



Report of Independent Auditors
and Financial Statements
with Supplementary Information

University of New Mexico Hospital

June 30, 2023 and 2022

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**University of New Mexico Hospital
Official Roster
Year Ended June 30, 2023**

UNM Hospital Board of Trustees

Kurt Riley	Chair (Term expires 6/30/26, 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 "Del" Archuleta	Member (Term expires 6/30/25, Regent appointed)
Kenneth "Ken" Lucero	Member (Term expires 6/30/25, All Pueblo Council of Governors, Regent appointed)
Terry Horn	Member (Term expires 6/30/23, Regent appointed)
Michael Brasher	Member (Term expires 6/30/23, County appointed)
Trey Hammond	Member (Term expires 6/30/26, County appointed)
Davin Quinn, MD	Member (Term expires 6/30/24, Regent appointed)

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

Report of Independent Auditors

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Joseph M. Maestas, P.E.
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, which comprise the statement of net position as of June 30, 2023, 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, which collectively comprise the Hospital's basic financial statements 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, 2023, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the basic financial statements, in 2023, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

Other Matter

The financial statements of the Hospital for the year ended June 30, 2022 were audited by another auditor, who expressed an unmodified opinion on those statements on October 12, 2022.

Responsibilities of Management for the Financial Statements

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

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

Auditor's 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 auditor's 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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 6 through 17 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. 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) (collectively Schedules 1-3) for the year ended June 30, 2023, 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 and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1-3 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2023, 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.



Albuquerque, New Mexico
October 3, 2023

Management Discussion and Analysis

University of New Mexico Hospital Management Discussion and Analysis June 30, 2023 and 2022

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, 2023 and 2022. 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 Discussion and Analysis
June 30, 2023 and 2022

Three-year comparison of financial results

Condensed Summary of Net Position			
	June 30,		
	2023	2022	2021
Assets			
Current assets	\$ 559,213,526	\$ 577,382,198	\$ 635,369,634
Capital assets	673,611,906	428,527,134	262,033,293
Right to use and SBITA assets	38,159,089	46,712,156	12,320,580
Other noncurrent assets	139,656,722	310,699,359	387,439,028
Total assets	\$ 1,410,641,243	\$ 1,363,320,847	\$ 1,297,162,535
Deferred outflows			
Total deferred outflows of resources	\$ 138,988	\$ 911,385	\$ 2,068,092
Liabilities			
Current liabilities	\$ 329,622,509	\$ 357,826,823	\$ 365,101,647
Noncurrent liabilities	259,258,706	166,837,082	98,239,079
Total liabilities	\$ 588,881,215	\$ 524,663,905	\$ 463,340,726
Deferred inflows			
Total deferred inflows of resources	\$ 464,028	\$ 2,087,724	\$ 557,072
Net position			
Net investment in capital assets	\$ 438,442,255	\$ 302,286,867	\$ 181,678,293
Restricted net position, expendable	39,429,517	37,665,522	44,962,140
Unrestricted net position	343,563,216	497,528,214	608,692,396
Total net position	\$ 821,434,988	\$ 837,480,603	\$ 835,332,829

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 \$183.1 million, \$229.1 million and \$322.2 million as of June 30, 2023, 2022 and 2021, respectively. The \$46.0 million decrease in unrestricted cash balances from June 30, 2022 to June 30, 2023 is primarily due to a decrease in operating revenue of \$35.3 million. The \$93.1 million decrease in unrestricted cash balances from June 30, 2021 to June 30, 2022 was primarily due to an increase in operating expenses of \$110.6 million.

The unrestricted days cash on hand for the Hospital was 45, 57 and 86 as of June 30, 2023, 2022 and 2021, 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 Discussion and Analysis June 30, 2023 and 2022

The second most significant current asset is patient receivables. The patient receivables balance was \$154.9 million, \$148.0 million and \$144.5 million as of June 30, 2023, 2022 and 2021, respectively. The increase in net patient receivables of \$6.9 and \$3.4 million as of June 30, 2023 and 2022 is primarily due to an increase in days in accounts receivable. 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, 2023, 2022 and 2021, the Hospital's current assets of \$559.2 million, \$577.4 million and \$635.4 million, respectively, were sufficient to cover current liabilities of \$329.6 million (current ratio of 1.7), \$357.8 million (current ratio of 1.6) and \$365.1 million (current ratio of 1.7), respectively.

Noncurrent 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 \$37.4 million, \$159.3 million and \$188.7 million as of June 30, 2023, 2022 and 2021, respectively. The restricted cash includes cash designated by management for capital replacement and cash restricted by donors. The \$121.8 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, 2023.

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 current liability is estimated third-party payor settlements payable of \$141.4 million, \$125.8 million and \$109.9 million as of June 30, 2023, 2022 and 2021, respectively. The increase of \$15.6 million in estimated third-party payor settlements at June 30, 2023 as compared to June 30, 2022 is primarily due to an increase in intergovernmental transfers (IGT) due to NM Department of Health for an intergovernmental transfer and the timing of IGT payments.

The next most significant current liability is the accounts payable balance of \$62.1 million, \$76.5 million and \$57.3 million as of June 30, 2023, 2022 and 2021, respectively. The balances in accounts payable were primarily related to medical services, contract labor, medical supplies, including pharmaceuticals and biologics as well as capital projects at June 30, 2023 and 2022.

