



UNIVERSITY OF NEW MEXICO HOSPITAL
Financial Statements with Supplementary Information
June 30, 2022 and 2021
(With Independent Auditors' Report Thereon)

UNIVERSITY OF NEW MEXICO HOSPITAL

Fiscal Year 2022 Official Roster

Board of Trustees

Kurt Riley	Chair Person (Term expires 6/30/23, All Pueblo Council of Governors, Regent appointed)
Tamra Mason, PhD	Vice-Chair (Term expires 6/30/25, Regent appointed)
Monica Zamora	Secretary (Term expires 6/30/24, Regent appointed)
Adelmo Archuleta	Member (Term expires 6/30/25, Regent appointed)
Erik Lujan	Member (Term expires 6/30/22, All Pueblo Council of Governors, Regent appointed)
Terry Horn	Member (Term expires 6/30/23, Regent appointed)
Trey Hammond	Member (Term expires 6/30/23, Regent appointed)
Michael Brasher	Member (Term expires 6/30/23, Regent appointed)
Davin Quinn, MD	Member (Term expires 6/30/24, County appointed)

UNIVERSITY OF NEW MEXICO HOSPITAL

Fiscal Year 2022 Official Roster

Administrative Officers

Garnett S. Stokes	President, University of New Mexico
Douglas Ziedonis, MD	Executive Vice President, UNM Health Sciences Center Chief Executive Officer, UNM Health System
Kate Becker	Chief Executive Officer, UNM Hospitals
Bonnie White	Chief Financial Officer, UNM Hospitals

UNIVERSITY OF NEW MEXICO HOSPITAL

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	4
Financial Statements:	
Statements of Net Position	17
Statements of Revenues, Expenses, and Changes in Net Position	19
Statements of Cash Flows	20
Notes to Financial Statements	22
Supplementary Information:	
Schedule 1 – Comparison of Budgeted and Actual Revenues and Expenses	50
Schedule 2 – Pledged Collateral by Banks	51
Schedule 3 – Schedule of Individual Deposit and Investment Accounts	52
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	53
Summary of Audit Results	55
Summary of Prior Year Findings	56
Exit Conference	57



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Albuquerque, NM 87110-8179

Independent Auditors' Report

The University of New Mexico Health Sciences Center Board of Trustees
and Mr. Brian Colón, New Mexico State Auditor:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of New Mexico Hospital (the Hospital), a division of the University of New Mexico (the University), as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements for the years then ended as listed in the table of contents.

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

Basis for Opinion

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

Emphasis of Matter

Reporting Entity

As discussed in Note 1, the financial statements of the Hospital are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the University that are attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2022 and 2021, or the changes in its financial position or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Pronouncement

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

Responsibilities of Management for the Financial Statements

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit for the year ended June 30, 2022 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements for the year ended June 30, 2022. The accompanying comparison of budgeted and actual revenues and expenses (Schedule 1), pledged collateral by banks (Schedule 2), and schedule of individual deposit and investment accounts (Schedule 3) (Schedules 1–3) for the year ended June 30, 2022, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied



in the audit of the basic financial statements for the years ended June 30, 2022 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 GAAS. In our opinion, Schedules 1–3 are fairly stated, in all material respects, in relation to the basic financial statements as a whole for the year ended June 30, 2022.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2022 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
October 12, 2022

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

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, 2022 and 2021. 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 the 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 Statement No. 34 (the statements of net position; statements of revenues, expenses, and changes in net position; and the statements 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 nongovernmental hospitals and healthcare organizations.

The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public hospital's dependency on 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 state appropriation and the Bernalillo County (the 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 statements of cash flows present information related to cash inflows and outflows summarized by operating, capital, and noncapital financing and investing activities.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

Three-Year Comparison of Financial Results

Condensed summary of net position

	June 30		
	2022	2021	2020
Assets:			
Current assets	\$ 577,382,198	635,369,634	516,140,963
Capital assets	428,527,134	262,033,293	222,163,273
Right-to-use assets	10,289,973	12,320,580	—
Noncurrent assets	310,699,359	387,439,028	145,629,652
Total assets	\$ 1,326,898,664	1,297,162,535	883,933,888
Deferred outflows:			
Total deferred outflows of resources	\$ 911,385	2,068,092	414,666
Liabilities:			
Current liabilities	\$ 351,352,562	365,101,647	300,981,161
Noncurrent liabilities	136,889,160	98,239,079	89,001,292
Total liabilities	\$ 488,241,722	463,340,726	389,982,453
Deferred inflows:			
Total deferred inflows of resources	\$ 2,087,724	557,072	487,107
Net position:			
Net investment in capital assets	\$ 302,286,867	181,678,293	135,858,273
Restricted net position, expendable	37,665,522	44,962,140	55,188,477
Unrestricted net position	497,528,214	608,692,396	302,832,244
Total net position	\$ 837,480,603	835,332,829	493,878,994

Current assets include assets that are deemed to be consumed or convertible to cash within one year and include unrestricted cash, marketable securities and accounts receivable. The Hospital's most significant current asset is unrestricted cash and cash equivalents. The unrestricted cash balance was \$229.1 million, \$322.2 million and \$233.3 million as of June 30, 2022, 2021 and 2020, respectively. The \$ 93.1 million decrease in unrestricted cash balances from June 30, 2021 to June 30, 2022 is primarily due to an increase in operating expenses of \$110.6 million.

The \$88.9 million increase in unrestricted cash balances from June 30, 2020 to June 30, 2021 was primarily due to an increase in current liabilities and the timing of payments for those liabilities.

The unrestricted days cash on hand for the Hospital was 60, 90 and 75 as of June 30, 2022, 2021 and 2020, respectively. As part of cash management practices, the Hospital centrally manages all cash receipts and disbursements for all its affiliates, including the University of New Mexico Psychiatric Center and the University of New Mexico Children's Psychiatric Center, 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.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

The second most significant current asset is patient receivables. The patient receivables balance was \$148.0 million, \$144.5 million and \$132.0 million as of June 30, 2022, 2021 and 2020, respectively. The increase in net patient receivables of \$3.4 million as of June 30, 2022 compared to June 30, 2021 is primarily due to increased patient revenues as a result of volume increases. The increase in net patient receivables of \$12.5 million as of June 30, 2021 compared to June 30, 2020 was primarily due to increased patient revenues as a result of volume and Case Mix Index (CMI) increases.

At June 30, 2022, 2021 and 2020, the Hospital's current assets of \$577.4 million, \$635.4 million and \$516.1 million, respectively, were sufficient to cover current liabilities of \$351.3 million (current ratio of 1.6), \$365.1 million (current ratio of 1.7), and \$301 million (current ratio of 1.7), respectively.

Non-current assets include assets designated by management for capital replacement, donated funds, assets designated by the UNM Hospital Board of Trustees and assets held by a trustee for the mortgage reserve fund. The restricted cash balance was \$159.3 million, \$188.7 million and \$100.0 million as of June 30, 2022, 2021 and 2020, respectively. The restricted cash includes cash designated by management for capital replacement and cash restricted by donors. The \$93.1 million decrease in unrestricted cash is due to cash payments for the new medical tower and parking structure expended during the fiscal year ended June 30, 2022.

Current liabilities are generally defined as amounts due within one year and include accounts payable, accrued payroll, accrued compensated absences, amounts due to UNM and estimated third-party payor settlements payable.

The most significant liability is estimated third-party payor settlements payable of \$125.8 million, \$109.9 million and \$69.4 million as of June 30, 2022, 2021 and 2020, respectively. The increase of \$15.9 million in estimated third-party payor settlements at June 30, 2022 as compared to June 30, 2021 is due to an increase in intergovernmental transfers (IGT) due to NM Department of Health for an intergovernmental transfer. The increase in estimated third-party payor settlements at June 30, 2021 as compared to 2020 is due to a payable for an intergovernmental transfers (IGT) due to the NM Department of Health that was not paid until subsequent to June 30, 2021.

The next most significant liability is the accounts payable balance of \$76.5 million, \$57.3 million and \$43.5 million as of June 30, 2022, 2021 and 2020, respectively. The balances in accounts payable were primarily related to contract labor, medical supplies, including pharmaceuticals and capital projects at June 30, 2022 and 2021.

The next most significant liability is the Medicare advance payment plan balances of \$15.6 million, \$69.7 and \$78.8 as of June 30, 2022, 2021 and 2020. This liability is due to a CMS Advance payment of \$78.8 million received in the last quarter of fiscal year ended June 30, 2020. This advance was requested in response to uncertainties arising from the COVID-19 pandemic and the public health order limiting the elective visits and procedures that the Hospital could provide. In April 2021, the Hospital began repaying this advance in accordance with the terms of the advance.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

Total net position as of June 30, 2022 increased by \$2.1 million to \$837.5 million. The increase is due to an operating loss of \$107.1 million offset by net non-operating revenue of \$109.3 million. Total net position as of June 30, 2021 increased by \$341.5 million to \$835.3 million. The increase was due to an operating loss of \$25.0 million offset by net non-operating revenue of \$170.5 million and \$196.0 million in a transfer of assets from the University of New Mexico. Management has designated \$75.0 million of the increase in net position along with the \$196.0 million of transferred assets for the partial funding of a new medical tower and a new patient parking structure.

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

	Year ended June 30		
	2022	2021	2020
Total operating revenues	\$ 1,336,736,964	1,308,231,066	1,111,285,353
Total operating expenses	(1,443,868,078)	(1,333,229,441)	(1,173,652,970)
Operating loss	(107,131,114)	(24,998,375)	(62,367,617)
Nonoperating revenues and expenses	109,278,888	170,452,210	125,041,362
Total increase in net position before capital appropriations	2,147,774	145,453,835	62,673,745
Capital appropriations	—	—	33,165,000
Capital initiatives transfer	—	196,000,000	—
Total increase in net position after capital appropriations	2,147,774	341,453,835	95,838,745
Net position, beginning of year	835,332,829	493,878,994	398,040,249
Net position, end of year	\$ 837,480,603	835,332,829	493,878,994

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 \$1.337 billion, \$1.308 billion and \$1.111 billion for the years ended 2022, 2021 and 2020, respectively.

