase would be insignificant.

Effective July 1, 2016, one of the Hospital's Medicaid contracted insurance organizations, United Healthcare, terminated its Medicaid managed care contract with the Hospital after seeking extensive reductions in Medicaid reimbursement. The Hospital is no longer contracted with United Healthcare to provide Medicaid services. The Hospital expects to see a decline in United Healthcare Medicaid patients scheduled for clinic visits and procedures. The Hospital is anticipating to backfill this loss in volumes with patients covered by other Medicaid and commercial providers. The Hospital's commercial contract with United Healthcare is unaffected by these changes.

The Hospital currently has a 3-year agreement with Molina Healthcare to provide services to Medicaid patients. During fiscal 2016, Molina forced reopening of negotiations by threatening contract termination as it sought substantial reductions in its Medicaid payments to the Hospital. In lieu of termination and the corresponding impact to Medicaid beneficiaries, the Hospital and Molina have tentatively agreed to a reduction in rates for both inpatient acute and outpatient services that would be effective for dates of service beginning August 1, 2016. These reductions are estimated to impact the Hospital by $22.4 million.

On August 2, 2016, Centers for Medicaid and Medicare Services (CMS) released the fiscal year 2017 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates will increase by a market basket increase of 2.7%, less a 0.3% productivity reduction mandated under the Affordable Care Act (ACA), less a 1.5% documentation and coding reduction mandated by the American Taxpayer Relief Act of 2012 (ATRA), less a 0.75% reduction to offset projected increases associated with new admission and medical review criteria for inpatient services, and plus a 0.8% increase for two-midnight policy adjustments. CMS states that the fiscal year 2017 ATRA cut, combined with those applied in fiscal years 2014, 2015 and 2016 will fulfill the $11 billion required recoupment. CMS is expected to restore this reduction to the standardized amount in fiscal year 2018.

In the fiscal year 2014 IPPS Final Rule, CMS imposed a permanent 0.2% reduction to offset what CMS estimated to be a $220 million increase in inpatient PPS due to implementation of the two-midnight rule. Several hospitals and hospital organizations filed suit against CMS challenging the reduction. In September 2015, the court rejected CMS's arguments and required CMS to provide further justification for the reduction. CMS failed to provide adequate justification. In the fiscal year 2017 Final Rule, CMS will implement a permanent increase of 0.2% for fiscal year 2017 and onward. The rule also provides for a temporary increase of 0.6% to recover the negative impact of this cut on fiscal years 2014-2016. The temporary increase will be removed from the market basket in fiscal year 2018. The impact to the Hospital for the fiscal year 2017 Final Rule without the three quality program adjustments would be an increase of $1.2 million, excluding the

DSH uncompensated care costs impact. The impact to the Hospital including the impact from DSH uncompensated care costs would be a decrease of $365 thousand.

Hospitals not submitting quality data and not considered meaningful use users of electronic health records (EHRs) in fiscal 2015 are subject to a full reduction in the initial market basket increase of 2.7%. If a hospital is subject to both reductions, they will start with a market basket rate of 0.0%, and will receive an update of negative 1.75%. The Hospital has submitted quality measures and is considered a meaningful use user for fiscal year 2015; therefore, there will be no negative impact on the Hospital's reimbursement for these two factors.

Beginning in fiscal year 2014, ACA required changes to Medicare Disproportionate Share Hospital (DSH) payments. The Hospital receives 25% of the DSH payment previously received using the traditional formula as part of the "base" DRG payments for each Medicare inpatient discharge. The remaining 75% flows into a separate funding pool and is distributed based on each DSH-eligible hospital's ratio of uncompensated care relative to the total for all DSH-eligible hospitals. This portion of the Medicare DSH funding is paid as a flat amount on each Medicare inpatient discharge. This pool is reduced as uninsured populations decline. The national uninsured rate is estimated to be 10% for fiscal year 2017. The estimated impact associated with the federal fiscal year 2017 Medicare DSH will be a reduction of $1.1 million.

The 2017 IPPS 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 are expected to have a 0.05% negative impact under the Hospital Readmission Reduction Program required by ACA. The impact of these quality pay-for-performance programs is estimated at $1.0 million for federal fiscal year 2017.

The 2017 IPPS Final Rule implements the Notice of Observation Treatment and Implication of Care Eligibility (NOTICE) Act. This Act requires hospitals to provide Medicare beneficiaries receiving observation services for more than 24 hours a notice and an oral explanation that the beneficiary is an outpatient receiving observation services and the implications of that status. Hospitals will be required to furnish a new CMS-developed standardized notice, the Medicare Outpatient Observation Notice (MOON), to Medicare beneficiaries receiving observation services for more than 24 hours. The notice must be delivered no later than 36 hours after observation services begin, or sooner if the patient is transferred, discharged or admitted as an inpatient. Implementation of the NOTICE act is delayed beyond the August 6, 2016 statutory deadline as the MOON is submitted for comment and a comment review period. CMS will announce the start of the implementation period on its Beneficiary Notices Initiative website.

On July 6, 2016, CMS issued the proposed calendar year 2017 Outpatient Prospective Payment (OPPS) rule. CMS proposed to raise the base OPPS Payment rate by a market basket increase of 2.8%, less a productivity adjustment of 0.5% and 0.75% 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 -0.45%. It is anticipated that the Hospital will receive approximately $831,300 as a result of this proposed rule.

OPPS currently includes 37 comprehensive ambulatory payment classifications (C-APCs) that package a number of related items and services contained on the same claim into a single payment for a comprehensive primary service. For calendar year 2017, CMS has proposed adding 25 C-APCs, many of which are major surgical APCs. CMS has proposed adding new C-APC clinical families to include nerve procedures, excisions, biopsy, incision and drainage procedures and airway endoscopy procedures. CMS also proposes to develop a C-APC for bone marrow transplants.

Section 603 of the Bipartisan Budget Act of 2015 required that services furnished in off-campus provider-based departments that began billing under OPPS on or after November 2, 2015 will no longer be paid under OPPS. Under this site-neutral payment policy, those services will be paid under the Medicare physician fee schedule. No payment will be made directly to hospitals by Medicare for these new departments. The proposed OPPS rule provides for exceptions for services provided in a dedicated emergency department, services provided in an existing provider-based department prior to November 2, 2015, and services furnished in a hospital department located within 250 yards of a remote location of the hospital. Under the proposed rule expansion of services beyond clinical family of services that were previously furnished and billed in the provider-based department will be paid according to the site-neutral payment policy. Relocation of a provider-based department will also result in payment under the site-neutral payment policy.

Effective January 1, 2016, CMS implemented the Comprehensive Care for Joint Replacement Model (CJR), a mandatory bundled payment program for hip and knee replacement surgery (MS-DRGs 469 and 470). The CJR payment model holds 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 includes 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. CMS will test the CJR model for five years with the first model year beginning April 1, 2016 and year five ending December 31, 2020. Under the model, all providers continue to receive payment under Medicare fee-for-service. After the completion of the performance year, claims payments are grouped into episodes and aggregated. CMS will 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 are below the target price, Medicare will pay the hospital the difference in the form of a "reconciliation payment." If spending was in excess of the target price, the hospital will pay Medicare the difference. Only hospitals meeting or exceeding performance thresholds on certain quality measures will be eligible for a "reconciliation payment." The first performance year begins April 1, 2016 and ends December 31, 2016. Medicare will not require repayment from hospitals for performance year one for actual episode payments that exceed their target price.

On August 2, 2016, CMS published a proposed rule to implement retrospective bundled payments in certain selected geographic areas for Medicare fee-for-services receiving care for acute myocardial infarction (AMI), coronary artery bypass graft (CABG) and surgical hip/femur fracture treatment excluding lower extremity joint replacement (SHFFT). Similar to the CJR model, inpatient hospitals would be the episode initiator and bear the financial risk of Medicare fee-for-service patients discharged under these conditions. The episode would consist of all services provided during the acute inpatient encounter and post-discharge services through 90 days post-discharge. The rule proposes to test this payment model for five performance years beginning July 1, 2017 and ending December 31, 2021. Providers will continue to receive Medicare fee-for-service payments. Upon completion of a performance year, claims payments will be combined to calculate the actual episode payment and compared against a target price. Reconciliation payments will be made to hospitals when actual payments are less than the target price. Also similar to CJR, hospitals must meet certain quality measures to be eligible for reconciliation payments. Beginning with the second performance year, CMS will require repayment from hospital when their actual payments are greater than the target price. CMS proposed to test this payment model in 98 metropolitan service areas (MSAs) from a possible 294 MSAs. The Hospital is included in the Albuquerque, NM MSA which is listed as one of the potential MSAs. If selected, the Hospital would be a participant in this episode payment model.

CMS has limited review of claims by Quality Improvement Organizations to a six month look back period. Payments for admissions that have been reviewed but are waiting for a second review will be paid if they are older than six months. All claims outside of the six month look back period will be removed from the sample for review and will be paid under Medicare Part A.

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. On August 23, 2016, the Bernalillo County Commission voted to place the mill levy on the November ballot.

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 is in the process of building 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 is currently renovating 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 $5.5 million and will be funded from the Capital Initiatives. Services provided at this clinic will be subject to the site-neutral payment policy as described above.

In addition, the Hospital is the only Level I Trauma Center in the State and is at physical capacity to treat adult patients. As such, the Hospital has engaged the services of a national architectural and engineering firm with experience in designing teaching hospitals to identify location, size, phasing and staging for a replacement hospital. The report is expected to be completed in November 2016.

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, PO Box 80600, Albuquerque, NM 87198-0600.