Total net position as of June 30, 2023 decreased by \$16.0 million to \$821.4 million. The decrease is due to an operating loss of \$130.0 million primarily driven by a decrease in operating revenues of \$35.3 million. 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 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.

University of New Mexico Hospital
Management Discussion and Analysis
June 30, 2023 and 2022

Condensed Summary of Revenues, Expenses, and Changes in Net Position			
	Years Ended June 30,		
	2023	2022	2021
Total operating revenues	\$ 1,301,443,587	\$ 1,336,736,964	\$ 1,308,231,066
Total operating expenses	<u>(1,431,431,798)</u>	<u>(1,443,868,078)</u>	<u>(1,333,229,441)</u>
Operating loss	(129,988,211)	(107,131,114)	(24,998,375)
Nonoperating revenues and expenses	<u>113,942,596</u>	<u>109,278,888</u>	<u>170,452,210</u>
Total (decrease) increase in net position before capital transfer	(16,045,615)	2,147,774	145,453,835
Capital initiatives transfer	<u>-</u>	<u>-</u>	<u>196,000,000</u>
Total (decrease) increase in net position after capital transfer	(16,045,615)	2,147,774	341,453,835
Net position, beginning of year	<u>837,480,603</u>	<u>835,332,829</u>	<u>493,878,994</u>
Net position, end of year	<u>\$ 821,434,988</u>	<u>\$ 837,480,603</u>	<u>\$ 835,332,829</u>

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 \$1.301 billion, \$1.337 billion and \$1.308 billion for the years ended 2023, 2022 and 2021, respectively.

Net patient service revenues are comprised of gross patient revenues net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Also included in net patient service revenue are payments received for Indirect Medical Education (IME), Graduate Medical Education (GME), Directed Upper Payment Limit (UPL) and IGT expense. Net patient service revenues were \$1.264 billion, \$1.285 billion and \$1.258 billion for the years ended 2023, 2022 and 2021, respectively.

Net patient service revenues for the fiscal year ended June 30, 2023 decreased \$21.3 million from \$1.285 billion, or 2%, in fiscal year ended June 30, 2022. This decrease is primarily due to a decrease in inpatient volumes.

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 Discussion and Analysis
June 30, 2023 and 2022

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

	Years Ended June 30,		
	2023	2022	2021
Total licensed beds	537	537	537
Percent of occupancy (staffed beds)	97.2 %	103.4 %	93.6 %
Discharges	26,518	26,893	25,127
Patient days	177,449	189,851	171,600
Observation days	13,497	13,362	12,430
Average length of stay	7.0	7.4	6.8
Outpatient visits	549,832	561,356	534,963
Emergency visits	75,036	78,023	101,494
Urgent care visits	22,638	20,333	10,404
Surgeries	21,064	20,357	19,661

Overall patient and observation days for the year ended June 30, 2023 decreased by 12,267 from the year ended June 30, 2022, which represents a 6% decrease. 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, 2023 and 2022. However, the expiration of the public health emergency and the decline in COVID-19 patient volumes resulted in an occupancy lower than 100% for the year ended June 30, 2023. Patient discharges decreased 375 compared to fiscal year ended June 30, 2022, which represents a 1% decrease. Surgical volumes increased for the year ended June 30, 2023 by 3%.

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.

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 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.

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2023 and 2022

As of June 30, 2023, 2022 and 2021, there were approximately 4,800, 4,300 and 3,900 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. 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, 2023, 2022 and 2021 was approximately \$53.7 million, \$46.8 million and \$30.7 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 the years ending June 30, 2023, 2022 and 2021 was \$35.0 million, \$48.4 million and \$59.0 million, respectively.

The Hospital recognized intergovernmental transfers (IGTs) to the State of New Mexico in the amounts of \$65.0 million, \$60.4 million and \$61.7 million, respectively, for the years ended June 30, 2023, 2022 and 2021. 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 – In order to expand its outpatient pharmacy capacity, the Hospital has entered 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 \$29.6 million, \$44.1 million and \$43.6 million for pharmacy services in other operating revenue for the years ended June 30, 2023, 2022 and 2021, respectively. The decrease in contract pharmacy revenue from the years ended June 30, 2022 to June 30, 2023 is due to manufacturers limiting hospital's use of 340b drugs at contract pharmacies.

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, 2023, operating expenses totaled \$1.43 billion, a decrease from the year ended June 30, 2022 of \$12.4 million or 1%. The most significant expenditures were for employee compensation and benefits.

Compensation and benefits combined were \$689.8 million, \$720.1 million and \$632.2 million for the years ended June 30, 2023, 2022 and 2021, respectively. For fiscal years ended June 30, 2023, 2022 and 2021, the percentage of compensation and benefits combined to total operating expenses was 48.2%, 49.9% and 47.4%, respectively. Compensation and benefits decreased \$30.3 million, or 4%, during the year ended June 30, 2023, primarily due to a decrease in other contract labor offset by an increase of regular wages, overtime wages and training and orientation wages for new employees. The decrease in contract labor expense is primarily related to improved market rates for contracted clinical labor.

University of New Mexico Hospital
Management Discussion and Analysis
June 30, 2023 and 2022

After compensation and benefits the most significant change in operating expense is an increase in medical services of \$16.2 million (6.5%) during the year ended June 30, 2023 as a result of increased lab expense and physician support.

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.