Net patient service revenues comprises gross patient revenues net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were \$1.285 billion, \$1.258 billion and \$1.056 billion for the years ended 2022, 2021 and 2020, respectively.

Net patient service revenues for the fiscal year ended June 30, 2022 increased \$27.5 million from \$1.258 billion in fiscal year ended June 30, 2021, which represents a 2.2% increase. This increase is attributed to increased patient volumes, a \$5.0 million increase in Indirect Medical Education received from NM Medicaid and an increase in Directed Upper Payment Limit of \$16.8 million, net of associated IGT.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

Net patient service revenues for the fiscal year ended June 30, 2021 increased \$201.2 million from \$1.056 billion in fiscal year 2020, which represents a 19% increase. This increase is attributed to increased patient volumes, increased case mix index, a \$23.0 million increase in Indirect Medical Education received from NM Medicaid and an increase in Directed Upper Payment Limit of \$40.0 million, net of associated IGT.

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

	Year ended June 30		
	2022	2021	2020
Total licensed beds	537	537	537
Percent of occupancy (staffed beds)	103.4 %	93.6 %	87.0 %
Discharges	26,893	25,127	24,661
Patient days	189,851	171,600	156,128
Observation days	13,362	12,430	14,920
Average length of stay	7.4	6.8	6.3
Outpatient visits	561,356	534,963	509,931
Emergency visits	78,023	101,494	80,100
Urgent care visits	20,333	10,404	17,681
Surgeries	20,357	19,661	18,198

Overall patient and observation days for the year ended June 30, 2022 increased by 19,183 from the year ended June 30, 2021, which represents a 10% increase. The Hospital was operating at full or above full capacity after taking into account both the inpatient days and observation volumes during fiscal years ended June 30, 2022 and 2021. Patient discharges increased 1,766 compared to fiscal year ended June 30, 2021, which represents a 7% increase. Surgical volumes increased for the year ended June 30, 2022 by 4%, due to the lifting of the public health order issued by the New Mexico State Governor in 2020 in response to the COVID-19 pandemic.

Overall patient and observation days for the year ended June 30, 2021 increased by 12,982 from 2020, which represents an 8% increase. The Hospital was operating at full or near full capacity after taking into account both the inpatient days and observation volumes during fiscal years ended June 30, 2021 and 2020. Patient discharges increased 466 compared to the fiscal year ended June 20, 2020, which represents a 2% increase. Surgical volumes increased from the prior year by 8.0% due to the suspension of surgeries by public health order of the New Mexico State Governor in response to the COVID-19 pandemic during fiscal year ended June 30, 2020.

The Hospital offers a financial assistance program called UNM Care to which all eligible patients are encouraged to apply. This program assigns patients to primary care providers and enables them to receive care throughout the Hospital and at all clinic locations. This program is available to Bernalillo County residents who also meet certain income and asset thresholds. Patients applying for coverage under UNM Care must apply for coverage under Medicaid or the Health Insurance Exchange (HIX), if eligible. Patients may continue to receive UNM Care until they receive Medicaid eligibility or notification of coverage under the HIX. Patients certified under Medicaid or the HIX may continue to qualify for UNM Care as a secondary coverage for copays

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

and deductibles if they meet the income guidelines. The Hospital uses the same sliding income scale as the Affordable Care Act to determine if insurance coverage is considered affordable. If coverage is determined not 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, 2022, 2021 and 2020, there were approximately 4,300, 3,900 and 5,900 active enrollees in UNM Care, respectively. The income threshold for UNM Care is 300% of the Federal Poverty Level (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. The cost of charity care provided under this program for fiscal years ended June 30, 2022, 2021 and 2020 was approximately \$46.8 million, \$30.7 million and \$34.6 million, respectively.

The Hospital provides care to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2022, 2021 and 2020 was \$48.4 million, \$59.0 million and \$65.2 million, respectively.

The Hospital provided intergovernmental transfers (IGTs) to the State of New Mexico in the amounts of \$60.4 million, \$61.7 million and \$52.2 million, respectively, for the years ended June 30, 2022, 2021 and 2020. 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 nonfederal share to obtain federal matching funds (the State's Portion) for certain aspects of Directed Payments, Indirect Medical Education (IME), Graduate Medical Education (GME), and enhanced capitation payments, thereby jeopardizing the viability of the Directed Payments, Enhanced Payments, IME and GME programs. As a result, the Hospital may, in the next fiscal year, enter into Memoranda of Understanding (MOUs) 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, expenses and changes in net position.

Other Operating Revenue

The Hospital expanded its outpatient pharmacy capacity by entering into contract pharmacy service arrangements. These contracted pharmacies are located throughout Albuquerque and the State and are able to fill and refill 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 \$44.1 million, \$43.6 million and \$47.0 million for pharmacy services in other operating revenue for the years ended June 30, 2022, 2021 and 2020, respectively.

Operating Expenses

Operating expenses for the Hospital include items such as employee compensation and benefits, medical services, medical supplies, purchased services, depreciation and equipment. For the year ended June 30, 2022, operating expenses totaled \$1.444 billion, an increase from the year ended June 30, 2021 of \$110.6 million or 8.3%. The most significant expenditures were for employee compensation and benefits.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

Compensation and benefits combined were \$720.1 million, \$632.2 million and \$509.0 million for the years ended June 30, 2022, 2021 and 2020, respectively. For fiscal years ended June 30, 2022, 2021 and 2020, the percentage of compensation and benefits combined to total operating expenses was 49.9%, 47.4% and 43.4%, respectively. Compensation and benefits increased \$123.3 million during the year ended June 30, 2021, due to the increased staffing needs to respond to the COVID-19 pandemic and associated compensation.

Medical Supplies increased \$17.4 million (7.4%) as result of higher cost of goods sold and pharmaceutical costs during the year ended June 30, 2022. Medical Services increased \$3.6 million (1.6%) during the year ended June 30, 2022 as a result of increased lab expense and physician support. Occupancy increased \$3.6 million (20.7%) as result of new reporting requirements of GASB 87. These increases were offset by a decrease in other expenses of \$3.1 (17.4%) attributed to the reversal of fees accrued in a prior year that are deemed likely not to occur.

Medical Services increased \$40.4 million (22%) during the year ended June 30, 2021 as a result of increased lab expense and physician support. Medical Supplies increased \$21.8 million (10%) as result of higher implantable devices and pharmaceutical costs in 2021. These increases were offset by a decrease in Purchase Services of \$30.5 (28.4%) attributed to the completion of a multi-year operational improvement initiative.

Operating expense mix for the years ended June 30, 2022, 2021 and 2020 is detailed below:

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Employee compensation	43 %	40 %	36 %
Benefits	7	8	8
Medical supplies	17	18	18
Medical services	16	17	16
Purchased services	5	6	9
Equipment	4	4	5
Depreciation	2	2	3
Gross receipts tax	2	2	2
Occupancy	2	1	1
Other supplies	1	1	1
Other	1	1	2

Nonoperating Revenues and Expenses

The sources of nonoperating revenues for the Hospital are Bernalillo County mill levy, CARES Act Funding, State appropriation, bequest and contributions, State of New Mexico Land and Permanent fund, investment revenues and other nonoperating revenue. The sources of nonoperating expenses for the Hospital are interest on capital asset related debt and other nonoperating expenses. Net nonoperating revenues were \$109.2 million, \$170.5 million and \$125.0 million for the years ended 2022, 2021 and 2020, respectively.

The Bernalillo County mill levy tax subsidy is the most significant nonoperating revenue, totaling \$97.6 million, \$95.3 million and \$92.3 million in years ended 2022, 2021 and 2020, respectively. 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.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

The Hospital received CARES ACT funding of \$4.4 million, \$60.9 million and \$20.3 in the years ended 2022, 2021 and 2020, respectively. This funding was provided to offset increased costs associated with responding to the COVID-19 pandemic.

The Hospital received State appropriation funding of \$6.3 million, \$6.0 million and \$6.3 million in 2022, 2021 and 2020, respectively. Included in this amount was \$5.9 million, \$5.5 million and \$5.9 million for the Carrie Tingley Hospital (CTH) in 2022, 2021 and 2020, respectively, and \$451,000, \$451,000 and \$455,500 for the Young Children's Health Center (YCHC) in 2022, 2021 and 2020, respectively. State land revenue and oil and gas royalties for CTH for 2022, 2021 and 2020 were \$1.1 million, \$944.0 million and \$1.1 million, respectively.

Contribution revenue was \$3.7 million, \$2.8 million and \$3.2 million in 2022, 2021 and 2020, respectively. The primary source for contributions is the annual Children's Miracle Network fundraising drive. In addition, there were donations that were used for child life, Carrie Tingley Hospital, and pediatric hospice. All donations are received by the UNM Foundation and are drawn upon by the Hospital.

Included in nonoperating expense was \$3.6 million, \$2.8 million and \$2.8 million of interest expense on capital asset related debt for each of the years ended June 30, 2022, 2021 and 2020.

Capital Appropriation

There were no capital appropriation funds designated for the Hospital during the year ended June 30, 2021 and 2022. The Hospital received \$33.2 million in capital appropriation funds from the State during the year ended June 30, 2020. The funds appropriated include \$3.2 million to plan, design, construct, renovate, furnish and equip a movement disorders specialized center for the Hospital and \$30.0 million to plan design, construct, furnish and equip a new medical tower at the Hospital.

Capital Initiatives

The Hospital has historically transferred funds set aside for capital projects to a restricted account at UNM. These funds will be used to partially fund the new medical tower project. During the year ended June 30, 2021, the Hospital recorded a capital initiatives transfer of \$196.0 million that have been recognized as an increase to net position. There were no additional capital initiatives designated for the Hospital during the year ended June 30, 2022.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

Capital Assets

At June 30, 2022, the Hospital had \$428.5 million invested in capital assets, net of accumulated depreciation of \$454.4 million. Depreciation charges for fiscal year ended June 30, 2022 totaled \$33.5 million compared to \$33.3 million and \$33.0 million in years ended June 30, 2021 and 2020, respectively.