UNIVERSITY OF NEW MEXICO HOSPITAL
STATEMENTS OF NET POSITION
June 30, 2016 and 2015

Assets	**2016**	**2015**
Current assets:		
Cash and cash equivalents	$ 143,264,472	146,487,777
Marketable securities	34,864,096	34,558,069
Restricted assets by trustee for debt service	74,683	930,652
Receivables:		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $296,217,000 in 2016 and $206,337,000 in 2015)	127,752,057	129,736,944
Due from University of New Mexico	1,472,059	780,124
Estimated third-party payor settlements	52,316,989	31,599,418
Bernalillo County Treasurer	1,478,737	1,417,598
Other	6,040,976	4,513,132
Total net receivables	189,060,818	168,047,216
Prepaid expenses	10,802,220	3,188,852
Inventories	14,689,871	13,617,528
Total current assets	392,756,160	366,830,094
Noncurrent assets:		
Assets held by trustee:		
Restricted for mortgage reserve fund	16,052,772	14,141,252
Restricted for debt service reserve	-	70
Assets designated by UNM Hospital Board of Trustees	21,040,439	21,453,460
Total restricted assets	37,093,211	35,594,782
Capital assets, net	223,548,010	231,035,321
Total noncurrent assets	260,641,221	266,630,103
Total assets	653,397,381	633,460,197
Deferred Outflows		
Total deferred outflows related to pensions	432,356	178,603
Liabilities		
Current liabilities:		
Accounts payable	64,077,699	54,170,175
Accrued payroll	19,569,868	16,230,219
Due to University of New Mexico	47,438,440	64,628,557
Bonds payable – current	5,540,000	6,035,000
Interest payable bonds	88,110	426,825
Accrued compensated absences	22,883,491	20,962,986
Estimated third-party payor settlements	49,271,287	33,217,127
Other accrued liabilities	183,511	160,377
Total current liabilities	209,052,406	195,831,266
Noncurrent liabilities:		
Bonds payable	103,425,000	108,965,000
Due to affiliates	10,464,632	11,217,487
Net OPEB obligation	-	6,194,964
Net pension liability	2,924,809	3,062,832
Total noncurrent liabilities	116,814,441	129,440,283
Total liabilities	325,866,847	325,271,549
Deferred Inflows		
Total deferred inflows related to pensions	1,069,220	655,095
Net Position		
Net investment in capital assets	114,583,010	116,035,266
Restricted, expendable		
For grants, bequests, and contributions	15,168,783	14,804,010
In accordance with the trust indenture and debt agreement	16,127,455	14,347,012
Unrestricted	181,014,422	162,525,868
Total net position	$ 326,893,670	307,712,156

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2016 and 2015

		2016	2015
Operating revenues:			
Net patient service	$	847,756,932	879,921,079
State and local contracts and grants		1,651,109	2,182,597
Other operating		22,230,705	22,770,134
Total operating revenues		871,638,746	904,873,810
Operating expenses:			
Employee compensation		363,273,536	323,441,033
Benefits		74,832,473	72,844,619
Medical services		175,145,283	155,452,701
Medical supplies		159,166,315	139,761,909
Purchased services		52,701,838	53,211,029
Equipment		46,879,551	40,171,576
Depreciation		32,030,307	32,737,640
Occupancy		14,406,716	14,029,790
Other		15,548,781	12,188,468
Other supplies		10,896,880	9,074,508
Total operating expenses		944,881,680	852,913,273
Operating (loss) gain		(73,242,934)	51,960,537
Nonoperating revenues (expenses):			
Bernalillo County mill levy		81,471,947	79,261,909
State appropriation		5,789,100	5,824,000
State of New Mexico Land and Permanent Fund proceeds		850,430	820,156
Capital initiatives		-	(128,981,761)
Investment income (interest, dividends, gains, and losses)		479,924	15,776,284
Equity in (loss) income of TriCore and TriCore Lab Svc Corp.		(413,021)	339,947
Interest on capital asset-related debt		(3,182,592)	(6,867,704)
Bequests and contributions		2,095,358	2,568,287
Other nonoperating revenue		2,919	319,784
Other nonoperating expense		(864,581)	(2,981,274)
Net nonoperating revenue (expense)		86,229,484	(33,920,372)
Increase in net position, before special items		12,986,550	18,040,165
Special item			
Gain on reversal of OPEB liability		6,194,964	-
Increase in net position		19,181,514	18,040,165
Net position, beginning of year		307,712,156	289,671,991
Net position, end of year	$	326,893,670	307,712,156

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Cash received from Medicaid and Medicare	$	484,443,405	509,256,119
Cash received from insurance and patients		372,855,338	367,501,283
Cash received from contracts and grants		2,666,658	1,290,881
Cash payments to employees		(353,777,918)	(321,834,562)
Cash payments to suppliers		(439,906,470)	(346,602,215)
Cash payments to University of New Mexico		(80,114,059)	(141,680,989)
Cash payments to State of New Mexico for intergovernmental transfer		(12,220,335)	(15,353,372)
Cash payments (to) from affiliates		(752,855)	1,703,776
Other receipts		19,808,780	26,006,302
Net cash (used) provided by operating activities		(6,997,456)	80,287,223
Cash flows from noncapital financing activities:			
Cash received from Bernalillo County mill levy		81,410,808	79,159,560
Cash received from state general fund and other state fund appropriations		5,789,100	5,824,000
Cash received from State of New Mexico Land and Permanent Fund		844,779	918,901
Cash payments for other than capital or operating purposes		2,919	(574,520)
Cash received from contributions for other-than-capital purposes		2,095,358	2,568,287
Net cash provided by noncapital financing activities		90,142,964	87,896,228
Cash flows from capital financing activities:			
Cash received from the issuance of bonds		-	115,000,000
Principal payments of bonds		(6,035,000)	(159,420,000)
Interest payments on capital assets-related to debt		(3,521,307)	(11,274,195)
Purchases of capital assets		(24,542,996)	(24,700,800)
Cash payments to University of New Mexico		(50,500,000)	(89,481,761)
Cash payments for debt-related activities		(864,581)	(2,080,754)
Net cash (used in) capital financing activities		(85,463,884)	(171,957,510)
Cash flows from investing activities:			
Bond trustee funds released by refinancing		-	42,591,086
Cash payments for 2015 bond reserve fund		(1,909,877)	(15,071,979)
Proceeds from sales and maturities of investments		33,091,589	25,970,260
Purchase of investments		(32,432,762)	(25,377,274)
Interest and dividends on investments		346,121	15,841,687
Net cash (used) provided by investing activities		(904,929)	43,953,780
Net (decrease) increase in cash and cash equivalents		(3,223,305)	40,179,721
Cash and cash equivalents, beginning of year		146,487,777	106,308,056
Cash and cash equivalents, end of year	$	143,264,472	146,487,777

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating (loss) gain	$ (73,242,934)	51,960,537
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation expense	32,030,307	32,737,640
Provision for doubtful accounts	52,093,114	62,804,301
Change in assets, deferred outflows, liabilities, and deferred inflows:		
Patient receivables	(50,108,227)	(96,924,510)
Due from University of New Mexico	(691,935)	937,563
Estimated third-party payor settlements receivables	(20,717,571)	(725,916)
Other receivables and prepaid expenses	(9,112,216)	2,344,461
Inventories	(1,072,343)	(2,928,718)
Deferred outflow of resources related to pensions	(253,753)	(81,486)
Due to University of New Mexico	33,309,883	5,905,717
Estimated third-party payor settlements liabilities	16,054,160	11,305,399
Due to affiliates	(752,855)	1,703,776
Accrued expenses	5,283,288	2,149,960
Accounts payable	9,907,524	9,098,499
Net pension liability	(138,023)	-
Deferred inflow of resources related to pensions	414,125	-
Net cash (used in) provided by operating activities	$ (6,997,456)	80,287,223

See accompanying notes to financial statements.

NOTE 1. DESCRIPTION OF BUSINESS

University of New Mexico 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 primarily 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, 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 9, 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, two of which are nominated by the All Pueblo Council of Governors (APCG). 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:

	2016	2015
Total operating revenues	$ 12,433,216	10,969,719
Total operating expenses	(18,957,161)	(17,578,293)
Operating loss	(6,523,945)	(6,608,574)
Nonoperating revenue	6,180,267	6,364,121
Total (decrease) in net position	(343,678)	(244,453)
Net position, beginning of year	2,957,369	3,201,822
Net position, end of year	$ 2,613,691	2,957,369

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.
- Notes to financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 34 and subsequent amendments including GASB Statement No. 63 as discussed below, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following three net 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. 72, *Fair Value Measurement and Application* (GASB No. 72), which is effective for financial statements for periods beginning after June 15, 2015. GASB No. 72 addresses accounting and financial reporting issues related to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement requires the use of valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value and establishes a hierarchy of inputs to valuation techniques used to measure fair value.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2016, the Affordable Care Act (ACA) through the Health Insurance Exchange and expansion of Medicaid in New Mexico, has significantly reduced the uninsured patient population for the Hospital. It has been estimated that this reduction in the uninsured patient population combined with the Medicaid rate increase effective January 1, 2014 for Safety Net Care Pool (SNCP) Hospitals will reduce the net uncompensated care costs for fiscal years 2015 through 2016 once the period is finalized. Given the estimated reduction of net uncompensated care costs for uninsured and Medicaid patients during fiscal 2015 upon which DSH payments would be based, the amount of $19,514,325 recognized for DSH during fiscal 2015 was refunded to the State of New Mexico in fiscal 2016 as a change in estimate. Furthermore, no further DSH was expected nor accrued during fiscal 2016. 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 information 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 patient accounts receivable at June 30, 2014 were understated by approximately $38 million. The change in estimate resulted in the additional $38 million in collections in patient accounts receivable at June 30, 2014 being 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.