Operating expense mix for the years ended June 30, 2023, 2022 and 2021 is detailed below:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Employee compensation	41 %	43 %	40 %
Benefits	7	7	8
Medical supplies	18	17	18
Medical services	17	16	17
Purchased services	5	5	6
Equipment	4	4	4
Depreciation	2	2	2
Gross receipts tax	2	2	2
Occupancy	2	2	1
Other supplies	1	1	1
Other	1	1	1

Nonoperating revenues and expenses – The sources of nonoperating revenues for the Hospital are Bernalillo County mill levy, CARES Act funding, FEMA funding, State appropriation, bequests and contributions, State of New Mexico Land and Permanent fund, investment revenues and other nonoperating revenues. The sources of nonoperating expenses for the Hospital are interest on capital asset related debt and other nonoperating expenses. Net nonoperating revenues were \$113.9 million, \$109.2 million and \$170.5 million for the years ended June 30, 2023, 2022 and 2021, respectively.

The Bernalillo County mill levy tax subsidy is the most significant nonoperating revenue, totaling \$102.6 million, \$97.6 million and \$95.3 million in years ended June 30, 2023, 2022 and 2021, 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.

The Hospital received CARES Act funding of \$4.4 million and \$60.9 million in the years ended June 30, 2022 and 2021, respectively. This funding was provided to offset increased costs associated with responding to the Coronavirus disease 2019 (COVID-19) pandemic.

The Hospital received State appropriation funding of \$7.4 million, \$6.3 million and \$6.0 million in 2023, 2022 and 2021, respectively. Included in this amount was \$7.0 million, \$5.9 million and \$5.5 million for the Carrie Tingley Hospital (CTH) in 2023, 2022 and 2021, respectively, and \$451 thousand for the Young Children’s Health Center (YCHC) in 2023, 2022 and 2021, respectively. State land revenue and oil and gas royalties for CTH for 2023, 2022 and 2021 were \$1.2 million, \$1.1 million and \$944 thousand, respectively.

University of New Mexico Hospital
Management Discussion and Analysis
June 30, 2023 and 2022

Contribution revenue was \$5.1 million, \$3.7 million and \$2.8 million in 2023, 2022 and 2021, 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 \$6.0 million, \$3.6 million and \$2.8 million of interest expense on capital asset related debt for each of the years ended June 30, 2023, 2022 and 2021, respectively.

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 has been recognized as an increase to net position. There were no additional capital initiatives designated for the Hospital during the years ended June 30, 2022 and 2023.

Capital assets – At June 30, 2023, the Hospital had \$673.6 million invested in capital assets, net of accumulated depreciation of \$481.2 million. Depreciation charges for the year ended June 30, 2023 totaled \$33.8 million compared to \$33.5 million and \$33.3 million in years ended June 30, 2022 and 2021, respectively.

	2023	2022	2021
Land, building, and improvements	\$ 264,563,411	\$ 264,142,548	\$ 189,981,913
Building service equipment	224,510,559	203,046,994	174,467,212
Major moveable equipment	189,103,502	183,210,861	173,870,049
Computer software	49,732,507	49,412,954	47,625,544
Computer equipment	27,260,444	22,973,849	20,631,691
Fixed equipment	18,016,443	17,494,085	16,857,857
Construction in progress	381,615,258	142,673,424	72,989,212
	1,154,802,124	882,954,715	696,423,478
Less accumulated depreciation	(481,190,218)	(454,427,581)	(434,390,185)
Net property and equipment	\$ 673,611,906	\$ 428,527,134	\$ 262,033,293

During 2023, the largest capital increases were building service equipment, major moveable equipment and computer equipment (\$31.6 million) and construction in progress (\$261.7 million in additions offset by \$22.7 million of completed projects), these increases were offset by retirements of assets in the amount of \$7.2 million.

During 2022, the largest capital increases were land, building, and building improvements (\$74.2 million) and construction in progress (\$69.7 million in additions offset by \$106.6 million of completed projects) and. 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.

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, 2022 and 2023. The new critical care tower building is the most significant project in the construction in progress balance and is a multiyear project expected to be completed by 2025 year end.

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2023 and 2022

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 in fiscal year 2025. The Hospital is funding the expansion through a mixture of debt issuance, cash reserved for Capital Initiatives and operating cash.

Debt activity – The Hospital's bonds payable totaled \$68.0 million and \$74.3 million at June 30, 2023 and 2022, respectively. The bonds are Federal Housing Administration (FHA) insured Hospital Mortgage Revenue Bonds and were issued pursuant to a trust indenture, dated May 1, 2015. The bonds carry interest rates that range from 0.484% to 3.532%.

The current portion of this debt is \$6.5 million and \$6.3 million at June 30, 2023 and 2022, 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 years ended June 30, 2023 and 2022, the Hospital drew down \$114.8 and 51.7 million and incurred interest of \$3.5 and 881 thousand, respectively.

The loan guarantee is considered federal assistance subject to the requirements of Office of Management and Budget (OMB) uniform guidance. Accordingly, the loan guarantee is considered a federal award for purposes of UNM's June 30, 2023 and 2022 Single Audit.

Change in net position – The Hospital's total change in net position was a net decrease for the year ended June 30, 2023. 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 decreased approximately \$16.0 million in fiscal year ended June 30, 2023. The decrease in net position is due to net nonoperating revenue of \$113.9 million offset by an operating loss of \$130.0 million. 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.