	June 30		
	2022	2021	2020
Land, building, and improvements	\$ 264,142,548	189,981,913	188,039,275
Building service equipment	203,046,994	174,467,212	171,836,275
Major moveable equipment	183,210,861	173,870,049	166,716,608
Computer software	49,412,954	47,625,544	47,083,808
Computer equipment	22,973,849	20,631,691	17,872,551
Fixed equipment	17,494,085	16,857,857	16,617,580
Construction in progress	142,673,424	72,989,212	27,354,076
	<u>882,954,715</u>	<u>696,423,478</u>	<u>635,520,173</u>
Less accumulated depreciation	<u>(454,427,581)</u>	<u>(434,390,185)</u>	<u>(413,356,902)</u>
Net property and equipment	<u>\$ 428,527,134</u>	<u>262,033,293</u>	<u>222,163,271</u>

During 2022, the largest capital increases were land, building, and building improvements (\$74.2 million) and construction in progress (\$176.3 million in additions offset by \$106.6 million of completed projects). These increases were offset by retirements of assets in the amount of \$14.2 million. The new patient parking building was completed during the year ended June 30, 2022 and this was the most significant increase to building in the amount of \$72.8 million.

During 2021, the largest capital increases were within construction in progress (\$52.8 million in additions offset by \$7.2 million of completed projects) and major moveable equipment (\$16.3 million). These increases were offset by retirements of assets in the amount of \$11.8 million. The most significant major moveable equipment project were radiology purchases of a Siemens Magnetom Aera 1.5T MRI scanning system, a Biograph Vision 600 PET/CT scanner, and an Artis Q Zen Biplane. The Siemens Magnetom Aera 1.5T MRI scanning system increases patient comfort and delivers a higher level of productivity than other models. The Biograph Vision 600 PET/CT scanner incorporates advanced artificial intelligence to increase the understanding of disease progression. The Artis Q Zen Biplane is used for interventional imaging and has an enhanced sensitivity to enable ultra-low dose imaging.

Several new renovation projects were initiated during fiscal year ended June 30, 2020, including a new patient parking structure, a new medical building and renovations at the main hospital and multiple off-site clinics. These projects continued in fiscal years ended June 30, 2021 and 2022. The new medical building is the most significant projects in the construction in progress balance and is expected to be completed by fiscal year 2025.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

Capital Commitments

As discussed further in the Debt Activity section, during the year ended June 30, 2022 the Hospital began construction on an extensive addition project with plans to occupy the new building by the end of calendar year 2024. The Hospital is funding the expansion through a mixture of debt issuance and cash reserved for Capital Initiatives.

Debt Activity

The Hospital's bonds payable totaled \$74.3 million and \$80.4 million at June 30, 2022 and 2021, respectively. The bonds are Federal Housing Administration (FHA) insured Hospital Mortgage Revenue Bonds and were issued pursuant to a trust indenture, dated as of May 1, 2015. The bonds carry interest rates that range from 0.484% to 3.532%.

The current portion of this debt was \$6.3 million and \$6.1 million at June 30, 2022 and 2021, respectively.

On September 9, 2021, the Hospital closed on a mortgage loan to partially finance the construction of a new patient tower. The debt was issued under the HUD Section 242 loan guarantee program and is backed by GNMA securities. The mortgage will be drawn down as needed to fund the construction project, not to exceed \$320 million, and carries an interest rate of 3.275%. The terms of the loan require interest only payments through construction. Principal and interest payments will begin on October 1, 2024 with loan maturity occurring on September 1, 2049. During the year ended June 30, 2022, the Hospital drew down \$51,689,000 and incurred interest of \$881,000. Issuance costs of \$7,483,000 were incurred in connection with the construction loan and have been recognized as non-operating expense in the Statements of Revenues, Expenses and Changes in Net Position.

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, 2022 and 2021 Single Audit.

Change in Net Position

The Hospital's total change in net position was a net increase for the year ended June 30, 2022. 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 \$2.1 million in fiscal year ended June 30, 2022. The increase in net position is due to net nonoperating revenue of \$109.3 offset by an operating loss of \$107.1 million. Net position increased approximately \$341.5 million in fiscal year ended June 30, 2021. The increase in net position is due to net nonoperating revenue of \$366.4 million, offset by \$25.0 million in net operating loss.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

Factors Impacting Future Periods

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 increase as a result of increased property values. The voters approved the renewal of the mill levy in the November 2016 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 2024 election. The Hospital's facilities are leased from 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 2014, 2022, 2030 and 2038. Neither party requested to reopen the terms and conditions of the lease in 2022. 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 agreement was finalized in February 2018. Under the MOU, the Hospital is required to allocate 15% of the mill levy proceeds to the UNM Psychiatric Center, fund one or more navigational services and a transition planning and case management service (Re-entry Center) at \$2,060,000 adjusted annually for inflation, and to comply with certain reporting and collaboration efforts as described in the MOU. In June 2018, the Hospital and County entered into a program MOU for the Bernalillo County Re-entry Resource Center, under which UNM Hospitals would establish within its budget at least \$800,000 for this program.

On January 31, 2020, Health and Human Services Secretary Alex Azar II declared a Public Health Emergency (PHE) for the United States to help the healthcare community respond to Coronavirus disease 2019 (COVID-19). The PHE is still in effect and is expected to remain in effect until at least October 15, 2022. The Coronavirus Aid, Relief, and Economic Security (CARES) Act passed on March 27, 2020. One of the purposes was to reimburse eligible healthcare providers for healthcare-related expenses or lost revenue attributable to COVID-19. The act authorized accelerated payments to Medicare providers, which are advances to be paid back beginning one year after the payments were received. Medicare began withholding Medicare payments in April 2021 to pay back the advance received. As of March 2022, Medicare is withholding 50% of Medicare payments which is expected to continue for three to four months.

The Hospital continues to operate at physical capacity for adult patients. The new Critical Care Tower is scheduled to open by the end of calendar year 2024. The tower will contain 9 floors, of which 2 of the floors will be completed at a later date. It will contain an additional 96 Intensive Care Unit beds as well as 18 new operating rooms. The adult emergency room will also move to the new tower.

On August 1, 2022, Centers for Medicare & Medicaid Services (CMS) released the Federal Fiscal Year (FFY) 2023 Inpatient Prospective Payment System (IPPS) Final Rule. The IPPS rates are estimated to increase 9.76%. The final rule included a total update factor of 4.3% comprised of a market basket increase of 4.1%, a productivity decrease of 0.3%, and a documentation and coding increase of 0.5%. The Hospital will receive a 4.15% increase to the national labor and non-labor components of the DRG rate and a 5.30% increase in the hospitals wage index as the hospital did qualify for a geographical wage reclassification to Santa Fe County for FFY 2023 through FFY 2025. The Hospital's Uncompensated Care (UC) DSH payments are estimated to decrease \$1.2 million. For FFY 2023 UC-based DSH payments, CMS finalized to use FFY 2018 and 2019 cost report data, the Hospital's UC data for fiscal year ended June 30, 2019 and 2020, which the CMS has audited. For FFY 2023, CMS finalized a National UC funding Pool that was \$300 million less than FFY 2022.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

CMS finalized suppression of all six measures in the HAC Reduction Program for the FY 2023 program year. As finalized, hospitals participating in the HAC Reduction Program will not be given a measure score, a Total HAC score, nor will hospitals receive a payment penalty. CMS intends to resume use of measure data for purposes of scoring and payment purposes in FY 2024. The Hospital's payment rates are not expected to be impacted by the Hospital Readmission Reduction Program. CMS finalized a special scoring methodology for FFY 2023 that results in each hospital receiving a value-based incentive payment amount that matches their 2.0 percent reduction to the base operating DRG payment amount. The hospital will receive this VBP Payment adjustment of 2%. The positive impact of these three quality pay-for-performance programs is estimated to be \$1.0 million for federal fiscal year 2023, which is an increase of \$2.2 million compared to the payment reductions experienced in 2022.

CMS finalized its proposed Graduate Medical Education (GME) provision that struck down CMS's "proportional reduction method" of determining allowable resident FTEs used in determining GME reimbursement. The final rule clarifies that if a providers weighted and unweighted FTE counts exceed the allowable FTE Cap then the provider's reimbursement should be based on their full allowable FTE Cap including FTE Cap slots awarded under Section 422. The Hospital has estimated \$6M in additional reimbursement under this provision. The Hospital's Medicare Indirect Medical Education operating rate will continue to be based on its designation as a rural referral center which includes the application of 130% to the resident FTE cap as established by the Balanced Budget Act of 1997.

On July 26, 2022, CMS published the proposed Calendar Year (CY) 2023 Outpatient Prospective Payment System (OPPS) rule. CMS proposes to raise the base OPPS Payment rate by 2.7%, which is a market basket increase of 3.1%, less a multi-factor productivity adjustment of 0.4%. CMS proposed continuation of Average Sales Price minus 22.5% for 340b Drugs; however, this is expected to change to ASP plus 6% in the final rule. The overall impact of the proposed OPPS rule on the Hospital's reimbursement is estimated to be an increase of 3.83% or \$1.8 million.