Disproportionate Share Medicaid reimbursement (DSH) hospital reimbursement was enacted and put into regulation to assist hospitals with the burden of uncompensated care costs incurred for rendering services to both Medicaid and uninsured patients.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Nonoperating Revenues and Expenses. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as appropriations, gifts and government levies. Nonoperating revenues also include revenues earned outside the clinical operations of the hospital. 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. None of the total $23.1 million recorded IGT obligations were paid as of the end of fiscal year 2016. 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 $12.2 million of the

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

$14.7 million due as of June 30, 2015 was paid in the subsequent fiscal year. 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, 2016 and 2015, investments consist of obligations of the U.S. government and U.S. government agencies. Investment income includes interest and realized and unrealized gains and losses on investments. Investment income is reported as nonoperating revenue when earned.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, the Hospital recognized impairment of capital assets totaling $986,000 as the result of a significant, unexpected decline in the service utility of the assets in accordance with GASB 42*, "Accounting and Financial Reporting for Impairment of Capital Assets."* There was no impairment of capital assets for the year ended June 30, 2016.

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.

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 Fee-For-Service (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 Hospital received its first SNCP HQII payment of $947,889 in fiscal year 2016.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Hospital receives Medicaid Indirect Medical Education (IME) payments as outlined in the New Mexico Administrative Code §8.311.3.12F(8). IME funding is provided to hospitals that have residents in an approved graduate medical education (GME) program to subsidize the higher patient care costs of teaching hospitals relative to non-teaching hospitals. GME funding is provided to the Hospital to subsidize the cost of direct and indirect medical education expenses for training residents in community-based primary care residency programs.

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. This tax subsidy is provided for the operations and maintenance of the Hospital. The proceeds of the mill levy may not be repurposed for any purpose other than that which the voters approved.

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, 2016 and 2015, there was no income generated from unrelated activities.

Special Item. Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence are reported as special items in the Statements of Revenues, Expenses and Changes in Net Position. In fiscal year 2016, the Hospital recognized a special item gain of $6,194,964 which is related to the release of the OPEB liability as this single employer defined-benefit plan was terminated December 31, 2015 (see Note 16). This liability was originally recorded by the Hospital based on the actuarially determined net OPEB obligation as of June 30, 2014.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Investment in Capital Assets. Net investment in capital assets, represents the Hospital's total investment in capital assets, net of outstanding debt related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. There were no unspent bond proceeds at June 30, 2016 and 2015.

Risk Management. The Hospital sponsors a self-insured health plan in which 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, 2016 and 2015, the estimated amount of the Hospital's IBNR and accrued claims was approximately $3.3 million and $3.6 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 $284,000 and $314,000 at June 30, 2016 and 2015, 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 2016 and 2015 resulted from the following:

	Beginning of fiscal year liability	Current year claims and changes in estimates	Claim payments	Balance at fiscal year-end
2015 – 2016	$ 3,606,899	36,997,102	(37,283,884)	3,320,117
2014 – 2015	$ 3,973,557	34,004,868	(34,371,526)	3,606,899

Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. Prior to fiscal year 2016, the Hospital and the Center provided other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB included 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2016 include $5,789,000 in the General Fund. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Sub-section J, Higher Education.

For the fiscal year ended June 30, 2015, the Hospital received $5,990,200 in General Fund appropriations, which included $662,600 of Out-of-County Indigent funds, which are reported as net patient service revenue. There was not an Out-of-County Indigent fund allocation within the appropriation for the fiscal year ended June 30, 2016.

Capital Appropriation. There were no capital appropriations made by the State Legislature for the Hospital in 2014, 2015 or 2016 for the Hospital's fiscal years ended June 30, 2016 and 2015.

Classification. Certain 2015 amounts have been reclassified to conform to the 2016 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, 2016 and 2015 are $143,264,472 and $146,487,777, respectively.

Bank balances are collateralized as follows:

	June 30,	
	2016	**2015**
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 1,000,000	500,000
Amount collateralized with securities held in the Hospital's name	175,777,389	136,118,901
Uncollateralized cash	-	30,013,810
	$ 176,777,389	166,632,711

Interest-bearing deposit accounts are subject to FDIC's standard deposit insurance amount of $250,000 per type of account. At June 30, 2016 and 2015, $175,777,389 and $136,118,901, 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, 2016, the Hospital's bank deposits were not exposed to custodial credit risk. As of June 30, 2015, $30,013,810 of the Hospital's bank deposits were 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, 2016		
	Fair value	Less than 1 year	1 - 5 years
Items subject to interest rate risk:			
Money market funds	$ 21,531	21,531	-
U.S. Treasury notes	23,556,740	5,964,216	17,592,524
U.S. government agency obligations:			
FHLMC	3,107,984	-	3,107,984
FNMA	8,177,841	2,485,131	5,692,710
Total items subject to interest rate risk	34,864,096	8,470,878	26,393,218
Total marketable securities	$ 34,864,096	8,470,878	26,393,218

	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

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 $34,842,565 and $34,460,295 at 2016 and 2015, 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, 2016 and 2015 and their exposure to credit risk is as follows:

	2016		2015	
	Rating	**Fair Value**	**Rating**	**Fair Value**
Items not subject to credit risk:				
U.S. Treasury securities:				
Treasury notes	N/A	$ 23,556,740	N/A	$ 25,703,596
Items subject to credit risk:				
Money market funds	Not rated	21,531	Not rated	97,774
U.S. government agency obligations:				
FHLB	N/A	-	Moody's-Aaa	3,437,773
FHLMC	Moody's-Aaa	3,107,984	N/A	-
FNMA	Moody's-Aaa	8,177,841	Moody's-Aaa	5,318,926
Total items subject to credit risk		11,307,356		8,854,473
Total marketable securities		$ 34,864,096		$ 34,558,069

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: $3,107,984, which is invested in Federal Home Loan Bank (FHLB) securities and equates to 8.9% of marketable securities held at June 30, 2016. An additional $8,177,841 is invested in Federal National Mortgage Association (FNMA) securities, which equates to 23.5% of marketable securities held as of June 30, 2016.

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, 2016	
	Fair value	Less than 1 year
Items subject to interest rate risk:		
Money market funds	$ 74,683	74,683
Total items subject to interest rate risk	74,683	74,683
Total short-term investments	$ 74,683	74,683

	June 30, 2015	
	Fair value	Less than 1 year
Items subject to interest rate risk:		
Money market funds	$ 930,652	930,652
Total items subject to interest rate risk	930,652	930,652
Total short-term investments	$ 930,652	930,652

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

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

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2016, there were no short-term investments subject to custodial credit risk. At June 30, 2016 and 2015, there were no short-term investments subject to custodial credit risk.

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, 2016 and 2015 and their exposure to credit risk is as follows:

	2016		2015	
	Rating	**Fair Value**	**Rating**	**Fair Value**
Items subject to credit risk:				
Money market funds	Not rated	$ 74,683	Not rated	$ 930,652
Total items subject to credit risk		74,683		930,652
Total short-term investments		$ 74,683		$ 930,652

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.

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

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, 2016	
	Fair value	Less than 1 year
Items not subject to interest rate risk:		
Cost and equity method investments*	$ 21,040,439	-
Items subject to interest rate risk:		
Money market fund	16,052,772	16,052,772
Items subject to interest rate risk	16,052,772	16,052,772
Total long-term investments	$ 37,093,211	16,052,772

	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

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

Custodial Credit Risk – Debt Investments – As of June 30, 2016 and 2015, 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)

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, 2016 and 2015 and their exposure to credit risk is as follows:

	2016		2015	
	Rating	**Fair Value**	**Rating**	**Fair Value**
Items not subject to credit risk:				
Cost and equity method investments*	N/A	$ 21,040,439	N/A	$ 21,453,460
Items subject to credit risk:				
Money market funds	Not rated	16,052,772	Not rated	14,141,322
Total items subject to credit risk		16,052,772		14,141,322
Total long-term investments		$ 37,093,211		$ 35,594,782

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

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

NOTE 4. FAIR VALUE MEASUREMENT

The Hospital has implemented GASB Statement No. 72, *Fair Value Measurement and Application*, for the year ended June 30, 2016. GASB 72 requires the use of valuation techniques for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

NOTE 4. FAIR VALUE MEASUREMENT (CONTINUED)

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobserved and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

Fixed Income (U.S. Government and Agency Securities)

U.S. Treasury Securities: U.S. Treasury securities are recorded at fair value using quoted market prices (Level 1).

U.S. Agency Securities: Agency mortgage pass-through securities are model-driven based on spreads of the comparable to-be-announced security (Level 2).

NOTE 4. FAIR VALUE MEASUREMENT (CONTINUED)

Assets at Fair Value as of June 30, 2016

		Level 1	Level 2	Total
Fixed income	$	23,556,740	11,285,825	34,842,565

Assets at Fair Value as of June 30, 2015

		Level 1	Level 2	Total
Fixed income	$	25,703,596	8,756,699	34,460,295

NOTE 5. 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:

	2016			**2015**		
Medicare and Medicaid	$ 248,784,983	59	%	$ 215,590,792	64	%
Other third-party payors	104,301,455	25		91,138,694	27	
Others	70,883,104	17		29,344,749	9	
Total patient accounts receivable	423,969,542	100	%	336,074,235	100	%
Less allowance for uncollectible accounts and contractual adjustments	(296,217,485)			(206,337,291)		
Patient accounts receivable, net	$ 127,752,057			$ 129,736,944		

NOTE 6. RESTRICTED AND DESIGNATED ASSETS

The following summarizes restricted assets as of June 30:

		2016	2015
Current:			
Restricted for debt service	$	74,683	930,652
Noncurrent:			
Restricted for mortgage reserve fund		16,052,772	14,141,252
Restricted for debt service reserve		-	56
Restricted for collateral		-	14
Designated by UNM Hospital Board of Trustees		21,040,439	21,453,460
	$	37,167,894	36,525,434

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.