University of New Mexico Hospital Management Discussion and Analysis June 30, 2023 and 2022

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. 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 Resource Center) at \$2.06 million 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 thousand 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 COVID-19. The PHE declaration officially ended May 11, 2023.

As part of the Families First Coronavirus Response Act (FFCRA) enacted by Congress at the start of the pandemic, Medicaid programs were directed to keep members continuously enrolled in Medicaid through the end of the COVID-19 PHE. Medicaid received enhanced federal funding in order to do this. The Consolidated Appropriations Act (CAA) of 2023 which was signed into law on December 29, 2022, delinked the continuous enrollment provision from the PHE and ended continuous enrollment on March 31, 2023. The CAA also phases down the enhanced federal Medicaid matching funds through December 2023. Primarily due to the continuous enrollment provision, Medicaid enrollment nationwide as well as in New Mexico has grown substantially compared to pre-pandemic levels and the uninsured rate has dropped. New Mexico Medicaid began sending notices to those who were still active on the Medicaid rolls letting them know that they would need to re-enroll to continue their Medicaid coverage. Anyone who does not re-enroll or who no longer meets the criteria to receive Medicaid benefits will be disenrolled. The disenrollment began May 31, 2023 and New Mexico Human Services Department estimated that as many as 100,000 members could be disenrolled. It is not known at this time how many of those will be eligible for other coverage or will be uninsured.

The Hospital continues to operate at physical capacity for adult patients. The new Critical Care Tower is scheduled to open in fiscal year 2025. 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.

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2023 and 2022

On August 1, 2023, the Centers for Medicare and Medicaid Services (CMS) released the Federal Fiscal Year (FFY) 2024 Inpatient Prospective Payment System (IPPS) Final Rule. The final rule included a total update factor of 3.1% comprised of a market basket increase of 3.3% and a productivity decrease of 0.2%. The Hospital will receive a 1.91% increase to the national labor and non-labor components of the DRG rate and a 1.63% decrease in the hospitals wage index as the Metropolitan Statistical Area's average hourly wage for Bernalillo County declined. However, the Hospital still qualifies for a geographical wage reclassification to Santa Fe County through FFY 2025. The Hospital's Uncompensated Care (UC) disproportionate share hospital (DSH) payments are estimated to decrease \$973 thousand or 13.48%. This is primarily due to the drop in the National UC funding Pool that was \$936 million less compared to FFY2023 due to a drop in the national uninsured rate.

CMS also finalized the policy effective October 1, 2023, to allow dual-status hospitals that are both designated as a rural hospital and approved for a Medicare geographic wage index reclassification to begin receiving Medicare Capital DSH payments. Prior to October, 1, 2023, dual-status hospitals were not permitted under CMS regulations to receive capital DSH payments.

In January 2018, CMS reset Medicare payments for drugs obtained under the 340b program from the average sales price (ASP) plus 6 percent to ASP minus 22.5 percent. 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 and 2019 which were the basis of the lawsuits. The Court did not directly address subsequent years. CMS Outpatient Prospective Payment rates (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.

CMS announced on October 13, 2022, that Medicare Administrative Contractors (MACs) would reprocess claims for 340b acquired drugs paid under OPSS for claims paid on or after September 28, 2022. Claims paid prior to September 28, 2022 for calendar year (CY) 2022 dates of service would need to be re-submitted by providers to the MACs for adjustment.

CMS issued a proposed rule on July 7, 2023 proposing to make a lump sum payment to providers affected by the payment reduction related to 340b acquired drugs the time period of CY2018 through third quarter of CY2022. CMS also proposed a budget neutrality adjustment to offset the 340b lumpsum payments. This adjustment would reduce future non-drug item and service payments by adjusting the OPSS conversion factor by minus 0.5% starting in CY2025 and continuing this adjustment until the full amount is offset, which CMS estimates to be 16 years. The financial impact of this is not known at this time.

In July 2023, CMS released the CY2024 proposed OPSS rule CMS provides for a hospital market basket increase of 3.0% and a productivity decrease of 0.2% to total a 2.8% increase to OPSS rates for CY2024. The CY2024 OPSS proposed rule would also maintain full Medicare Part B drug payment to hospitals in the 340b Drug Pricing Program at Average Sale Price (ASP) plus 6%. UNMH impact is estimated to be an increase of \$589 thousand for a 12 month period.

University of New Mexico Hospital
Management Discussion and Analysis
June 30, 2023 and 2022

With regard to Price Transparency, CMS has proposed that hospitals be required to display the standard charges data using a CMS template, beginning in 2024. Hospitals would also have to encode all standard charge information, as applicable, that corresponds to a set of required data elements. CMS may require submission of certification by an authorized hospital official as to the accuracy and completeness of the data in the machine-readable file and require the submission of additional documentation it deems necessary to determine hospital compliance.

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.