In January 2018, the Centers for Medicare and Medicaid Services (CMS) reset Medicare payments for drugs obtained under the 340B program from the average sales price (ASP) plus 6% to ASP minus 22.5%. CMS has continued this payment policy through 2022. On June 15, 2022, the U.S. Supreme Court issued a unanimous decision in the case of American Hospital Association et al. v. Becerra, Secretary of Health and Human Services et al. finding these Medicare payment cuts to hospitals participating in the 340B drug pricing program illegal. The Court remanded the case for further proceedings and did not address a remedy. The Court's decision is limited to payment policies for 2018 & 2019 which were the basis of the lawsuits. The Court did not directly address subsequent years. CMS OPPS payments are budget neutral such that the reduction in 2018 of payment for drugs was offset by increases for non-drug services. Health and Human Services (HHS) argued that unwinding these payments would be difficult for prior years. In the OPPS proposed rule for CY2023, CMS noted that given the timing of the Court's decision, they were unable to adjust the proposed payment rates and budget neutrality calculations before issuing the proposed rule. They stated they intend to apply a rate of ASP plus 6% to drugs and biologicals in the CY2023 OPPS Final Rule. The financial impact of this decision is not known at this time.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2022 and 2021

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, 2022 and 2021

Assets	2022	2021
Current assets:		
Cash and cash equivalents	\$ 229,127,260	322,208,275
Marketable securities	35,997,885	36,987,893
Restricted assets by trustee for debt service	210,410	206,887
Receivables:		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately \$198,051,000 in 2022 and \$ 207,211,000 in 2021)	147,987,855	144,539,749
Due from University of New Mexico	908,805	487,074
Due from University of New Mexico Medical Group	6,778,889	8,989,221
Due from University of New Mexico Health System	1,657,606	715,117
Estimated third-party payor settlements	114,027,989	89,141,368
Bernalillo County Treasurer	1,786,149	1,898,085
Other	13,090,946	6,928,990
Total net receivables	286,238,239	252,699,604
Prepaid expenses	4,594,638	4,751,480
Inventories	21,213,766	18,515,495
Total current assets	577,382,198	635,369,634
Noncurrent assets:		
Assets held by trustee:		
Restricted for mortgage reserve fund	17,965,789	17,962,481
Assets restricted by donors	19,489,323	18,759,402
Assets designated by UNM Hospital	236,172,800	315,903,272
Assets designated by UNM Hospital Board of Trustees	37,071,447	34,813,873
Total restricted assets	310,699,359	387,439,028
Capital assets, net	428,527,134	262,033,293
Right-to-use assets, net	10,289,973	12,320,580
Total noncurrent assets	749,516,466	661,792,901
Total assets	\$ 1,326,898,664	1,297,162,535
Deferred Outflows		
Total deferred outflows related to pensions	\$ 911,385	2,068,092

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Net Position

June 30, 2022 and 2021

Liabilities	2022	2021
Current liabilities:		
Accounts payable	\$ 76,481,607	57,348,525
Accrued payroll	37,998,706	36,904,455
Due to University of New Mexico	50,540,461	37,161,304
Due to University of New Mexico Medical Group	2,347,053	2,466,904
Bonds payable – current	6,285,000	6,105,000
Lease payable – current	1,751,826	1,729,629
Accrued compensated absences	31,520,720	36,367,457
Estimated third-party payor settlements	125,752,437	109,898,699
Medicare Advance Payment Plan	15,596,668	69,712,600
Other accrued liabilities	3,078,084	7,407,074
Total current liabilities	351,352,562	365,101,647
Noncurrent liabilities:		
Bonds payable	67,965,000	74,250,000
Mortgage payable	51,689,289	—
Lease liability	8,839,125	10,590,951
Due to affiliates	7,271,029	8,801,054
Net pension liability	1,124,717	4,597,074
Total noncurrent liabilities	136,889,160	98,239,079
Total liabilities	\$ 488,241,722	463,340,726
Deferred Inflows		
Total deferred inflows related to pensions	\$ 2,087,724	557,072
Net Position		
Net investment in capital assets	\$ 302,286,867	181,678,293
Restricted, expendable		
For unspent capital appropriation	—	8,033,370
For grants, bequests, and contributions	19,489,323	18,759,402
In accordance with the trust indenture and debt agreement	18,176,199	18,169,368
Unrestricted	497,528,214	608,692,396
Total net position	\$ 837,480,603	835,332,829

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Operating revenues:		
Net patient service	\$ 1,285,155,652	1,257,695,536
State and local contracts and grants	1,877,868	1,932,248
Other operating	<u>49,703,444</u>	<u>48,603,282</u>
Total operating revenues	<u>1,336,736,964</u>	<u>1,308,231,066</u>
Operating expenses:		
Employee compensation	613,869,362	530,387,725
Benefits	106,250,769	101,861,176
Medical supplies	252,082,973	234,670,892
Medical services	231,861,801	228,191,526
Purchased services	77,503,950	76,811,198
Equipment	57,424,769	57,668,513
Depreciation	33,543,153	33,296,522
Gross receipts tax	24,786,707	25,037,926
Occupancy	21,230,314	17,595,411
Other supplies	10,620,898	9,927,637
Other	<u>14,693,382</u>	<u>17,780,915</u>
Total operating expenses	<u>1,443,868,078</u>	<u>1,333,229,441</u>
Operating loss	<u>(107,131,114)</u>	<u>(24,998,375)</u>
Nonoperating revenues (expenses):		
Bernalillo County mill levy	97,605,586	95,312,579
State appropriation	6,330,200	5,978,300
Bequests and contributions	3,681,350	2,754,668
Equity in income of TriCore and TriCore Lab Svc Corp.	2,257,574	7,166,054
State of New Mexico Land and Permanent Fund proceeds	1,056,946	943,833
Cares Act Funding	4,396,870	60,916,918
Investment (loss) income	(746,973)	491,880
Interest on capital asset-related debt	(3,553,067)	(2,814,507)
Debt insurance costs	(7,483,401)	—
Other nonoperating revenue	8,991,382	984,001
Other nonoperating expense	<u>(3,257,579)</u>	<u>(1,281,516)</u>
Net nonoperating revenue (expense)	<u>109,278,888</u>	<u>170,452,210</u>
Increase in net position before capital appropriations and transfer of assets	2,147,774	145,453,835
Transfer of assets	<u>—</u>	<u>196,000,000</u>
Increase in net position after capital appropriations and transfer of assets	2,147,774	341,453,835
Net position, beginning of year	<u>835,332,829</u>	<u>493,878,994</u>
Net position, end of year	\$ <u><u>837,480,603</u></u>	\$ <u><u>835,332,829</u></u>

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Cash received from Medicaid and Medicare	\$ 805,341,146	897,410,328
Cash received from insurance and patients	466,317,295	387,846,221
Cash received from contracts and grants	1,793,358	2,022,878
Cash payments to employees	(441,215,831)	(426,980,558)
Cash payments for contract labor	(158,276,227)	(91,235,369)
Cash payments to suppliers	(571,474,900)	(518,966,611)
Cash payments to University of New Mexico	(188,333,000)	(199,017,348)
Cash received from/payments to University of New Mexico Health System	2,210,332	(237,258)
Cash payments to University of New Mexico Medical Group	(2,396,788)	(10,797,237)
Cash payments to State of New Mexico for intergovernmental transfer	(53,099,710)	(18,900,000)
Cash payments to the State of NM for Gross Receipts Tax	(26,977,307)	(26,623,507)
Cash received from/payments to affiliates	(1,530,025)	2,446,966
Other receipts	43,581,031	48,345,854
Net cash provided by (used in) operating activities	<u>(124,060,626)</u>	<u>45,314,359</u>
Cash flows from noncapital financing activities:		
Cash received from Bernalillo County mill levy	97,717,522	95,006,878
Cash received from state general fund and other state fund appropriations	6,128,300	5,781,200
Cash received from State of New Mexico Land and Permanent Fund	1,056,946	943,833
Cash receipts/payments for other than capital or operating purposes	8,991,382	534,698
Cash received from contributions for other-than-capital purposes	3,681,350	2,849,933
Cash received from CARES Act	4,396,870	60,916,918
Net cash provided by noncapital financing activities	<u>121,972,370</u>	<u>166,033,460</u>
Cash flows from capital financing activities:		
Principal payments of bonds	(6,105,000)	(5,950,000)
Interest payments on capital assets-related to debt	(3,553,067)	(2,818,445)
Purchases of capital assets	(200,768,799)	(72,721,697)
Cash payments for leases	(1,729,629)	(1,712,006)
Cash received from draws on construction loan	51,689,289	—
Cash paid for debt issuance	(7,483,401)	(480,000)
Cash received from UNM Capital Initiatives	50,000,000	50,000,000
Cash payments for debt-related activities	(2,731,804)	(604,416)
Net cash used in capital financing activities	<u>(120,682,411)</u>	<u>(34,286,564)</u>
Cash flows from investing activities:		
Cash withdrawals from 2015 bond reserve fund	2,105	1,037
Proceeds from sales and maturities of investments	30,244,548	14,996,232
Purchase of investments	(30,605,334)	(15,531,478)
Interest and dividends on investments	638,472	1,047,529
Net cash provided by investing activities	<u>279,791</u>	<u>513,320</u>
Net increase (decrease) in cash and cash equivalents	<u>(122,490,876)</u>	<u>177,574,575</u>
Cash and cash equivalents, beginning of year	<u>510,870,949</u>	<u>333,296,374</u>
Cash and cash equivalents, end of year	<u>\$ 388,380,073</u>	<u>510,870,949</u>

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Cash Flows

Years ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (107,131,114)	(24,998,375)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	33,543,153	33,296,522
Lease amortization	2,030,607	1,712,006
Provision for doubtful accounts	48,411,955	58,988,165
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Patient receivables	(51,860,061)	(71,575,590)
Due from University of New Mexico	(421,731)	1,748,468
Due from University of New Mexico Health System	(942,489)	(237,258)
Due from University of New Mexico Medical Group	2,210,332	(7,704,410)
Estimated third-party payor settlements receivables	(24,886,621)	(10,151,584)
Other receivables and prepaid expenses	(6,050,081)	866,588
Inventories	(2,698,271)	(1,947,535)
Deferred outflow of resources related to pensions	1,156,707	(1,653,426)
Medicare Advanced Payment Plan	(54,115,932)	(9,116,939)
Accounts payable	19,133,082	13,854,693
Accrued expenses	(8,081,476)	9,896,333
Due to University of New Mexico	13,379,157	6,362,752
Due to University of New Mexico Medical Group	(119,851)	635,187
Estimated third-party payor settlements liabilities	15,853,738	40,516,961
Due to affiliates	(1,530,025)	2,446,966
Net pension liability	(3,472,357)	2,304,870
Deferred inflow of resources related to pensions	1,530,652	69,965
Net cash provided by operating activities	\$ <u>(124,060,626)</u>	<u>45,314,359</u>

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

(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, which 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 2016. Effective as of November 18, 2004, the UNM Board of Regents and the Board of County Commissioners entered into a First Amendment to the Original Lease, as amended (the Lease), under which, among other things, (i) the term of the Original Lease was extended until June 30, 2055, which is after the maturity of the Department of Housing and Urban Development (HUD)-insured loan (refer to note 10, Bonds Payable); (ii) the Hospital was authorized to obtain the HUD-insured loan; (iii) the Hospital was authorized to encumber the Lease with a leasehold mortgage; and (iv) the actions that are to be taken concerning the operations of the Hospital in the event of a default under the HUD-insured loan were described.