As of June 30, 2016, $74,683 in the held by trustee for debt service account represents a portion of the bond interest payment due December 20, 2016. As of June 30, 2015, $930,652 in the held by trustee for debt service account represents a portion of the bond interest payment due December 20, 2015.

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 $40,140,911, paid during fiscal years ended June 30, 2014 and 2015, as a result of the recapitalization. The Hospital recognized $0 and $12,071,757 as return on investment during the years ended June 30, 2016 and 2015, 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.

NOTE 6. RESTRICTED AND DESIGNATED ASSETS (CONTINUED)

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 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 $11,547,000 and $11,622,000 at June 30, 2016 and 2015, respectively, which is being accounted for using the equity method.

The Hospital has a 50% interest in TLSC totaling approximately $4,494,000 and $4,832,000 at June 30, 2016 and 2015, respectively, which is being accounted for using the equity method. The Hospital recorded laboratory expenses of approximately $30,230,000 in 2016 and approximately $29,177,000 in 2015.

NOTE 7. 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, 2016				
	Beginning Balance	**Additions**	**Transfers**	**Retirements**	**Ending Balance**
UNM Hospital Capital Assets not being depreciated:					
Land	$ 1,747,245	-	-	-	1,747,245
Construction in Progress	7,620,835	7,475,690	(10,268,739)	-	4,827,786
	$ 9,368,080	7,475,690	(10,268,739)	-	6,575,031
UNM Hospital depreciable capital assets:					
Land improvements	$ 11,677,704	-	156,475	-	11,834,179
Building and building improvements	170,704,641	89,630	4,267,205	-	175,061,476
Building service equipment	161,399,372	14,740	2,121,783	-	163,535,895
Major moveable equipment	224,610,736	16,813,820	3,645,306	(7,925,815)	237,144,047
Fixed equipment	16,385,935	149,116	77,970	-	16,613,021
Total depreciable capital assets	584,778,388	17,067,306	10,268,739	(7,925,815)	604,188,618
Less accumulated depreciation for:					
Land improvements	(7,792,716)	(741,825)	-	-	(8,534,541)
Building and building improvements	(84,492,830)	(4,942,171)	-	-	(89,435,001)
Building service equipment	(82,858,060)	(9,200,446)	-	-	(92,058,506)
Major moveable equipment	(176,137,794)	(16,497,166)	-	7,925,815	(184,709,145)
Fixed equipment	(11,829,747)	(648,699)	-	-	(12,478,446)
Total accumulated depreciation	(363,111,147)	(32,030,307)	-	7,925,815	(387,215,639)
UNM Hospital depreciable capital assets, net	$ 221,667,241	(14,963,001)	10,268,739	-	216,972,979
Capital asset summary:					
UNM Hospital capital assets not being depreciated	$ 9,368,080	7,475,690	(10,268,739)	-	6,575,031
UNM Hospital depreciable capital assets, at cost	584,778,388	17,067,306	10,268,739	(7,925,815)	604,188,618
UNM Hospital total cost of capital assets	594,146,468	24,542,996	-	(7,925,815)	610,763,649
Less Accumulated Depreciation	(363,111,147)	(32,030,307)	-	7,925,815	(387,215,639)
UNM Hospital capital assets, net	$ 231,035,321	(7,487,311)	-	-	223,548,010

NOTE 7. CAPITAL ASSETS (CONTINUED)

	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
Major Moveable Equipment	217,919,198	15,737,131	2,864,570	(11,910,163)	224,610,736
Fixed Equipment	15,509,382	207,316	669,237	-	16,385,935
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)
Major Moveable Equipment	(171,303,776)	(16,811,943)	73,980	11,903,945	(176,137,794)
Fixed Equipment	(11,198,946)	(630,801)	-	-	(11,829,747)
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 Captial 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 Hostial capital assets, net	$ 239,078,379	(8,036,840)	-	(6,218)	231,035,321

NOTE 8. 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, 2016 and 2015 of approximately $3,654,000 and $3,380,000, 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 8. 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, 2016 and 2015 of approximately $18,705,000 and $17,160,000, 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, 2016 and 2015, the following changes occurred in accrued compensated absences:

Balance July 1, 2015	Increase	Decrease	Balance June 30, 2016
$ 20,962,986	27,876,903	(25,956,398)	22,883,491

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

The balances above include annual leave and sick leave, disclosed above, in addition to compensatory time and holiday, totaling approximately $525,000 and $423,000 in fiscal years 2016 and 2015, respectively. The portion of accrued compensated absences due after one year is not material and, therefore, is not presented separately.

NOTE 9. 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 9. 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 guaranty for the mortgage amount of $183,399,000, and the UNM 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 2015 Series bonds carry interest rates that range from 0.484% to 3.532%.

The Regents granted the Bond Trustee in respect of the UNMH HUD-Insured Bonds a security interest in all of UNM Hospital's revenues, cash (with the exception of the proceeds of the UNM Hospital mill 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 refinancing of the 2004 Series bonds during fiscal year 2015 reduced the Hospital's total debt service payments by approximately $56.7 million through 2032 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $15.9 million.

NOTE 9. 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 $109,585,926 (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 guaranty 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 $3,183,000 and $6,868,000, net of amortization of bond premium totaling approximately $0 and $925,000 for the years ended June 30, 2016 and 2015, respectively. Interest income earned from the investment of the bond proceeds was approximately $1,946 and $683,000 for the years ended June 30, 2016 and 2015, respectively.

NOTE 9. BONDS PAYABLE (CONTINUED)

Bonds payable activity consists of the following:

	Year ended June 30, 2016				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts due within One Year
FHA Insured Hospital Mortgage Revenue:					
Bond Series 2015	$ 115,000,000	-	(6,035,000)	108,965,000	5,540,000
	$ 115,000,000	-	(6,035,000)	108,965,000	5,540,000

	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)	-	-
Bond 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

Future debt service (including mandatory redemptions) as of June 30, 2016 for the bonds is as follows:

Years ending June 30,	Principal	Interest	Total
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	5,950,000	2,818,446	8,768,446
2022 - 2026	32,535,000	11,543,238	44,078,238
2027 - 2031	39,085,000	5,445,814	44,530,814
2032	8,735,000	232,141	8,967,141
	$ 108,965,000	32,309,801	141,274,801

NOTE 9. 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 14, 2015, a new Mortgage Reserve Fund was established for the 2015 series bonds.

The Mortgage Reserve Fund's final required contribution of $1,910,199 will be made in fiscal year 2017, 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 10. 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 65% and 55% of the Hospital's gross patient revenue for the fiscal years ended June 30, 2016 and 2015, 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 that impacted fiscal year 2015. 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 10. 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).

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 Centennial Care programs to administer services to enrolled Medicaid beneficiaries. The State of New Mexico 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.

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

NOTE 10. NET PATIENT SERVICE REVENUES (CONTINUED)

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

		2016	2015
Charges at established rates	$	1,731,147,716	1,650,633,756
Charity care		(66,940,473)	(85,955,680)
Contractual adjustments		(764,357,197)	(621,952,696)
Provision for doubtful accounts		(52,093,114)	(62,804,301)
Net patient and premium revenues	$	847,756,932	879,921,079

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 2013 have been final settled for the Medicaid programs. Cost reports through 2011, 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 $7,861,000 and $7,262,000 for the years ended June 30, 2016 and 2015, respectively. During the fiscal year ended June 30, 2016, $3,562,000 liability for Medicare and $1,343,000 liability for Medicaid were accrued as estimates for the fiscal year 2016 cost report. 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. UNM Hospital's cost reports are typically filed by November 30. Management believes these estimates are appropriate. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations. During fiscal year 2016, the Hospital received a reimbursement from Tricare of approximately $2,198,000 which is included in the totals above. During fiscal years 2016 and 2015, the Hospital received aggregate settlements of approximately $571,000 and $653,000, respectively, from U.S. Public Health Services which are included in the totals above.

NOTE 11. 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:

		2016	2015
Charges foregone, based on established rates	$	66,940,473	85,955,679
Estimated costs and expenses incurred to provide charity care		37,285,843	44,696,953
Equivalent percentage of charity care charges foregone to total gross revenue		4%	5%

NOTE 12. 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 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 13. 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:

		2016	2015
UNMMG	$	5,938,196	6,608,860
UNM Health Sciences Center		500,433	1,321,464
UNM Health System		2,970,130	1,736,323
	$	9,408,759	9,666,647

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:

		2016	2015
UNM Health Sciences Center	$	176,363,724	159,769,885
UNM Health Sciences Center - Capital Initiatives		-	128,981,761
UNM		2,453,224	2,446,112
UNMMG		14,873,663	7,956,388
UNM Health Systems		13,905,611	10,304,120
	$	207,596,222	309,458,266

NOTE 14. 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 approximately $12,952,000 and $12,505,000 in fiscal years 2016 and 2015, respectively. Total employee contributions under this plan were approximately $15,462,000, $13,663,000 and $12,597,000 in fiscal years 2016, 2015 and 2014, respectively. In 2012, a Roth 403b defined contribution plan option was added. Total employee contributions were approximately $1,192,000, $900,000 and $651,000 in fiscal years 2016, 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 2016, 2015 and 2014, as the Hospital does not contribute to this plan. Total employee contributions under this plan were approximately $2,768,000, $2,546,000 and $2,520,000 in 2016, 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 $505,000, $458,000 and $361,000 in fiscal years 2016, 2015 and 2014, respectively. Only the Hospital contributes to this plan.