Financial Statements

University of New Mexico Hospital
Statements of Net Position
June 30, 2023 and 2022

	2023	2022
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 183,105,669	\$ 229,127,260
Marketable securities	36,246,218	35,997,885
Restricted assets by trustee for debt service	335,623	210,410
Receivables		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately \$199,626,000 in 2023 and \$198,051,000 in 2022)	154,914,547	147,987,855
Due from University of New Mexico entities	22,543,589	9,345,300
Estimated third-party payor settlements	127,239,593	114,027,989
Bernalillo County Treasurer	1,729,825	1,786,149
Other	5,924,943	13,090,946
Total net receivables	312,352,497	286,238,239
Prepaid expenses	4,990,567	4,594,638
Inventories	22,182,952	21,213,766
Total current assets	559,213,526	577,382,198
NONCURRENT ASSETS		
Restricted and designated assets		
Assets held by trustee		
Restricted for mortgage reserve fund	18,508,578	17,965,789
Assets restricted by donors	20,585,316	19,489,323
Assets designated by UNM Hospital	63,274,712	236,172,800
Assets designated by UNM Hospital Board of Trustees	37,030,599	37,071,447
Total restricted and designated assets	139,399,205	310,699,359
Capital assets, net	673,611,906	428,527,134
Right to use and SBITA assets, net	38,159,089	46,712,156
Due from affiliates	257,517	-
Total noncurrent assets	851,427,717	785,938,649
TOTAL ASSETS	\$ 1,410,641,243	\$ 1,363,320,847
DEFERRED OUTFLOWS		
Total deferred outflows related to pensions	\$ 138,988	\$ 911,385

See accompanying notes.

University of New Mexico Hospital
Statements of Net Position
June 30, 2023 and 2022

	2023	2022
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 62,062,942	\$ 76,481,607
Accrued payroll	18,803,335	37,998,706
Due to University of New Mexico entities	56,932,877	52,887,514
Bonds payable – current	6,480,000	6,285,000
Lease and SBITA payable - current	8,125,628	8,226,087
Accrued compensated absences	31,082,102	31,520,720
Estimated third-party payor settlements	141,396,980	125,752,437
Medicare Advance Payment Plan	392	15,596,668
Other accrued liabilities	4,738,253	3,078,084
	<u>329,622,509</u>	<u>357,826,823</u>
NONCURRENT LIABILITIES		
Bonds payable	61,485,000	67,965,000
Mortgage payable	166,499,968	51,689,289
Lease and SBITA liability	30,738,143	38,787,047
Due to affiliates	-	7,271,029
Net pension liability	535,595	1,124,717
	<u>259,258,706</u>	<u>166,837,082</u>
Total liabilities	<u>\$ 588,881,215</u>	<u>\$ 524,663,905</u>
DEFERRED INFLOWS		
Total deferred inflows related to pensions	<u>\$ 464,028</u>	<u>\$ 2,087,724</u>
NET POSITION		
Net investment in capital assets	\$ 438,442,255	\$ 302,286,867
Restricted, expendable		
For grants, bequests, and contributions	20,585,316	19,489,323
In accordance with the trust indenture and debt agreement	18,844,201	18,176,199
Unrestricted	343,563,216	497,528,214
	<u>438,442,255</u>	<u>302,286,867</u>
TOTAL NET POSITION	<u>\$ 821,434,988</u>	<u>\$ 837,480,603</u>

See accompanying notes.

University of New Mexico Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Net patient service	\$ 1,263,891,258	\$ 1,285,155,652
State and local contracts and grants	1,809,284	1,877,868
Other operating	35,743,045	49,703,444
Total operating revenues	<u>1,301,443,587</u>	<u>1,336,736,964</u>
OPERATING EXPENSES		
Employee compensation	583,049,786	613,869,362
Benefits	106,748,957	106,250,769
Medical supplies	251,933,258	252,082,973
Medical services	248,016,873	231,861,801
Purchased services	75,498,283	77,503,950
Equipment	54,064,660	57,424,769
Depreciation	33,758,665	33,543,153
Gross Receipts Tax	25,574,623	24,786,707
Occupancy	21,360,877	21,230,314
Other supplies	11,596,228	10,620,898
Other	19,829,588	14,693,382
Total operating expenses	<u>1,431,431,798</u>	<u>1,443,868,078</u>
Operating loss	<u>(129,988,211)</u>	<u>(107,131,114)</u>
NONOPERATING REVENUES (EXPENSE)		
Bernalillo County mill levy	102,552,193	97,605,586
State appropriation	7,408,800	6,330,200
Bequests and contributions	5,110,819	3,681,350
Equity (loss) income of TriCore and TriCore Lab Svc Corp.	(40,847)	2,257,574
State of New Mexico Land and Permanent Fund proceeds	1,172,592	1,056,946
Cares Act Funding	-	4,396,870
Investment income (loss)	2,636,914	(746,973)
Interest on capital asset-related debt	(5,988,872)	(3,553,067)
Debt insurance costs	-	(7,483,401)
Other nonoperating revenue	6,531,363	8,991,382
Other nonoperating expense	(5,440,366)	(3,257,579)
Net nonoperating revenue (expense)	<u>113,942,596</u>	<u>109,278,888</u>
(Decrease) increase in net position	(16,045,615)	2,147,774
NET POSITION		
Beginning of year	<u>837,480,603</u>	<u>835,332,829</u>
End of year	<u>\$ 821,434,988</u>	<u>\$ 837,480,603</u>

See accompanying notes.