The UNM Board of Regents is the ultimate governing authority of the Hospital, but it has delegated certain oversight responsibilities to the UNM Hospital Board of Trustees. The Hospital is governed by the UNM Hospital 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.

UNM Carrie Tingley Hospital (CTH) is a pediatric unit of the Hospital. 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:

	2022	2021
Total operating revenues	\$ 13,561,922	12,687,088
Total operating expenses	(21,473,558)	(20,623,131)
Operating loss	(7,911,636)	(7,936,043)
Nonoperating revenue	6,996,736	6,519,562
Total (decrease) increase in net position	(914,900)	(1,416,481)
Net position, beginning of year	3,971,043	5,387,524
Net position, end of year	\$ 3,056,143	3,971,043

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for healthcare organizations, and are presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; 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 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

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.

(b) Recent Accounting Pronouncements

GASB Statement No. 87, *Leases* was adopted effective July 1, 2021. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right-to-use an underlying asset. Under this statement, a lessee is required to recognize a lease liability

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The adoption of this standard resulted in a restatement of the beginning asset of \$14,032,586 and liability of \$14,032,586 related to right-to-use assets as of July 1, 2020. There was no material impact to the net position as a result of this restatement.

In May 2020, GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. The objective of this statement is to provide uniform guidance for accounting and financial reporting for transactions that meet the definition of subscription-based information technology arrangements (SBITAs). This statement defines a SBITA, established that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Hospital is evaluating the impact the standard will have on its financial statements.

In April 2022, GASB issued Statement No. 99, *Omnibus 2022*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified in previous GASB Statements. This Statement establishes or amends accounting and financial reporting for financial guarantees, derivative instruments, leases, public-public and public-private partnerships (PPPs), subscription-based information technology arrangements (SBITAs), the transition from the London Interbank Offered Rate (LIBOR), the Supplemental Nutrition Assistance Program (SNAP), nonmonetary transactions, pledges of further revenues, the focus of government-wide financial statements, and terminology. The requirements of this Statement apply to the financial statements of all state and local governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Hospital is evaluating the impact the standard will have on its financial statements.

(c) Use of Estimates

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

(d) Operating Revenues and Expenses

The 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 revenues, 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.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

(e) 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.

(f) Nonoperating Revenue and Expenses

Nonoperating revenues and expenses include activities that have the characteristics of nonexchange transactions, such as appropriations, gifts, government levies and subsidies, interest, and other expenses related to issuing and servicing debt, and transfers of assets to support the mission of the Health System. Nonoperating revenues also include revenues earned outside the clinical operations of the hospital and their associated costs.

These revenue and expense 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 in which it is earned. The mill levy is recognized in the period in which it is collected by the County. Interest expense incurred on the outstanding debt obligations and other expenses related to servicing debt are recognized when due. Transfers of assets to the Health System are recognized when incurred. Coronavirus Aid, Relief, and Economic Security (CARES) Act funding is recognized in the period in which the terms and conditions of the funds have been met.

(g) 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. For purposes of the statement of cash flows, cash and cash equivalents includes cash and cash equivalents, restricted cash for unexpended capital appropriation and cash with donor restrictions. Total cash within the statements of net position at June 30 are as follows:

	2022	2021
Current assets:		
Unrestricted cash and cash equivalents	\$ 229,127,260	322,208,275
Noncurrent assets:		
Cash restricted by donors, UH	19,489,323	18,759,402
Cash restricted by donors, the Center	320,512	312,299
Cash designated by UNM Hospital	139,442,978	169,590,973
	\$ 388,380,073	510,870,949

(h) Investments and Investment Return

Investments are recorded at fair market value. At June 30, 2022 and 2021, 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 and interest earned on operating cash. Investment income is reported as nonoperating revenue when earned.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

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.

(i) Inventories

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

(j) Assets Designated by UNM Hospital Board of Trustees, Designated by Management, Restricted by Donors and Restricted by Trustee

Assets designated by UNM Hospital Board of Trustees are invested in healthcare related entities. The investment in TriWest Healthcare Alliance Corporation (TriWest) is accounted for using the fair value method. The investments in TriCore Reference Laboratories (TRL or TriCore) and TriCore Laboratory Services Corporation (TLSC) are accounted for using the equity method.

Assets designated by management include receivables and cash designated for the partial construction and purchase of equipment for the planned patient tower and parking garage. At June 30, 2022, \$96.4 million of this asset is a receivable from UNM with the remaining balance in cash.

Assets restricted by donors include cash balances donated and held for expenditures as specified by the donors.

Assets held by trustee are restricted by the Federal Housing Administration (FHA) as a mortgage reserve fund for long-term debt.

(k) 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 2018 Edition published by the American Hospital Association. Repair 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. There were no capital assets deemed impaired at June 30, 2022.

(l) Leases

The Hospital is a lessee for various noncancellable leases of buildings and equipment. For leases with a maximum possible term of 12 months or less at commencement, the Hospital recognizes the expense based on the provisions of the lease contract. For all other leases, the Hospital recognizes a lease liability.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

At lease commencement, the Hospital initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into lease expense on a straight-line basis over the shorter of the lease terms or the useful life of the underlying asset. If the Hospital is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Key estimates and judgments include how the Hospital determines the discount rate it uses to calculate the present value of the expected lease, lease term and lease payments.

The Hospital generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor charges is known. The Hospital's incremental borrowing rate for leases is based on the rate of interest it would pay for any amounts borrowed for capital projects.

The lease term includes the noncancellable period of the lease plus any additional periods covered by either a Hospital or lessor option to extend for which it is reasonably certain to be exercised or terminate for which it is reasonably certain not to be exercised.

Payments are evaluated by the Hospital to determine if they should be included in the measurement of the lease liability, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties and other payments.

The Hospital monitors changes in circumstances that may require remeasurement of a lease arrangement. When certain changes occur that are expected to significantly affect the amount of the lease, the liability is remeasured and a corresponding adjustment is made to the lease.

Lease assets are reported with long term assets and lease liabilities are reported with short and long term liabilities in the statements of net position.

(m) Accelerated and Advance Payments

The Centers for Medicare & Medicaid Services (CMS) has expanded the Accelerated and Advance Payment Program to provide financial relief to Medicare providers working to provide treatment to patients and combat the 2019 Novel Coronavirus (COVID-19) pandemic. The terms of this program require CMS begin recoupment one year after receipt. Recoupments will be at 25% of Medicare payments due to the Hospital for eleven months and at 50% for six months thereafter. After the six month period, any balance remaining will be due in full to CMS. These funds were received during the year ended June 30, 2020 in the amount of \$79 million and are accounted for as a liability within the current liabilities section of the balance sheet. In April of 2021 the Hospital began repaying these funds in accordance with the agreement. The liability at June 30, 2022 was \$15.6 million.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

(n) 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.

(o) 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. The liability is classified as noncurrent because it is not expected to be settled in the next year.

(p) Net Patient Service Revenues

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

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

The Hospital 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 nonteaching 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.

(q) 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 co-payments. Charity care is treated as a deduction from gross revenue.

(r) 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 operation and maintenance of the Hospital. The proceeds of the levy may not be used for any purpose other than that which the voters approved.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

Bernalillo County may utilize property tax exemptions and abatements to stimulate economic development and investment in the community. Three agencies entered into abatement agreements under the authority of NMSA 7-37-6 and NMSA 7-38. The proceeds to the levy were reduced by \$1.2 million and \$767,000 in aggregate, authorized by Bernalillo County, the City of Albuquerque, and the NM Hospital Equipment Loan Council, during the years ended June 30, 2022 and 2021, respectively, as a result of the exemptions and abatements granted.

(s) 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 2022 include \$6.3 million in the General Fund. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Subsection J, Higher Education.

(t) 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, 2022 and 2021, there was no income generated from unrelated activities.

(u) Gross Receipts Taxes

The Hospital is subject to a 5% gross receipts tax on all service generated revenues after a 60% deduction on applicable receipts. Gross receipts tax is calculated and recorded in the accompanying financial statements on an accrual basis. Taxes are paid on a cash basis for the period received.

(v) Intergovernmental Transfers

Intergovernmental transfers (IGTs) are recognized in the period in which the Hospital incurs an obligation to make payments to other governmental entities as evidenced by executed Memoranda of Understanding (MOUs) between the State of New Mexico and the Hospital. The Hospital recorded \$60.4 million and \$61.7 million in IGT obligations for fiscal years ended June 30, 2022 and 2021, respectively. Due to the nature of the MOUs to fund a portion of the nonfederal 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, IGTs are recorded as a reduction of net patient service.

(w) Net Investment in Capital Assets

Net investment in capital assets represents the Hospital's total investment in capital assets and right-to-use assets, net of outstanding debt related to those capital assets. To the extent debt has been incurred but not yet expended for assets, such amounts are not included as a component of net investment in capital assets. There were no unspent bond proceeds at June 30, 2022 and 2021.

(x) Risk Management

The Hospital sponsors a self-insured health plan in which the Center also participates, as all employees are under the centralized umbrella of the Hospital. Blue Cross and Blue Shield of New Mexico and HMO New Mexico (BCBSNM) provide administrative claim payment services for the

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

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, 2022 and 2021, the estimated amount of the Hospital's IBNR and accrued claims was approximately \$5 million and \$5.1 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 \$479,000 and \$485,000 at June 30, 2022 and 2021, 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 2022 and 2021 resulted from the following:

	<u>Beginning of fiscal year</u>	<u>Current year claims and changes in estimates</u>	<u>Claim payments</u>	<u>Balance at fiscal year-end</u>
2021–2022	\$ 5,111,346	52,098,836	(52,164,518)	5,045,664
2020–2021	4,740,891	49,685,610	(49,315,155)	5,111,346

(y) Classification

Certain 2021 amounts have been reclassified to conform to the 2022 presentation.

(3) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

(i) 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 bank balances of the Hospital's deposits with financial institutions at June 30, 2022 and 2021 are \$415,258,059 and \$532,004,853, respectively.