NOTE 15. DEFINED BENEFIT PENSION PLAN

A small portion (approximately 18 and 21 as of June 30, 2016 and 2015, respectively) 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% 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, 2016 employers contributed 13.90% of employees' gross annual salary to the Plan, and employees who earned more than $20,000 contributed 10.70% of their gross annual salary. Employees who earned $20,000 or less contributed 7.90%. During the fiscal year ending June 30, 2017, 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, 2016, 2015, and 2014 were approximately $165,000, $175,000, and $185,000, respectively.

NOTE 15. DEFINED BENEFIT PENSION PLAN (CONTINUED)

At June 30, 2016 and 2015, the Hospital reported a liability of approximately $2,925,000 and $3,063,000, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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, 2015, the Hospital's proportion was 0.04516%, which was a decrease of 0.00852% from its proportion measured as of June 30, 2014. At June 30, 2014, the Hospital's proportion was 0.05368%, which was a decrease of 0.005% from its proportion measured as of June 30, 2013.

For the years ended June 30, 2016 and 2015, the Hospital recognized pension expense of approximately $190,000 and $97,000, respectively. At June 30, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ —	58,954
Net difference between projected and actual earning on pension plan investments	162,679	208,826
Changes in assumptions	100,600	—
Changes in proportion and differences between Hospital contibutions and proportionate share of contributions	—	801,440
Hospital contibutions subsequent to the measurement date	169,077	—
	$ 432,356	1,069,220

NOTE 15. DEFINED BENEFIT PENSION PLAN (CONTINUED)

		June 30, 2015	
		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 contibutions and proportionate share of contributions		—	331,034
Hospital contibutions subsequent to the measurement date		178,603	—
	$	178,603	655,095

The $169,077 reported at June 30, 2016 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, 2017.

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:		
2017	$	(384,429)
2018		(352,442)
2019		(109,870)
2020		40,800
	$	(805,941)

NOTE 15. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	Composed of 3.00% inflation, plus 1.25% productivity increase rate, plus step rate promotional increases for members with less than ten years of service.
Investment rate of return	7.75 %
Mortality	90% of RP-2000 Combined Mortality Table with White Collar Adjustments, projected to 2015 using Scale AA (with one-year setback for females.

The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The liabilities reflect the impact of Senate Bill 115, signed into law on March 29, 2013, and new assumptions adopted by the Board of Trustees on June 12, 2015.

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.); structural themes (supply and demand imbalances, capital flows, etc.) These items are developed for each major asset class.

NOTE 15. 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 tables:

Asset Class	Target Allocation
Equities - Domestic	20%
Equities - International	15%
Fixed Income	28%
Alternatives	36%
Cash	1%
	100%

Discount rate. A single discount rate of 7.75% was used to measure the total pension liability as of June 30, 2015 and 2014. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were sufficient to finance all projected future benefit payments of current Plan membership. Therefore, the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through Alternative Retirement Plan (ARP) are included in the projection of cash flows. ARP contributions are assumed to remain a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five-year contribution history.

Sensitivity of the Hospital's proportionate share of the net pension liability to change in the discount rate. The following table provides the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents the Plan's net pension liability, if it were calculated using a single discount rate that is one-percentage-point lower (6.75%) or one-percentage-point higher (8.75%) than the single discount rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Hospital's proportionate share of the net pension liability	3,935,527	2,924,809	2,075,702

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 16. OTHER POSTEMPLOYMENT BENEFIT PLAN

Prior to fiscal year 2016, the Hospital and the Center participated in a single employer defined-benefit plan that offered postemployment healthcare coverage to eligible retirees and their dependents. As of December 31, 2015 this defined benefit plan was terminated and is no longer available to employees or employee dependents of either the Hospital or the Center. The reversal of the $6,194,964 liability at June 30, 2015 was recognized as a special item gain on the Statements of Revenues, Expenses and Changes in Net Position.

For fiscal year 2015, the applicable monthly retiree contribution rates are provided in the tables below:

	Retiree (coverage extension/compensated absence accrual period)			Retiree (after coverage extension)		
Rate tier:	**Standard Network**	**Extended Network**	**Delta Dental**	**Standard Network**	**Extended Network**	**Delta Dental**
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

For fiscal year 2015, the Hospital's postemployment benefit plan included 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. In 2015, the allocation was as follows: the Hospital – 92% and the Center – 8%. The OPEB cost and NOO information presented below were the Hospital's calculated portion for fiscal year 2015.

The NOO is the cumulative difference between the annual required contribution (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 was funded on a pay-as-you-go basis; the NOO follows as of June 30:

	2015 Unfunded
NOO – beginning of year	$ 5,732,960
ARC	544,000
Interest on prior year NOO	233,090
Adjustment to ARC	(269,942)
Annual OPEB cost	507,148
Employer contributions	(45,144)
Increase in NOO	462,004
NOO – end of year	$ 6,194,964

NOTE 16. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

For the fiscal year ended June 30, 2015, the annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the NOO were 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

NOTE 17. 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 $10,191,279 in 2016 and $10,220,859 in 2015.

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.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2016, under noncancelable operating leases and memorandums of understanding, are as follows:

		Amount
Years ending June 30,		
2017	$	4,398,332
2018		4,071,737
2019		1,854,206
2020		1,800,931
2021		675,801
2022 - 2026		4,191,444
2027 - 2031		4,467,494
2032 - 2036		4,069,583
2037 - 2041		29,209
	$	25,558,737

NOTE 17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 18. 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 in fiscal year 2015 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 fiscal years 2016 and 2015 and the ending balances for each fiscal year are reflected in the table below.

As of June 30, 2016, the ending balance of $217,325,259 is comprised of cash. As of June 30, 2015, the ending balance of $221,925,844 was comprised of $171,425,844 in cash with a due from the Hospital for the remainder.

The Regents granted the Bond Trustee in respect of the UNMH HUD-Insured Bonds a security interest in all of the Hospital's cash (with the exception of the proceeds of the Hospital's mill 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 Hospital's facility from Bernalillo County, all reserves of the Hospital covered by the Lease are restricted to use for operation and maintenance of the Hospital.

NOTE 18. CAPITAL INITIATIVES (CONTINUED)

		July 1 Beginning Balance	UNMH Contributions to Fund	Capital Project Disbursements From Fund	June 30 Ending Balance
Fiscal Year 2016	$	221,925,844	-	(4,600,585)	217,325,259
Fiscal Year 2015	$	98,250,189	128,981,761	(5,306,106)	221,925,844

NOTE 19. 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 HOSPITALS **Schedule 1**
COMPARISON OF BUDGETED AND ACTUAL REVENUES AND EXPENSES
Year Ended June 30, 2016

	Budget (Original)	Budget (Final)	Actual	Budget Variance
Operating revenues:				
Net patient service and premium	$ 840,577,065	837,697,533	847,756,932	10,059,399
Other operating revenue	23,535,704	24,542,131	23,881,814	(660,317)
Total operating revenues	864,112,769	862,239,664	871,638,746	9,399,082
Operating expenses	(943,507,470)	(929,702,324)	(944,881,680)	(15,179,356)
Operating (loss) gain	(79,394,701)	(67,462,660)	(73,242,934)	(5,780,274)
Nonoperating revenues and other revenues, net	81,606,053	81,140,859	92,424,448	11,283,589
Increase in net assets	$ 2,211,352	13,678,199	19,181,514	5,503,315

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 HOPITALS **Schedule 2**
PLEDGED COLLATERAL BY BANKS
Year Ended June 30, 2016

	Pledged Collateral			Bank Balance		
	Type of Security	CUSIP	Maturity	Bank of America Albuquerque, New Mexico	Wells Fargo Bank Albuquerque, New Mexico	Total
Funds on deposit:						
Demand deposits				$ 49,452,266	127,325,123	176,777,389
FDIC insurance				(500,000)	(500,000)	(1,000,000)
Total uninsured public funds				$ 48,952,266	126,825,123	175,777,389
50% collateral requirement per Section 6-10-17 NMSA				$ 24,476,133	63,412,562	87,888,695
				Fair Market Value of Securities in Safekeeping		
Pledged collateral*						
	FNMS	31417BZU4	5/1/2042	858		858
	FNMS	31417AR50	12/1/2041	182,448		182,448
	FNMS	3138WEQ77	5/1/2045	12,894,614		12,894,614
	FNMS	3138WD6Q9	2/1/2045	21,022,407		21,022,407
	FNMS	3138EHXR8	2/1/2042	1,894,400		1,894,400
	FNMS	3138EGJZ8	10/1/2038	4,088,939		4,088,939
	FNMS	31389VZ67	3/1/2017	60		60
	FNMS	31389VZ75	3/1/2017	821		821
	FNMS	31389VWX1	3/1/2017	22,993		22,993
	FNMS	31389RDX1	2/1/2017	5,303		5,303
	FNMS	31384WLN8	5/1/2031	5		5
	FGPC	31335HHS5	12/1/2018	277		277
	FGPC	3132GUBR4	6/1/2042	6,265,515		6,265,515
	FGPC	3132GRHL8	2/1/2042	140,562		140,562
	FGPC	31294KNX9	2/1/2018	1,251		1,251
	FNMS	31417B6D4	6/1/2042	2,431,812		2,431,812
	FNMS	3138WTRU2	6/1/2043		43,318,748	43,318,748
	FNMS	3138WCPC1	8/1/2029		15,964,548	15,964,548
	FNMS	3138WBFL4	3/1/2034		4,265,486	4,265,486
	FNMS	3138W3RL9	2/1/2043		32,761,289	32,761,289
	FNMS	3138E0WL9	12/1/2026		21,361,342	21,361,342
	FGPC	3132QSKR8	9/1/2045		19,272,935	19,272,935
	FNMS	31418BUN4	9/1/2035		7,277,079	7,277,079
Total pledged collateral				48,952,265	144,221,427	193,173,692
(Excess) of pledged collateral over the required amount				$ (24,476,132)	(80,808,865)	(105,284,997)