University of New Mexico Hospital
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from Medicaid and Medicare	\$ 870,210,514	\$ 805,341,146
Cash received from insurance and patients	413,945,400	466,317,295
Cash received from contracts and grants	1,874,324	1,793,358
Cash payments to employees	(475,820,969)	(441,215,831)
Cash payments for contract labor	(106,270,144)	(158,276,227)
Cash payments to suppliers	(585,670,549)	(564,759,426)
Cash payments to University of New Mexico entities	(240,134,728)	(188,519,455)
Cash payments to State of New Mexico for intergovernmental transfer	(40,354,685)	(53,099,710)
Cash payments to the State of NM for Gross Receipts Tax	(25,574,623)	(26,977,307)
Cash payments to affiliates	(7,528,546)	(1,530,025)
Other receipts	33,611,959	52,572,413
Net cash from operating activities	<u>(161,712,047)</u>	<u>(108,353,769)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from Bernalillo County mill levy	102,608,517	97,717,522
Cash received from state general fund and other state fund appropriations	7,206,900	6,128,300
Cash received from State of New Mexico Land and Permanent Fund	1,172,592	1,056,946
Cash paid for/receipts from other than capital or operating purposes	187,381	-
Cash received from contributions for other-than-capital purposes	5,110,819	3,681,350
Cash received from CARES Act	-	4,396,870
Cash received from FEMA	15,749,176	-
Net cash from noncapital financing activities	<u>132,035,385</u>	<u>112,980,988</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal payments of bonds	(6,285,000)	(6,105,000)
Interest payments on capital assets-related to debt	(5,988,872)	(3,553,067)
Purchases of capital assets	(279,006,457)	(200,768,799)
Cash payments for lease and SBITA liabilities	(10,798,517)	(8,445,104)
Cash received from draws on construction loan	114,810,679	51,689,289
Cash paid for debt issuance	-	(7,483,401)
Cash received from UNM Capital Initiatives	50,000,000	50,000,000
Cash payments for debt-related activities	(2,589,311)	(2,731,804)
Net cash from capital financing activities	<u>(139,857,478)</u>	<u>(127,397,886)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash withdrawals from 2015 bond reserve fund	-	2,105
Proceeds from sales and maturities of investments	27,205,800	30,244,548
Purchase of investments	(27,445,342)	(30,605,334)
Interest and dividends on investments	1,946,391	638,472
Net cash from investing activities	<u>1,706,849</u>	<u>279,791</u>
Net decrease in cash and cash equivalents	<u>(167,827,291)</u>	<u>(122,490,876)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>388,380,073</u>	<u>510,870,949</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 220,552,782</u>	<u>\$ 388,380,073</u>

See accompanying notes.

University of New Mexico Hospital
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (129,988,211)	\$ (107,131,114)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	33,758,665	33,543,153
Lease and SBITA amortization	8,553,067	8,746,082
Provision for doubtful accounts	34,966,468	48,411,955
Changes in assets, deferred outflows, liabilities, and deferred inflows		
Patient receivables	(41,893,160)	(51,860,061)
Due from University of New Mexico entities	(13,198,289)	846,112
Estimated third-party payor settlements receivables	(13,211,604)	(24,886,621)
Other receivables and prepaid expenses	(2,461,975)	2,941,301
Inventories	(969,186)	(2,698,271)
Deferred outflows related to pensions	772,397	1,156,707
Medicare Advanced Payment Plan	(15,596,276)	(54,115,932)
Accounts payable	(14,418,665)	19,133,082
Accrued expenses	(17,973,820)	(8,081,476)
Due to University of New Mexico entities	4,045,363	13,259,306
Estimated third-party payor settlements liabilities	15,644,543	15,853,738
Due to/from affiliates	(7,528,546)	(1,530,025)
Net pension liability	(589,122)	(3,472,357)
Deferred inflows of resources related to pensions	(1,623,696)	1,530,652
Net cash from operating activities	<u>\$ (161,712,047)</u>	<u>\$ (108,353,769)</u>

See accompanying notes.

University of New Mexico Hospital

Notes to Financial Statements

Note 1 – Description of Business

University of New Mexico Hospital (the Hospital), operated by the University of New Mexico (UNM) Health Sciences Center (HSC), is certified as a short-term acute care provider with a full range of medical services provided primarily to the New Mexico community. UNM is a state institution of higher education created by the New Mexico Constitution. The accompanying financial statements of the Hospital are intended to present the financial position and changes in financial position and cash flows of only that portion of the business-type activities of UNM, 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 9, Bonds Payable); (ii) the Hospital was authorized to obtain the HUD-insured loan; (iii) the Hospital was authorized to encumber the Lease with a leasehold mortgage; and (iv) the actions that are to be taken concerning the operations of the Hospital in the event of a default under the HUD-insured loan were described.

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

	2023	2022
Total operating revenues	\$ 13,030,947	\$ 13,561,922
Total operating expenses	(21,138,778)	(21,473,558)
Operating loss	(8,107,831)	(7,911,636)
Nonoperating revenue	8,250,711	6,996,736
Total increase (decrease) in net position	142,880	(914,900)
Net position, beginning of year	3,056,143	3,971,043
Net position, end of year	\$ 3,199,023	\$ 3,056,143

University of New Mexico Hospital

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies

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

Recent accounting pronouncements – GASB Statement No. 96, *Subscription-based Information Technology Arrangements*, was adopted effective July 1, 2022. 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 adoption of this standard resulted in a restatement of the beginning asset of \$36,422,183 and liability of \$36,422,183 related to SBITA assets. There was no impact to the net position as a result of this restatement.