Bank balances are collateralized as follows:

	<u>June 30</u>	
	<u>2022</u>	<u>2021</u>
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	\$ 250,000	250,000
Amount collateralized with securities held in the Hospital's name	<u>415,561,935</u>	<u>581,882,552</u>
	<u>\$ 415,811,935</u>	<u>582,132,552</u>

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

2021, respectively, are insured, registered, and held by the counterparty's agent in the Hospital's name.

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

(iii) Credit Risk – Debt Investments

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its 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, 2022 and 2021 and their exposure to credit risk is as follows:

	2022		2021	
	Rating	Fair value	Rating	Fair value
Items not subject to credit risk:				
U.S. Treasury securities:				
Treasury notes	N/A	\$ 35,679,411	N/A	\$ 36,949,942
Items subject to credit risk:				
Money market funds	Not rated	318,474	Not rated	37,951
Total items subject to credit risk		318,474		37,951
Total marketable securities		\$ 35,997,885		\$ 36,987,893

(iv) Concentration of Credit Risk – Investments

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

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

The Hospital has no exposure to concentrated credit risk as of June 30, 2022.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

(c) Long-Term Investments

(i) 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:

	<u>June 30, 2022</u>	
	<u>Fair value</u>	<u>Less than 1 year</u>
Items subject to interest rate risk:		
Money market fund	\$ 17,965,789	17,965,789
Items not subject to interest rate risk:		
Investments in nonpublic entities*	<u>37,071,447</u>	<u>—</u>
Total long-term investments	<u>\$ 55,037,236</u>	<u>17,965,789</u>

* Investments in nonpublic entities include TriWest (recorded at fair value) and TRL and TLSC (recorded using the equity method of accounting).

	<u>June 30, 2021</u>	
	<u>Fair value</u>	<u>Less than 1 year</u>
Items subject to interest rate risk:		
Money market fund	\$ 17,962,481	17,962,481
Items not subject to interest rate risk:		
Investments in nonpublic entities*	<u>34,813,873</u>	<u>—</u>
Total long-term investments	<u>\$ 52,776,354</u>	<u>17,962,481</u>

* Investments in nonpublic entities include TriWest (recorded at fair value) and TRL and TLSC (recorded using the equity method of accounting).

(ii) Custodial Credit Risk – Debt Investments

As of June 30, 2022 and 2021, 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.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

(iii) *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, 2022 and 2021 and their exposure to credit risk is as follows:

	2022		2021	
	Rating	Fair value	Rating	Fair value
Items subject to credit risk:				
Money market funds	Not rated	\$ 17,965,789	Not rated	\$ 17,962,481
Items not subject to credit risk:				
Investments in nonpublic entities*	N/A	<u>37,071,447</u>	N/A	<u>34,813,873</u>
Total long-term investments		<u>\$ 55,037,236</u>		<u>\$ 52,776,354</u>

* Investments in nonpublic entities include TriWest (recorded at fair value) and TRL and TLSC (recorded using the equity method of accounting).

(4) Fair Value Measurement

The Hospital has implemented GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 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:

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 the following:

- 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

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

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.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value:

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

Investments in nonpublic entities: The Hospital holds a noncontrolling equity interest in TriWest, which is recorded at fair value based on the results of operations of the investee (Level 3).

	Assets at fair value as of June 30, 2022		
	Level 1	Level 2	Level 3
Fixed income	\$ 35,679,411	—	—
Investment in TriWest	—	—	5,000,000
Total	<u>\$ 35,679,411</u>	<u>—</u>	<u>5,000,000</u>

	Assets at fair value as of June 30, 2021		
	Level 1	Level 2	Level 3
Fixed income	\$ 36,949,942	—	—
Investment in TriWest	—	—	5,000,000
Total	<u>\$ 36,949,942</u>	<u>—</u>	<u>5,000,000</u>

(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 U.S. Public Health

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

Service, self-pay, counties and other government agencies. The following table summarizes patient accounts receivable and the percentage of gross accounts receivable from all payors as of June 30:

	2022		2021	
Medicaid	\$ 100,741,639	29 %	\$ 102,734,464	29 %
Medicare	87,408,300	25	85,966,565	24
Other third-party payors	109,116,683	32	108,583,969	32
Others	48,772,547	14	54,465,630	15
Total patient accounts receivable	346,039,169	100 %	351,750,628	100 %
Less allowance for uncollectible accounts and contractual adjustments	(198,051,314)		(207,210,879)	
Patient accounts receivable, net	\$ 147,987,855		\$ 144,539,749	

(6) Restricted and Designated Assets

The following table summarizes restricted and designated assets as of June 30:

	2022	2021
Cash designated by management for capital initiatives	\$ 1,442,978	23,557,603
Cash designated by management for capital replacement	138,000,000	138,000,000
Restricted cash for unexpended capital appropriation	—	8,033,370
Cash with donor restrictions, the Hospital	19,489,323	18,759,402
Cash with donor restrictions, the Center	320,512	312,299
Capital initiatives receivable from UNM	96,409,310	146,000,000
Restricted for mortgage reserve fund	17,965,789	17,962,481
Designated by UNM Hospital Board of Trustees	37,071,447	34,813,873
	\$ 310,699,359	387,439,028

Various assets above are either restricted by third parties or designated by management for capital projects. These amounts are reflected as noncurrent assets as the funds will be utilized to construct capital assets that will be classified as noncurrent.

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.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

Assets Designated by Board of Trustees – The Hospital owns 289.7 shares of tracking stock in TriWest, an organization formed to administer healthcare benefits to military retirees and dependents of active duty personnel in the CHAMPUS/TriCare Central Region. The investment in TriWest is accounted for at fair value, which approximates cost. The Hospital recognized no return on investment during the years ended June 30, 2022 and 2021.

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. UNM, through the Hospital, has a 50% interest in TriCore totaling approximately \$25,353,000 and \$23,095,000 at June 30, 2022 and 2021, respectively, which is being accounted for using the equity method.

The Hospital has a 50% interest in TriCore Laboratory Services Corporation (TLSC), which was organized to provide laboratory services, on a centralized basis for its members, the Hospital and Presbyterian Healthcare Services. The investment carrying amounts are approximately \$6.7 million at June 30, 2022 and 2021. The investment is accounted for using the equity method. The Hospital recorded laboratory expenses of approximately \$42.6 million in 2022 and \$39.1 million in 2021.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

(7) Capital Assets

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

	Year ended June 30, 2022				Ending balance
	Beginning balance	Additions	Transfers	Retirements	
Hospital capital assets not being depreciated:					
Land	\$ 1,747,245	991,842	—	—	2,739,087
Construction in progress	72,989,212	176,277,300	(106,593,088)	—	142,673,424
	<u>\$ 74,736,457</u>	<u>177,269,142</u>	<u>(106,593,088)</u>	<u>—</u>	<u>145,412,511</u>
Hospital depreciable capital assets:					
Land and land improvements	\$ 12,581,554	—	188,690	(47,759)	12,722,485
Building and building improvements	175,653,114	2,779,421	74,884,437	(4,635,996)	248,680,976
Building service equipment	174,467,212	—	29,409,122	(829,340)	203,046,994
Major moveable equipment	173,870,049	17,904,826	—	(8,564,014)	183,210,861
Fixed equipment	16,857,857	69,750	566,478	—	17,494,085
Computer equipment	20,631,691	2,494,823	7,788	(160,453)	22,973,849
Computer software	47,625,544	250,837	1,536,573	—	49,412,954
Total depreciable capital assets	<u>621,687,021</u>	<u>23,499,657</u>	<u>106,593,088</u>	<u>(14,237,562)</u>	<u>737,542,204</u>
Less accumulated depreciation for:					
Land improvements	(10,408,931)	(406,128)	—	47,700	(10,767,359)
Building and building improvements	(102,582,945)	(5,166,889)	—	4,320,201	(103,429,633)
Building service equipment	(126,765,500)	(7,751,372)	—	824,698	(133,692,174)
Major moveable equipment	(121,602,921)	(16,008,036)	—	8,152,705	(129,458,252)
Fixed equipment	(11,156,195)	(1,205,744)	—	—	(12,361,939)
Computer equipment	(15,830,894)	(1,456,184)	—	160,453	(17,126,625)
Computer software	(46,042,799)	(1,548,800)	—	—	(47,591,599)
Total accumulated depreciation	<u>(434,390,185)</u>	<u>(33,543,153)</u>	<u>—</u>	<u>13,505,757</u>	<u>(454,427,581)</u>
Hospital depreciable capital assets, net	<u>\$ 187,296,836</u>	<u>(10,043,496)</u>	<u>106,593,088</u>	<u>(731,805)</u>	<u>283,114,623</u>
Capital asset summary:					
Hospital capital assets not being depreciated	\$ 74,736,457	177,269,142	(106,593,088)	—	145,412,511
Hospital depreciable capital assets at cost	621,687,021	23,499,657	106,593,088	(14,237,562)	737,542,204
Hospital total cost of capital assets	696,423,478	200,768,799	—	(14,237,562)	882,954,715
Less accumulated depreciation	<u>(434,390,185)</u>	<u>(33,543,153)</u>	<u>—</u>	<u>13,505,757</u>	<u>(454,427,581)</u>
Hospital capital assets, net	<u>\$ 262,033,293</u>	<u>167,225,646</u>	<u>—</u>	<u>(731,805)</u>	<u>428,527,134</u>