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

UNIVERSITY OF NEW MEXICO HOPITALS **Schedule 3**

SCHEDULE OF INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNTS

Year Ended June 30, 2016

Name of Bank/Broker	Account Type		Balance per Bank Statement	Reconciled Balance per Financial Statement
UNM Hospital cash:				
Bank of America:				
Operating	Checking	$	49,452,266	49,452,338
Wells Fargo Bank				
Operating	Checking		77,300,818	43,749,013
Operating	Savings		50,024,305	50,024,305
Petty Cash	Cash on hand		-	38,816
Total UNM Hospital cash		$	176,777,389	143,264,472
UNM Hospital short-term investments:				
Morgan Stanley	Money market funds		21,531	21,531
Wells Fargo	Money market funds		74,683	74,683
Morgan Stanley	U.S. Treasury notes		23,556,740	23,556,740
Morgan Stanley	FNMA		8,177,841	8,177,841
Morgan Stanley	FHLMC		3,107,984	3,107,984
Total UNM Hospital short-term investments		$	34,938,779	34,938,779
UNM Hospital long-term investments:				
Wells Fargo	Money market funds	$	16,052,772	16,052,772
Investment in TriWest	Equity securities		5,000,000	5,000,000
Investment in TriCore Reference Lab (TRL)	Equity securities		11,546,504	11,546,504
Investment in TLSC	Equity securities		4,493,935	4,493,935
Total UNM Hospital long-term investments		$	37,093,211	37,093,211

UNIVERSITY OF NEW MEXICO HOPITALS **Schedule 4**
POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS SCHEDULE OF FUNDING PROGRESS
Year Ended June 30, 2015
(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 B: The above AAL and covered payroll balances represents UNM Hospital portion of the plan.

UNIVERSITY OF NEW MEXICO HOPITALS **Schedule 5**

SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Last 10 Fiscal Years

		2016	2015
Hospital's proportion of the net pension liability		0.04516%	0.05368%
Hospital's proportionate share of the net pension liability	$	2,924,809	3,062,832
Hospital's covered-employee payroll	$	1,232,876	1,479,662
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll		237%	207%
Plan fiduciary net position as a percentage of the total pension liability		63.97%	66.54%

UNIVERSITY OF NEW MEXICO HOPITALS **Schedule 6**
SCHEDULE OF HOSPITAL CONTRIBUTIONS
Last 10 Fiscal Years

		As of and for the years ended June 30, 2016	2015
Contractually required contribution	$	169,077	203,627
Contributions in relation to the contractually required contribution		169,077	178,415
Contribution deficiency (excess)	$	-	25,212
Hospital's covered-employee payroll	$	1,209,966	1,232,876
Contributions as a percentage of covered-employee payroll		13.97%	14.47%

UNIVERSITY OF NEW MEXICO HOPITALS
CONTRACTS ENTERED INTO GREATER THAN $60,000
June 30, 2016

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	Contract Effective Date	Contract End Date
Vizient MS0231	Medline Ind.	N/A	N/A	N/A	N/A	Custom Procedure Packs	Medline Ind.	$11,000,000.00	4/30/2016	4/30/2021
Bid B75-16	Sorin Group	No	yes	No	No	Sutureless Tissue Heart Valve	Sorin Group USA	$70,000.00	4/6/2016	4/5/2019
ITB B77-16	Amerizon Wireless	no	yes	no	n/a	UNMH Radio Conversion	AMERIZON WIRELESS	$187,367.00	4/22/2016	4/21/2017
Sole Source	Infor US	n/a	n/a	n/a	n/a	Lawson Cloud Upgrade X Program	INFOR (US), INC.	$2,500,000.00	4/25/2016	4/24/2021
Novation	Standard Textile	no	yes	no	n/a	ControlTex Linen Management Supportive Services	STANDARD TEXTILE CO	>60	4/12/2016	6/30/2018
RFP P320-15	Cerner (no other offerors)	no	yes	no	n/a	Home Health Hospice Software	CERNER	$362,505.00	4/1/2016	Duration of Contract
GSA (GS-25F-0062L)	Xerox	no	yes	no	n/a	Hospital Data Center; Equipment, Maintenance, Consumables	XEROX	$226,953.00	5/4/2016	5/3/2021
Open Market/RFP335-15 no respones	Concentra	no	yes	no	n/a	Employee Drug Testing Lab Services	CONCENTRA	>60k	5/13/2016	5/16/2019
Open Market/RFP335-15 no respones	Alere Toxicology	no	yes	no	n/a	Employee Drug Testing Lab Services	ALERE TOXICOLOGY	>60k	5/31/2016	5/30/2017
RFP P340-16	1) Tactical Digital 2) Tig 3) Ricoh 4) Konica Minolta	1) no 2) no 3) no 4) no	1) no 2) no 3) no 4) no	1) no 2) no 3) no 4) no	1) n/a 2) n/a 3) n/a 4) n/a	Infor Lawson Upgrade?Migration Services	AVAAP	$173,637.50	5/31/2016	5/30/2017
RFP P333-15	1) AVAAP 2) Hyridge Solutions	1) no 2) no	1) yes 2) yes	1) no 2) no	1) n/a 2) n/a	Enterprise Electronic Fax (E-Fax)	RICOH	$136,000.00	6/30/2016	6/29/2017
RFP P348-16	1) Maxim Staffing 2) Nursefinders 3) MGA 4) Cross Country 5) Accountable Healthcare	1) no 2) no 3) no 4) no 5) no	1) no 2) no 3) no 4) no 5) no	1) yes 2) no 3) no 4) no 5) no	1) n/a 2) n/a 3) n/a 4) n/a 5) n/a	Staffing Agency Recruitment Services for Temporary, Short-Term Nurse Professionals & Unlicensed Support Staff	MAXIM STAFFING	$175,000.00	6/30/2016	6/30/2019
RFP P348-16	1) Maxim Staffing 2) Nursefinders 3) MGA 4) Cross Country 5) Accountable Healthcare	1) no 2) no 3) no 4) no 5) no	1) no 2) no 3) no 4) no 5) no	1) yes 2) no 3) no 4) no 5) no	1) n/a 2) n/a 3) n/a 4) n/a 5) n/a	Staffing Agency Recruitment Services for Temporary, Short-Term Nurse Professionals & Unlicensed Support Staff	NURSEFINDERS	$100,000.00	6/30/2016	6/30/2019
RFP P348-16	1) Maxim Staffing 2) Nursefinders 3) MGA 4) Cross Country 5) Accountable Healthcare	1) no 2) no 3) no 4) no 5) no	1) no 2) no 3) no 4) no 5) no	1) yes 2) no 3) no 4) no 5) no	1) n/a 2) n/a 3) n/a 4) n/a 5) n/a	Staffing Agency Recruitment Services for Temporary, Short-Term Nurse Professionals & Unlicensed Support Staff	MGA	$175,000.00	6/30/2016	6/30/2019
RFP P348-16	1) Maxim Staffing 2) Nursefinders 3) MGA 4) Cross Country 5) Accountable Healthcare	1) no 2) no 3) no 4) no 5) no	1) no 2) no 3) no 4) no 5) no	1) yes 2) no 3) no 4) no 5) no	1) n/a 2) n/a 3) n/a 4) n/a 5) n/a	Staffing Agency Recruitment Services for Temporary, Short-Term Nurse Professionals & Unlicensed Support Staff	CROSSCOUNTRY	$200,000.00	6/30/2016	6/30/2019
RFP P348-16	1) Maxim Staffing 2) Nursefinders 3) MGA 4) Cross Country 5) Accountable Healthcare	1) no 2) no 3) no 4) no 5) no	1) no 2) no 3) no 4) no 5) no	1) yes 2) no 3) no 4) no 5) no	1) n/a 2) n/a 3) n/a 4) n/a 5) n/a	Staffing Agency Recruitment Services for Temporary, Short-Term Nurse Professionals & Unlicensed Support Staff	ACCOUNTABLE HEALTHCARE	$100,000.00	6/30/2016	6/30/2019
Sole Source	Cerner	no	yes	no	n/a	National Decision Support ACR Criteria	CERNER	$61,120.00	5/13/2016	5/12/2021
IFB B49-15	1) Candela Corporation 2) Quanta Aesthetic Lasers	1) no 2)No	1) Yes 2) Yes	1) No 2) No	1) N/A 2)N/A	Nd Yag Laser with Specific Wavelength Specifications	Candela Corporation	Estimated $125,000	7/15/2015	7/31/2018
IFB B50-15	1) Medtronic	No	Yes	No	N/A	Cryocath Ablation System	Medtronic	Estimated $200,000	7/27/2015	7/27/2018
IFB B51-15	1) Acclarent	No	Yes	No	N/A	Airway and Sinus Balloon Stents Supplies	Acclarent Inc.	Estimated $68,118	9/25/2015	9/24/2018
IFB B52-15	1) Biomet 2) Depuy Synthes	1) no 2)No	1) Yes 2) Yes	1) No 2) No	1) N/A 2)N/A	Rib and Sternal Plating Implants and Instrumentation inclusive of sternal fixation products	Biomet	Estimated $180, 000	8/31/2015	8/31/2018