University of New Mexico Hospital

Notes to Financial Statements

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. An amendment to Statement 62, the standard clarifies practice by providing guidance for changes in the financial reporting entity, accounting principles, and estimates used to prepare financial information. The new standard also prescribes the treatment for the correction of errors in previously issued financial statements. The requirements of this statement apply to the financial statements of all state and local governments. The statement is effective for fiscal years beginning after June 15, 2023, the standard will affect the year-end June 30, 2024. The Hospital is evaluating the impact the standard will have on its financial statements.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objectives of this statement are to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. 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 December 15, 2023. The Hospital is evaluating the impact the standard will have on its financial statements.

Implementation Guide No. 2021-1, *Implementation Guidance Update—2021*. The implementation guide 2021 states that it may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. The amended guidance on capitalization is effective for reporting periods beginning after June 15, 2023. The Hospital is evaluating the impact the standard will have on its financial statements.

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.

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.

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.

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 integrated, academic health center and healthcare delivery system (Health System). Nonoperating revenues also include revenues earned outside the clinical operations of the hospital and their associated costs.

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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.

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. Cash balances restricted by donors held for the Center and cash designated by UNM Hospital are included in the assets designated by UNM Hospital in the Statements of Net Position. Total cash within the statements of net position at June 30 are as follows:

	2023	2022
Current assets		
Unrestricted cash and cash equivalents	\$ 183,105,669	\$ 229,127,260
Noncurrent assets		
Cash restricted by donors, the Hospital	20,585,316	19,489,323
Cash restricted by donors, the Center	342,419	320,512
Cash designated by UNM Hospital	16,519,378	139,442,978
	\$ 220,552,782	\$ 388,380,073

Investments and investment return – Investments are recorded at fair market value. At June 30, 2023 and 2022, 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.

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.

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 and surgical supplies and pharmaceuticals are stated at the lower of cost or market.

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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, 2023, \$46.4 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.

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, 2023.

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.

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.

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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.

Subscription-Based Information Technology Arrangements (SBITAs) – The Hospital is the end user for various SBITAs. Short-term SBITAs, which have a maximum possible term of 12 months or less, are recognized as an outflow of resources when payment is made. For SBITAs with subscription terms extending beyond one year, the Hospital recognizes an intangible right-to-use (RTU) subscription asset and a corresponding subscription liability.

Initial measurement of the subscription asset/liability is calculated at the present value of payments expected to be paid during the subscription term, discounted using the incremental borrowing rate. The right-to use-asset is amortized on a straight-line basis over the subscription term.

There have been no outflows of resources recognized in the reporting periods for variable payments not previously included in the measurement of the SBITA liability, or other payments such as termination penalties.

Due from/to affiliates – 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 Hospital receives all cash on behalf of the Center and pays all obligations. Amounts due from affiliates consist mainly of cash paid in excess of cash collected and do not bear interest. Amounts due to affiliates consist mainly of cash collected in excess of expenses paid and do not bear interest. The asset or liability is classified as noncurrent because it is not expected to be settled in the next year.

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, 2023 was \$392.

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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 New Mexico 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.

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.

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.

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.

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 \$1.02 million in aggregate, authorized by Bernalillo County, the City of Albuquerque, and the New Mexico Hospital Equipment Loan Council, during the years ended June 30, 2023 and 2022, respectively, as a result of the exemptions and abatements granted.

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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 the years ended 2023 and 2022 include \$7.4 and \$6.3 million, respectively, in the General Fund. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Subsection J, Higher Education.

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, 2023 and 2022, there was no income generated from unrelated activities.

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.

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 \$65.0 million and \$60.4 million in IGT obligations for fiscal years ended June 30, 2023 and 2022, 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 revenue.

Net investment in capital assets – Net investment in capital assets represents the Hospital's total investment in capital assets, net of outstanding debt related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. There were no unspent bond proceeds at June 30, 2023 and 2022.

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 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. The estimated amount of the Hospital's IBNR and accrued claims was approximately \$5.0 million at June 30, 2023 and 2022, 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 \$477,000 and \$479,000 at June 30, 2023 and 2022, respectively. The liability for IBNR was based on actuarial analysis calculated using information provided by BCBSNM.

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Notes to Financial Statements

Changes in the reported Hospital liability during fiscal years 2023 and 2022 resulted from the following:

	Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2022-2023	\$ 5,045,664	\$ 49,234,018	\$ (49,251,432)	\$ 5,028,250
2021-2022	\$ 5,111,346	\$ 52,098,836	\$ (52,164,518)	\$ 5,045,664

Classification – Certain 2022 amounts have been reclassified to conform to the 2023 presentation.

Note 3 – Cash, Cash Equivalents, and Investments

Cash and cash equivalents

Deposits – The Hospital’s deposits are held in demand accounts 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, 2023 and 2022 are \$232,810,159 and \$415,258,059, respectively.

The following collateral was held for bank balances at June 30:

	2023	2022
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	\$ 250,000	\$ 250,000
Amount collateralized with securities held in the Hospital’s name	<u>277,657,595</u>	<u>415,561,935</u>
	<u>\$ 277,907,595</u>	<u>\$ 415,811,935</u>

Custodial credit risk – deposits – Custodial credit risk is the risk that, in the event of a bank failure, the Hospital’s deposits may not be returned to it. The Hospital has a custodial risk policy for deposits that requires collateral in an amount greater than or equal to 50% of the deposit not insured by the FDIC. A greater amount of collateral is required when the Hospital determines it is prudent. As of June 30, 2023 and 2022, the Hospital’s bank deposits were not exposed to custodial credit risk.