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

	Year ended June 30, 2021				Ending balance
	Beginning balance	Additions	Transfers	Retirements	
Hospital capital assets not being depreciated:					
Land	\$ 1,747,245	—	—	—	1,747,245
Construction in progress	27,354,076	52,798,079	(7,162,943)	—	72,989,212
	\$ 29,101,321	52,798,079	(7,162,943)	—	74,736,457
Hospital depreciable capital assets:					
Land and land improvements	\$ 12,191,183	—	390,371	—	12,581,554
Building and building improvements	174,100,847	—	1,653,382	(101,115)	175,653,114
Building service equipment	171,836,275	186,821	4,305,349	(1,861,233)	174,467,212
Major moveable equipment	166,716,608	16,311,817	63,472	(9,221,848)	173,870,049
Fixed equipment	16,617,580	125,919	388,358	(274,000)	16,857,857
Computer equipment	17,872,551	2,790,558	—	(31,418)	20,631,691
Computer software	47,083,808	508,503	353,519	(320,286)	47,625,544
Total depreciable capital assets	606,418,852	19,923,618	7,154,451	(11,809,900)	621,687,021
Less accumulated depreciation for:					
Land improvements	(9,996,047)	(412,884)	—	—	(10,408,931)
Building and building improvements	(97,522,911)	(5,161,149)	—	101,115	(102,582,945)
Building service equipment	(120,590,093)	(7,978,513)	—	1,803,106	(126,765,500)
Major moveable equipment	(116,086,151)	(15,276,177)	4,034	9,755,373	(121,602,921)
Fixed equipment	(10,188,522)	(1,215,578)	—	247,905	(11,156,195)
Computer equipment	(14,553,488)	(1,308,824)	—	31,418	(15,830,894)
Computer software	(44,419,690)	(1,943,397)	—	320,288	(46,042,799)
Total accumulated depreciation	(413,356,902)	(33,296,522)	4,034	12,259,205	(434,390,185)
Hospital depreciable capital assets, net	\$ 193,061,950	(13,372,904)	7,158,485	449,305	187,296,836
Capital asset summary:					
Hospital capital assets not being depreciated	\$ 29,101,321	52,798,079	(7,162,943)	—	74,736,457
Hospital depreciable capital assets, at cost	606,418,852	19,923,618	7,154,451	(11,809,900)	621,687,021
Hospital total cost of capital assets	635,520,173	72,721,697	(8,492)	(11,809,900)	696,423,478
Less accumulated depreciation	(413,356,902)	(33,296,522)	4,034	12,259,205	(434,390,185)
Hospital capital assets, net	\$ 222,163,271	39,425,175	(4,458)	449,305	262,033,293

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

(8) Leases

As discussed in note 2 (l), the Hospital is a lessee for various noncancellable leases of buildings and equipment.

A summary of the lease asset activity during the years ended June 30, 2022 and 2021 is as follows:

	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Remeasurements</u>	<u>Deductions</u>	<u>Balance at June 30, 2022</u>
Lease assets:					
Buildings	\$ 12,496,041	—	—	—	12,496,041
Equipment	1,536,545	—	—	—	1,536,545
Total lease assets	14,032,586	—	—	—	14,032,586
Less accumulated amortization:					
Buildings	(1,358,911)	(1,613,792)	—	—	(2,972,703)
Equipment	(353,095)	(416,815)	—	—	(769,910)
Total accumulated amortization	(1,712,006)	(2,030,607)	—	—	(3,742,613)
Total lease assets, net	\$ 12,320,580	(2,030,607)	—	—	10,289,973
	<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Remeasurements</u>	<u>Deductions</u>	<u>Balance at June 30, 2021</u>
Lease assets:					
Buildings	\$ 12,496,041	—	—	—	12,496,041
Equipment	1,536,545	—	—	—	1,536,545
Total lease assets	14,032,586	—	—	—	14,032,586
Less accumulated amortization:					
Buildings	—	(1,358,911)	—	—	(1,358,911)
Equipment	—	(353,095)	—	—	(353,095)
Total accumulated amortization	—	(1,712,006)	—	—	(1,712,006)
Total lease assets, net	\$ 14,032,586	(1,712,006)	—	—	12,320,580

Changes in long-term liabilities for the years ended June 30, 2022 and 2021 are summaries below:

	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2022</u>	<u>Amounts due within one year</u>
\$	12,320,580	—	(1,729,629)	10,590,951	1,751,826

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

	<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2021</u>	<u>Amounts due within one year</u>
\$	14,032,586	—	(1,712,006)	12,320,580	1,729,629

Future annual lease payments are as follows:

	<u>Principal amount</u>	<u>Interest amount</u>	<u>Total</u>
Year ending June 30:			
2023	\$ 1,751,826	320,605	2,072,431
2024	1,756,623	263,144	2,019,767
2025	1,308,391	209,320	1,517,711
2026	324,792	184,215	509,007
2027	332,838	173,499	506,337
2028–2032	1,626,886	708,988	2,335,874
2033–2037	1,527,033	444,780	1,971,813
2038–2042	1,562,466	198,253	1,760,719
2043–2044	400,096	8,238	408,334
	<u>\$ 10,590,951</u>	<u>2,511,042</u>	<u>13,101,993</u>

(9) Compensated Absences

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

(a) 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 a 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, 2022 and 2021 of approximately \$4.6 million and \$10.0 million, 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.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

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.

(b) 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, 2022 and 2021 of approximately \$26.2 million and \$25.7 million, 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.

Additionally, compensatory time and holiday, totaling approximately \$671,000 and \$675,000 as of June 30, 2022 and 2021, respectively, is accrued. The portion of accrued compensated absences due after one year is not material and, therefore, is not presented separately.

During the years ended June 30, 2022 and 2021, the following changes occurred in accrued compensated absences:

	<u>Balance</u> <u>July 1, 2021</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2022</u>
\$	36,367,457	37,996,859	(42,843,596)	31,520,720
	<u>Balance</u> <u>July 1, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2021</u>
\$	26,876,573	42,680,023	(33,189,139)	36,367,457

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

(10) Bonds Payable

On December 12, 2014, the Regents adopted a Parameters Resolution authorizing the issuance of the Government National Mortgage Association (GNMA)-Backed, HUD-Insured Mortgage Bonds to redeem and refinance prior bonds. On May 7, 2015, the Regents adopted Resolutions authorizing the execution of amended FHA Documents and loan modification documents. On May 14, 2015, the Hospital issued \$115,000,000 in bonds (2015 Series 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 refinancing a previously issued bond series. The 2015 Series bonds carry interest rates that range from 0.484% to 3.532%.

The Regents granted the GNMA Issuer in respect of the UNMH HUD-Insured Bonds a security interest in all of the 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 Hospital facility from Bernalillo County, all reserves of the Hospital covered by the Lease are restricted to use for operation and maintenance of the Hospital. Failure to abide by the terms of the regulatory agreement with HUD could trigger an event of default. Events of default with financial consequences include failure to pay monthly debt servicing payments as agreed; transfer of or use of the mortgaged property for purposes other than the operation of the Hospital; and failure to adequately maintain the mortgaged property. In the event of default, HUD has the option to declare the entire balance immediately due and payable if the triggering event is not remedied within 30 days.

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 \$75,539,626 (the GNMA securities), issued by Prudential Huntoon Paige Associates, Ltd. (the Lender), guaranteed as to principal and interest by the 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.

Interest expense associated with the bonds was approximately \$2.7 million and \$2.8 million for the years ended June 30, 2022 and 2021, respectively. Interest income earned from the investment of the bond proceeds was approximately \$7,000 and \$2,000 for the years ended June 30, 2022 and 2021, respectively.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

Bonds payable activity consists of the following:

		Year ended June 30, 2022				
		Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
FHA Insured Hospital Mortgage:						
Revenue:						
Bond Series 2015		\$ 80,355,000	—	(6,105,000)	74,250,000	6,285,000
		<u>\$ 80,355,000</u>	<u>—</u>	<u>(6,105,000)</u>	<u>74,250,000</u>	<u>6,285,000</u>
		Year ended June 30, 2021				
		Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
FHA Insured Hospital Mortgage:						
Revenue:						
Bond Series 2015		\$ 86,305,000	—	(5,950,000)	80,355,000	6,105,000
		<u>\$ 86,305,000</u>	<u>—</u>	<u>(5,950,000)</u>	<u>80,355,000</u>	<u>6,105,000</u>

Future debt service (including mandatory redemptions) as of June 30, 2022 for the bonds is as follows:

	Principal	Interest	Total
Years ending June 30:			
2023	\$ 6,285,000	2,515,913	8,800,913
2024	6,480,000	2,334,779	8,814,779
2025	6,690,000	2,141,545	8,831,545
2026	6,975,000	1,874,344	8,849,344
2027	7,240,000	1,625,691	8,865,691
2028–2032	<u>40,580,000</u>	<u>4,052,264</u>	<u>44,632,264</u>
	<u>\$ 74,250,000</u>	<u>14,544,536</u>	<u>88,794,536</u>

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 is 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%.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

On September 9, 2021, the Hospital closed on a mortgage loan to partially finance the construction of a new patient tower. The debt was issued under the HUD Section 242 loan guarantee program and is backed by GNMA securities. The mortgage will be drawn down as needed to fund the construction project, not to exceed \$320 million, and carries an interest rate of 3.275%. The terms of the loan require interest only payments through construction. Principal and interest payments will begin on October 1, 2024 with loan maturity occurring on September 1, 2049. During the year ended June 30, 2022, the Hospital drew down \$51,689,000 and incurred interest of \$881,000. Issuance costs of \$7,483,000 were incurred in connection with the construction loan and have been recognized as non-operating expense in the Statements of Revenues, Expenses and Changes in Net Position.

(11) 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 64% of the Hospital's gross patient revenues for fiscal years ended June 30, 2022 and 2021 were derived from the Medicare and Medicaid programs, the continuation of which are dependent upon governmental policies. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established charges for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from major third-party payors is as follows:

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

Medicaid – Inpatient acute care services rendered to Medicaid 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 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 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.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

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

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

	<u>2022</u>	<u>2021</u>
Charges at established rates	\$ 2,469,882,663	2,356,444,285
Charity care	(80,749,647)	(53,210,085)
Contractual adjustments	(1,055,565,409)	(986,550,499)
Provision for doubtful accounts	<u>(48,411,955)</u>	<u>(58,988,165)</u>
Net patient revenues	<u>\$ 1,285,155,652</u>	<u>1,257,695,536</u>

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 2019 have been final settled for the Medicaid programs. Cost reports through 2014, except for 2005 & 2013, 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 revenues of approximately \$27.4 million and \$7.3 million for the years ended June 30, 2022 and 2021, respectively. During the fiscal year ended June 30, 2022, a \$2.7 million liability for Medicare and a \$1.7 million liability for Medicaid were accrued as estimates for the fiscal year 2022 cost report. During the fiscal year ended June 30, 2021, a \$2.0 million receivable for Medicare and a \$1.4 million liability for Medicaid were accrued as estimates for the fiscal year 2021 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 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.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

(12) 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:

	<u>2022</u>	<u>2021</u>
Charges foregone, based on established rates	\$ 80,749,647	53,210,085
Estimated costs and expenses incurred to provide charity care	46,802,256	30,692,453
Equivalent percentage of charity care charges foregone to total gross revenue	3 %	2 %

(13) 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 \$750,000 set forth as follows: (a) \$200,000 for real property; (b) up to \$300,000 for past and future medical and medical-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, 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.