UNIVERSITY OF NEW MEXICO HOPITALS
CONTRACTS ENTERED INTO GREATER THAN $60,000
June 30, 2016

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	Contract Effective Date	Contract End Date
IFB B52-15	1) Biomet 2) Depuy Synthes	1) no 2)No	1) Yes 2) Yes	1) No 2) No	1) N/A 2)N/A	Rib and Sternal Plating Implants and Instrumentation inclusive of sternal fixation products	Depuy Synthes	Estimated $180,000	6/14/2016	6/30/2019
IFB B53-15	1) Medtronic	No	Yes	No	N/A	Mechanical, Tissue, and Trans-catheter Heart Valves	Medtronic USA,	Estimated $900,000	8/17/2015	8/17/2018
IFB B54-15	1) Medtronic	No	Yes	No	N/A	Open and Minimally Invasive Heart Retractors and Positioners with accompanying Non-Disposable Instrumentation	Medtronic USA,	Estimated $210,000	8/17/2015	8/10/2018
IFB B55-15	1) Medtronic	No	Yes	No	N/A	Vascular AAA Stent System indicated for Specific Access Techniques	Medtronic USA,	Estimated $240,000	10/6/2015	10/6/2018
IFB B59-15	1)MVAP	No	Yes	No	N/A	Electroencephalographic (EEG) Testing Supplies	MVAP Medical Supplies INC,	Estimated $110,061	9/4/2015	9/4/2018
IFB B60-15	1) NinePoint Medical, Inc	No	Yes	No	N/A	NvisionVLE Advanced OCT Imaging System	NinePoint Medical, Inc	Estimated $245,000	8/21/2015	8/21/2018
IFB B61-15	1) Sandhill Scientific	No	Yes	No	N/A	FibroScan VCTE Liver Stiffness Testing System	Sandhill Scientific	Estimated $200,000	9/1/2015	9/1/2016
IFB B62-15	1) Baxter	No	Yes	No	N/A	DoseEdge Pharmacy Workflow Management System	Baxter Healthcare Corporation	Estimated $249,000	3/11/2016	3/11/2021
IFB B63-15	1) Cianna Medical	No	Yes	No	N/A	Non-Radioactive Electromagnetic Surgical Guidance System for Breast Tissue Removal	Cianna Medical, Inc	Estimated $150,000	10/13/2015	10/13/2018
IFB B64-15	1) LSI Solutions	No	Yes	No	N/A	Automated Suture Fastening System for Minimally Invasive Heart Procedures	LSI Solutions, INC	Estimated $134,760	1/15/2016	1/15/2019
IFB B65-15	1) Intersect ENT	No	Yes	No	N/A	Mometasone Furoate Implant for Treatment of Sinus Surgery Patients	Intersect ENT	Estimated $135,780	10/27/2015	10/27/2017
IFB B65-15	1) DCI Donor Services 2)LifeNet Health	1) no 2)No	1) Yes 2) Yes	1) No 2) No	1) N/A 2)N/A	Cancellous, Bone, Cartilage, and Tendon products for Orthopedic Surgeries. Meshed, Non-Meshed Skin for Burn and Wound Surgeries	DCI Donor Services Inc.	Estimated $950,000	2/11/2016	2/1/2019
IFB B68-15	1) Just Right Surgical	No	Yes	No	N/A	Pediatric Laparoscopic Vessel Sealer and Staplers	JustRight Surgical, LLC,	Estimated $60,000	3/1/2016	3/1/2017
IFB B69-15	1) SpineGuard	No	Yes	No	N/A	Disposable Wireless Vertebral Cortex Perforation Detection Device for Spinal Surgeries	SpineGuard, Inc	Estimated $180,000	12/8/2015	12/8/2018
IFB B70-15	1) Cooper Surgical	No	Yes	No	N/A	Miscellaneous Surgical Disposables	Cooper Surgical	Estimated $226,828	1/14/2016	1/14/2019
IFB B71-15	1)Integra LifeSciences	No	Yes	No	N/A	Miscellaneous General/ENT/Neuro Surgical Implants and Disposables	Integra LifeSciences	Estimated $971,955.60	4/12/2016	12/31/2018
RFP 329-15	1) Maquet 2) Edwards	1) no 2)No	1) Yes 2) Yes	1) No 2) No	1) N/A 2)N/A	UNMH Cardiac Output Monitoring Acquisition	Edwards	Estimated $200,000	12/11/2015	12/11/2023
RFP P330-15	1) Provation MD	No	Yes	No	N/A	Gastroenterology Specific Physician Documentati	Provation MD	Estimated $214,705	12/31/2015	12/31/2016
RFP P338-16	1) TMP 2) Career Builders 3) Page Up 4) ICIMS 5) Hodes	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) N/A 2)N/A 3)N/A 4)N/A	Talent Acquisition Services/Products	TMP WORLDWIDE ADVERTISING & COMMUNICATIONS, LLC	Estimated $540,168	5/13/2016	12/31/2020
Novation	1) GE 2)Philips 3)Siemens	1) no 2)No 3)No	1) Yes 2) Yes 3)Yes	1) No 2) No 3)No 4)No	1) N/A 2)N/A 3)N/A	2 bi-plane angiographic rooms	Siemens	Estimated $3,338,018	6/30/2016	6/30/2021
Novation	Baxter	No	Yes	No	N/A	Medical Supplies	Baxter Healthcare Corporation	Estimated $606,177.95	10/1/2015	12/31/2018
UNMH P307-14 Piggy Back	Oticon	No	Yes	No	N/A	Osseo Integrated Aids Products and Accesseries	Oticon	Estimated $71,680.65	11/18/2015	1/31/2018
Novation	PharMEDium	No	Yes	No	N/A	Pharmacy	PharMEDium	Estimated $918,110.28	11/12/2015	9/30/2018

UNIVERSITY OF NEW MEXICO HOPITALS
CONTRACTS ENTERED INTO GREATER THAN $60,000
June 30, 2016

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	Contract Effective Date	Contract End Date
RFP1816-16	Consolidated Builders/BCH Constru	Y	N	Y		BBRP 1st Floor Install Vestibule West Entrance	Consolidated Builders	Estimated $	3/24/2016	Upon Completion
Sole Source	LEICA MICROSYSTEMS	No	Yes	No	N/A	Leica M530 OHX - Premium Surgical Microscope for ENT	LEICA MICROSYSTEMS	Estimated $949,418	4/6/2016	Upon Completion
P324-15	MSI Healthcare Partners TSIG Consulting Assurance Engineering Keyes Life Safety	NO NO Yes No	Yes Yes No Yes	No No Yes No	No No No No	Life Safety Professional Services	TSIG Consulting	$164,505.00	8/7/2015	8/6/2018
RFP 1785-16	3B Builders Consolidated Builders Insight Construction Jaynes Corporation Tanglewood Construction Vigil Contracting Services	Yes Yes Yes Yes Yes Yes	No No No No No No	Yes Yes Yes Yes Yes Yes	No No No No No No	UPC-PFC Shell Renovation	Jaynes Corporation	$299,455.00	12/1/2015	Duration of Contract
RFP 1771-16	3B Builders Inc. Britton Construction, Inc Consolidated Builders of NM Insight Construction Pavilion Construction Tanglewood Construction Vigil Contracting Services	Yes Yes Yes Yes Yes Yes	No No No No No No	Yes Yes Yes Yes Yes Yes	No No No No No No	ASAP Counseling Clinic	Consolidated Builders Of New Mexico, LLC	$299,000.00	11/30/2015	Duration of Contract
RFP 1830-16	BCH Construction, Inc Britton Construction, Inc. Consolidated Builders Of NM LLC Platinum Builders Corp	Yes Yes Yes Yes Yes	No No No No No	Yes Yes Yes Yes Yes Yes	No No No No	UNMH Home Health Services	Consolidated Builers of New Mexico, LLC	$230,000.00	5/13/2016	Duration of Contract
RFP 1812-16	Brycon Corpiraton Insight Construction, LLC Jaynes Corporation Richardson & Richargon, Inc.	Yes Yes Yes Yes	No No No No	Yes Yes Yes Yes	No No No No	UNM Women's Care Clinic Renovation	Brycon Corporation	$4,692,654.00	5/13/2016	Duration of Contract
RFP 1793-16	inisght Construction, LLC Vigil Contracting	Yes Yes	No No	Yes Yes	No No	Renovation of UPC 2nd Floor Clinic	Insight Construction, Inc	$186,000.00	12/15/2015	Duration of Contract
RFP 1761-16	Brycon Corporation Consolidated Builders of NM Insight Construction Jaynes Corporation	Yes Yes Yes Yes	No No No No	Yes Yes Yes Yes	No No No No	BBRP 5th Floor Ped Sedation Unit Project	Jaynes Corporation	$339,654.00	11/24/2015	Duration of Contract
RFP 1735-15	Bradbury Stamm Construction Brycon Corporation ESA Construction, Inc. Flintco, LLc HB Construction of ABQ, Inc. Jaynes Coporation Klinger Constructors LLC Weil Construction, Inc.	Yes Yes Yes Yes Yes Yes No	No No No No No No	Yes Yes Yes Yes Yes Yes No	No No No No No No No	Cancer Center Tenant Improvements and Buildout	Jaynes Corporation	$6,766,711.00	10/8/2015	Duration of Contract
RFP P318-15	Surgical Directions; The Chartis Group; Kurt Salmon; Cleveland Clinic, Nagivant, Cerner	No No No No NO	Yes Yes	No	No	Clinical Practice Consultation	Surgical Directions	$1,200,000.00		Duration of contract
RFP 339-16	Dekker Perich; FBT/HDR; Perkins Eastman; SMPC, Studio Southwest; Hartman;	Yes	yes	no (see scope)	No	Replacement Hospital Planning (required local vendor to team with a national vendor)	FBT/HDR	$1,550,000.00	2/26/2016	Duration of contract
RFP 317-15	Connexal; EME-Excel; Vocera	no	yes	no	no	Cardiac Monitoring equipment/technology/software: Bedmaster EX and Alarm Navigator.	EME EXCEL Medical-Bedmaster and Alarm Navigator	$194,000.00	1/25/2015	duration of contract

UNIVERSITY OF NEW MEXICO HOPITALS
CONTRACTS ENTERED INTO GREATER THAN $60,000
June 30, 2016

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	Contract Effective Date	Contract End Date
RFP 302-14	Biomet; Parametrics; Write Medical; Accumed; smith & Nephew; Biocomposits; Stryker	no	yes	no	no	Bone Substitute products	Stryker	As needed, Price agreement	12/9/2015	Muti-term agreement upto 8 years
RFP P319-15	BCBS; Meritain; Presbyterian, Cigna	yes	no	no	no	Employee Medical & Prescription Drug Plan	BCBS NM	$36,000,000 est.	8/1/2016	multi-term award.
RFP P240-13	TheraDoc; Wolters Kluwer; Vigilanz	NO No No	Yes Yes Yes	No No No	No no NO	Infection Control	Premier Healthcare Solutions-Theradoc	$171,081 per year	2/1/2016	up to 8 years
NMSA 13-1-129; purchased off UNM main Campus Agreement	n/a	n/a	n/a	n/a	n/a	Security Review	Clifton, Larson, Allen - F/k/a Trusted Advisory Group	$177,190.00	5/23/2016	duration of contract
RFP P312-15	Maxim; Precyse; Harmony; 3M; Med Partners; United Audit Systems; Gebbs; Navigant; Coding Aid; Himagine; Peak; Edifects	no	yes	no	no	Coding RFP	3M	As needed	12/1/2015	Muti-term agreement upto 8 years
Healthcare Network 13-1-98.1	n/a	n/a	n/a	n/a	n/a	Collaborative Access Agreement-Nursing Facilty access for patient care	Genesis	As needed, est. $1M+	1/1/2016	duration of contract
sole source	n/a	n/a	n/a	n/a	n/a	Lawson Hosting-upgrade to Lawson	Infor	$487,895/yr	4/25/2016	year to year subscription
sole source	n/a	n/a	n/a	n/a	n/a	Cerner Remote Hosting	Cerner	$4M+ per year	1/3/2016	5 1/2 years
RFP P316-15	Info; Health Source; Talent Plas	NO No No	Yes Yes Yes	No No No	No no NO	Pre-Employment Assessment Software	HealthcareSourceHR	$72,600 year one, $66,00 per year.	6/18/2015	multi-term, up to 8 years
P328-15	Cerner; HealthTEC	no	yes	no	no	Population Management System Cerner Schedule 88	Cerner	$345,883 paid on effective date; $345,883 due on project kickoff; $345,883 due on integration testing, quarterly subscription payments of $183,5555 thereafter through 4-15-2021	11/13/2015	multi-term contract-up to 8 years
P310-14	ROI, McKesson, Siemens-Cerner	no	yes	no	no	UNMH Oursource Accts. Rec.	Siemens-Cerner	Variable per contract	8/7/2015	multi-term, up to 8 years
Sole Source	Medtronic	N	Y	N	No	ENT MONITORING	MEDTRONIC	nte $950,000	4/18/2016	4/17/2018
Sole Source	Medtronic	N	Y	N	No	ENT MONITORING Service Agreement	MEDTRONIC	$ 446,364.59	4/1/2016	3/31/2019
RFP P332-15	Red Rock Roasters/Perfecto Products	Y	N	Y	N	Coffee and Tea Products	Red Rock Roasters/Perfecto Products	RR-$165,000/PP-$60,000	2/15/2016	1/14/2019
RFP 1816-16	Consolidated Builders/BCH Constru	Y	N	Y	N	BBRP 1st Floor Install Vestibule West Entrance	Consolidated Builders	$ 216,979.35	3/24/2016	Upon Completion
Sole Source	Nanosonics	N/A	N/A	N/A	N/A	Trophon EPR Disinfection System for Ultrasound Probes	Nanosonics	2 Yr Price Agreement	8/7/2015	8/9/2017
Sole Source	Diagnosys LLC	N	Y	N		Espion E3 ERG, EOG, PhNR, FLASH VEP, VEP MFERG PERG testing equipment	Diagnosys LLC	$ 96,900.00	1/8/2016	1/7/2020
Sole Source	Glaukos	N	Y	N		iStents	Glaukos	$ 80,000.00	4/29/2016	4/28/2019
Sole Source	Canon	N	Y	N		CR2-AF Camera	Canon	$ 233,333.00	6/28/2016	6/27/2019
P305-14	Equashield; BD; Carefusion	no	yes	no	no	Closed System Transfer Devices	Equashield	Price agreement. As needed.	7/16/2015	Multiterm, up to 8 years
P313-15	Superior Ambulance; Presbyterian	no	yes	no	no	Non-emergent Ambulance Transport	Superior ambulance Service	Price Agreement, as needed.	8/1/2015	Multi-term, up to 8 years

UNIVERSITY OF NEW MEXICO HOPITALS
CONTRACTS ENTERED INTO GREATER THAN $60,000
June 30, 2016

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	Contract Effective Date	Contract End Date
P315-15	Reliance; Standard	no	yes	no	no	Life and Long-term disabiity services	Standard Ins Co	Price Agreement, as needed.	8/1/2015	Multi-term, up to 8 years
P318-15	Surgical Directions	no	yes	no	no	Clinical Practice Consultation	Surgical Directions	$1,200,000.00	1/12/2016	Duration of contract
Sole Source	Braemar	N/A	N/A	N/A	N/A	Wireless Monitoring	Braemar	$120,400	6/24/2016	Upon Completion
Sole Source	Diagnosys LLC	N	Y	N	N	Espion E3 ERG, EOG, PhNR, FLASH VEP, VEP MFERG PERG testing equipment	Diagnosys LLC	$ 96,900.00	1/8/2016	1/7/2020
Sole Source	Glaukos	N	Y	N	N	iStents	Glaukos	$ 80,000.00	4/29/2016	4/28/2019
Sole Source	Canon	N	Y	N	N	CR2-AF Camera	Canon	$ 233,333.00	6/28/2016	6/27/2019
Sole Source	Lumedx	N/A	N/A	N/A	N/A	HealthView Web Portal for Apollo Reporting Solution for Cardiology	Lumedx	277,684.00	9/30/2016	9/29/2017

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 the University of New Mexico 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, comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements. 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, 2016, and have issued our report thereon dated October 21, 2016.

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.

Praxity MEMBER GLOBAL ALLIANCE OF INDEPENDENT FIRMS

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*. We noted a certain matter that is required to be reported per Section 12-6-5 NMSA 1978, that we have described in the accompanying schedule of findings and responses as item 2016-001.

The Hospital's Response to Finding

The Hospital's response to the finding identified in our audit is described in the schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 21, 2016

2016-001 FORMALIZED REVIEW OF ALL SOARIAN USERS (OTHER MATTER)

CRITERIA

The Hospital's Soarian system processes, records, and stores information that is vital to its daily operations and contains protected health information of its patients. It is critical that access to this system is properly maintained to prevent inappropriate transactions from occurring, data from being lost, and to prevent protected health information from being released.

CONDITION

During the audit, we noted that the Hospital did not conduct a formalized review of all Soarian users. Although the Hospital did conduct an ad-hoc user access review, in which they reviewed the access rights for all Soarian users, there was no actual formalized user access review being conducted on an annual basis.

CAUSE

Soarian was implemented in August 2015, and the design and implementation of a formalized user access review process had not been completed at the time of our audit inquiries.

EFFECT

There is a risk of one or more individuals gaining access to Soarian or retaining access after it should be revoked, potentially resulting in a breach of data or protected health information.

RECOMMENDATION

We recommend that management continues to review user access at least on an annual basis. This review should be formally documented and included as part the Hospital's official policies and procedures. A departmental manager or individual responsible for the functional data should perform the review.

MANAGEMENT RESPONSE

Patient Financial Services Information Technology (PFS-IT) staff will conduct an annual review on 100% of user accounts in the Soarian Financials Patient Accounting system to ensure proper termination of access for unused accounts and accounts where the user changed departments. The audit will be conducted by the IT Manager and reviewed by the PFS Finance Director with completion prior to December 31st of each calendar year beginning in 2016. A procedure regarding the annual review will be written by Management and maintained in coordination with the Data Integrity document.

In addition, users who have not logged into Soarian Financials for 90 days or more on a quarterly basis will be disabled based upon inactivity. This process will commence in the fall of 2016 and will continue on a quarterly basis thereafter.

UNIVERSITY OF NEW MEXICO HOSPITAL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2016

No matters were reported.

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

An exit conference was conducted on September 28, 2016 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.

University Of New Mexico Hospital

Steve McKernan, UNMH Chief Executive Officer

Erik Lujan, Finance/Audit Committee Member

Michelle Coons, Finance/Audit Committee Member

Nick Estes, Finance/Audit Committee Member

Ella Watt, UNM Hospitals CFO

Purvi Modi, UNM Health Systems Compliance Officer

Shawna Gonzales, Controller, UNM Hospitals

Michelle Martinez, Finance Director, UNM Hospital

Robert Gonzales, Finance Director, UNM Behavioral Health Operations

Michael Schwantes, Director of Finance Systems - UNM Health Science Center

Debra Owens, Administrative Assistant to CFO

Moss Adams LLP

DeVon Wiens, Audit Engagement Partner

Josh Lewis, Audit Senior Manager