(14) Related-Party Transactions

The Hospital provides professional services, referral services, and office space to UNM and other entities associated with the UNM Health System. The UNM Health System is defined as the integrated, academic health center and healthcare delivery system. The Hospital billed the following amounts, included as

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

expense reductions in the accompanying statements of revenues, expenses, and changes in net position, for services rendered during the years ended June 30:

	<u>2022</u>	<u>2021</u>
UNM Health Sciences Center	\$ 6,193,002	5,897,692
UNM Medical Group	5,816,029	5,226,076
UNM Sandoval Regional Medical Center	<u>3,439,942</u>	<u>3,270,443</u>
	<u>\$ 15,448,973</u>	<u>14,394,211</u>

In addition to the items above, the Hospital recorded \$984,702 and \$844,155 of operating expenses related to contributed services provided to the UNM Health System in the fiscal years ended June 30, 2022 and 2021, respectively. These expenses were not reimbursed by UNM Health System entities.

The Hospital reimburses UNM and other entities associated with UNM, for the cost of utilities, purchased services 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:

	<u>2022</u>	<u>2021</u>
UNM Health Sciences Center	\$ 250,022,715	247,707,510
UNM Sandoval Regional Medical Center	737,554	534,012
UNM Medical Group	1,639,685	1,399,734
UNM	<u>2,242,178</u>	<u>2,242,178</u>
	<u>\$ 254,642,132</u>	<u>251,883,434</u>

(15) 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 6% or 8% 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 \$19.1 million and \$18.1 million in fiscal years 2022 and 2021, respectively. Total employee contributions under this plan were approximately \$28.2 million and \$25.1 million in fiscal years 2022 and 2021, respectively. The Hospital also offers a Roth 403b defined-contribution plan option. Total employee contributions were approximately \$3.0 million and \$2.7 million in fiscal years 2022 and 2021, respectively.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2022 and 2021

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 2022 or 2021 as the Hospital does not contribute to this plan. Total employee contributions under this plan were approximately \$4.9 million and \$3.8 million in 2022 and 2021, respectively.

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 based on management's recommendation that is approved by the Board of Trustees on an annual basis. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. All assets of the plan are held in a trust fund, are not considered hospital assets, and are under the direction of a plan administrator. The expense for the 401(a) defined-contribution plan was \$759,000 and \$603,000 in fiscal years 2022 and 2021, respectively. Only the Hospital contributes to this plan.

Certain employees participate in the Education Employee Retirement Plan, a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for eligible employees. The Hospital has accrued a net pension liability at June 30, 2022 and 2021 of approximately \$1.1 million and \$4.6 million, respectively.

(16) Commitments and 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.

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

Based on the information that is currently available to the 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.

(17) Subsequent Events

The Hospital has evaluated subsequent events from the date of the statement of net position through October 12, 2022, the date at which the financial statements were available to be issued. No matters requiring adjustment to the financial statements have been identified.

UNIVERSITY OF NEW MEXICO HOSPITAL

Comparison of Budgeted and Actual Revenues and Expenses

Year ended June 30, 2022

	<u>Budget (original)</u>	<u>Budget (final)</u>	<u>Actual</u>	<u>Budget variance</u>
Operating revenues:				
Net patient service	\$ 1,169,366,051	1,242,259,546	1,285,155,652	42,896,106
Other operating revenue	<u>50,133,140</u>	<u>55,694,670</u>	<u>51,581,312</u>	<u>(4,113,358)</u>
Total operating revenues	1,219,499,191	1,297,954,216	1,336,736,964	38,782,748
Operating expenses	<u>(1,254,311,713)</u>	<u>(1,401,110,982)</u>	<u>(1,443,868,078)</u>	<u>(42,757,096)</u>
Operating loss	(34,812,522)	(103,156,766)	(107,131,114)	(3,974,348)
Nonoperating revenues and other revenues, net	<u>88,538,283</u>	<u>103,822,741</u>	<u>109,278,888</u>	<u>5,456,147</u>
Increase in net position	<u>\$ 53,725,761</u>	<u>665,975</u>	<u>2,147,774</u>	<u>1,481,799</u>

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.

See accompanying independent auditors' report.

UNIVERSITY OF NEW MEXICO HOSPITAL

Pledged Collateral by Banks

Year ended June 30, 2022

	Pledged collateral			Wells Fargo Bank	Total
	Type of security	CUSIP	Maturity	Albuquerque, New Mexico	
Funds on deposit:					
Demand deposits				\$ 415,258,059	415,258,059
FDIC insurance				(250,000)	(250,000)
Total uninsured public funds				<u>415,008,059</u>	<u>415,008,059</u>
50% collateral requirement per Section 6-10-17 NMSA				207,504,030	207,504,030
Pledged collateral*					
	FMAC	3140EWA70	5/1/2031	12,965,997	12,965,997
	FMAC	3140FCTG3	2/1/2047	11,016,750	11,016,750
	FMAC	3140JYK62	11/1/2049	12,400,561	12,400,561
	FMAC	3140K0YY8	1/1/2050	5,522,313	5,522,313
	FMAC	3140K16J0	1/1/2050	26,770,691	26,770,691
	FMAC	3140K5JR9	2/1/2050	28,500,598	28,500,598
	FMAC	3140LNGH4	9/1/2051	13,768,383	13,768,383
	FMAC	3140XCTK4	7/1/2047	20,834,451	20,834,451
	FMAC	31418B5E2	6/1/2031	14,062,052	14,062,052
	FNMA	36179SSQ1	12/20/2046	891,487	891,487
	FNMA	36179TNR2	12/20/2047	28,610,949	28,610,949
	FNMA	36179UCB6	9/20/2048	44,920,144	44,920,144
	FNMA	36179VME7	5/20/2050	62,239,050	62,239,050
	FNMA	36179XAA4	6/20/2052	54,004,068	54,004,068
	FNMA	3617NASR2	7/20/2050	29,981,791	29,981,791
	FNMA	3622AALL6	3/20/2050	13,510,717	13,510,717
	FNMA	3622ABL26	1/20/2052	35,561,933	35,561,933
				<u>415,561,935</u>	<u>415,561,935</u>
Total pledged collateral					
Excess of pledged collateral over the required amount				\$ <u>208,057,905</u>	<u>208,057,905</u>

* Pledged collateral is held in safekeeping by the Bank of New York Mellon in the Hospital's name.

See accompanying independent auditors' report.

UNIVERSITY OF NEW MEXICO HOSPITAL

Schedule of Individual Deposit and Investment Accounts

Year ended June 30, 2022

Name of bank/broker	Account type	Balance per bank statement	Reconciled balance per financial statement
UNM Hospital cash:			
Wells Fargo Bank:			
Operating	Checking	\$ 415,236,077	388,319,546
Operating	Savings	21,982	21,982
Petty cash	Cash on hand	—	38,545
Total UNM Hospital cash		<u>\$ 415,258,059</u>	<u>388,380,073</u>
UNM Hospital short-term investments:			
US Bank	Money market funds	\$ 318,474	318,474
US Bank	U.S. Treasury notes	35,679,411	35,679,411
Total UNM Hospital short-term investments		<u>\$ 35,997,885</u>	<u>35,997,885</u>
UNM Hospital long-term investments:			
Investment in TriWest	Equity securities	\$ 5,000,000	5,000,000
Investment in TriCore Reference Lab (TRL)	Equity securities	25,352,987	25,352,987
Investment in TLSC	Equity securities	6,718,460	6,718,460
Total UNM Hospital long-term investments		<u>\$ 37,071,447</u>	<u>37,071,447</u>

See accompanying independent auditors' report.



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

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

The University of New Mexico Hospital
Board of Trustees and Mr Brian Colón, New Mexico State Auditor:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of New Mexico Hospital (the Hospital), a division of the University of New Mexico (the University), which comprise the statement of net position as of June 30, 2022, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 12, 2022.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital'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 Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
October 12, 2022

UNIVERSITY OF NEW MEXICO HOSPITAL

Summary of Audit Results

Fiscal year ended June 30, 2022

Type of auditor report issued: Unmodified

Fiscal year 2022 Findings and responses:

Material weakness: No matters to report

Significant deficiencies: No matters to report

Material noncompliance: No matters to report

Other Findings as Required by Section 12-6-5 NMSA 1978

No matters to report

UNIVERSITY OF NEW MEXICO HOSPITAL

Summary of Prior Year Findings

Year ended June 30, 2022

Finding 2021-001 User Access Review – Other Matter (finding that does not rise to the level of significant deficiency)

Matter resolved.

UNIVERSITY OF NEW MEXICO HOSPITAL

Exit Conference

Year ended June 30, 2022

An exit conference was conducted on October 6, 2022 with members of the Finance and Audit Committee of the Board of Trustees and members of the Hospital's management. During this meeting, the contents of this report were discussed.

Tamra Mason, Compliance and Audit Committee Chair

Terry Horn, Compliance and Audit Committee Member

Del Archuleta, Compliance and Audit Committee Member

Michael Brasher, Compliance and Audit Committee Member

Kate Becker, Chief Executive Officer, UNM Hospitals

Bonnie White, Chief Financial Officer, UNM Hospitals

Julie Alliman, Executive Director of Finance, UNM Hospitals

Paula Williams, Senior Executive Director of Revenue Cycle, UNM Hospitals

Angela Vigil, Executive Director of Compliance, UNM Hospitals

Sara Frasch, Chief Human Resources Officer, UNM Hospitals

Jennifer James, Senior Associate University Counsel, UNM

Ajay Gupta, Partner, Clifton Larson Allen

Dave Strzyzewski, Senior Manager, Clifton Larson Allen

John Kennedy, Partner, KPMG LLP

Susan Warren, Partner, KPMG LLP