Marketable securities

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

University of New Mexico Hospital Notes to Financial Statements

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

	June 30, 2023		
	Fair Value	Less Than 1 Year	1–5 Years
Items subject to interest rate risk			
Money market funds	\$ 478,843	\$ 478,843	\$ -
U.S. Treasury notes	35,767,375	8,843,758	26,923,617
Total items subject to interest rate risk	<u>36,246,218</u>	<u>9,322,601</u>	<u>26,923,617</u>
Total marketable securities	<u>\$ 36,246,218</u>	<u>\$ 9,322,601</u>	<u>\$ 26,923,617</u>
	June 30, 2022		
	Fair Value	Less Than 1 Year	1–5 Years
Items subject to interest rate risk			
Money market funds	\$ 318,474	\$ 318,474	\$ -
U.S. Treasury notes	35,679,411	12,366,271	23,313,140
Total items subject to interest rate risk	<u>35,997,885</u>	<u>12,684,745</u>	<u>23,313,140</u>
Total marketable securities	<u>\$ 35,997,885</u>	<u>\$ 12,684,745</u>	<u>\$ 23,313,140</u>

Custodial credit risk – debt investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral that is in the possession of an outside party. Marketable securities of \$36.2 million and \$36.0 million at 2023 and 2022, respectively, are insured, registered, and held by the counterparty’s agent in the Hospital’s name.

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

Credit risk – debt investments – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill 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.

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A summary of the marketable securities at June 30, 2023 and 2022 and their exposure to credit risk is as follows:

	2023		2022	
	Rating	Fair Value	Rating	Fair Value
Items not subject to credit risk				
U.S. Treasury securities				
Treasury notes	N/A	\$ 35,767,375	N/A	\$ 35,679,411
Items subject to credit risk				
Money market funds	Not rated	478,843	Not rated	318,474
Total marketable securities		\$ 36,246,218		\$ 35,997,885

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, 2023.

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Long-term investments

Interest rate risk – debt investments – Currently, the Hospital does not have a specific policy to limit its exposure to interest rate risk.

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

	June 30, 2023	
	Fair Value	Less Than 1 Year
Items subject to interest rate risk		
Money market fund	\$ 18,508,578	\$ 18,508,578
Items not subject to interest rate risk		
Investments in nonpublic entities*	37,030,599	-
Total long term investments	\$ 55,539,177	\$ 18,508,578

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

	June 30, 2022	
	Fair Value	Less Than 1 Year
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*	37,071,447	-
Total long term investments	\$ 55,037,236	\$ 17,965,789

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

Custodial credit risk – debt investments – As of June 30, 2023 and 2022, 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.

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.

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Notes to Financial Statements

A summary of long-term investments at June 30, 2023 and 2022 and their exposure to credit risk is as follows:

	2023		2022	
	Rating	Fair Value	Rating	Fair Value
Items subject to credit risk				
Money market funds	Not rated	\$ 18,508,578	Not rated	\$ 17,965,789
Items not subject to credit risk				
Investments in nonpublic entities*	N/A	<u>37,030,599</u>	N/A	<u>37,071,447</u>
Total long term investments		<u>\$ 55,539,177</u>		<u>\$ 55,037,236</u>

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

Note 4 – Fair Value Measurement

The Hospital accounts for investments in accordance with 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; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3** Inputs to the valuation methodology are unobserved and significant to the fair value measurement.

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

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).

University of New Mexico Hospital
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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, 2023		
	Level 1	Level 2	Level 3
Fixed income	\$ 35,767,375	\$ -	\$ -
Investment in TriWest	-	-	5,000,000
Total	\$ 35,767,375	\$ -	\$ 5,000,000

	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	\$ 35,679,411	\$ -	\$ 5,000,000

Note 5 – Concentration of Risk

The Hospital receives payment for services rendered to patients under payment arrangements with payors, which include: (i) Medicare and Medicaid; (ii) other third-party payors including commercial carriers and health maintenance organizations; and (iii) others. The other payor category includes U.S. Public Health 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:

	2023		2022	
Medicaid	\$ 113,270,659	32 %	\$ 100,741,639	29 %
Medicare	82,783,467	23	87,408,300	25
Other third-party payors	103,455,770	29	109,116,683	32
Others	55,030,152	16	48,772,547	14
Total patient accounts receivable	354,540,048	100 %	346,039,169	100 %
Less allowance for uncollectible accounts and contractual adjustments	(199,625,501)		(198,051,314)	
Patient accounts receivable, net	\$ 154,914,547		\$ 147,987,855	

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Notes to Financial Statements

Note 6 – Restricted and Designated Assets

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

	2023	2022
Cash designated by management for capital initiatives	\$ -	\$ 1,442,978
Cash designated by management for capital replacement	16,519,378	138,000,000
Cash with donor restrictions, the Hospital	20,585,316	19,489,323
Cash with donor restrictions, the Center	342,419	320,512
Capital initiatives receivable from UNM	46,412,915	96,409,310
Restricted for mortgage reserve fund	18,508,578	17,965,789
Designated by UNM Hospital Board of Trustees	37,030,599	37,071,447
	\$ 139,399,205	\$ 310,699,359

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.

Assets designated by UNM Hospital 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, 2023 and 2022.

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 \$25,312,000 and \$25,353,000 at June 30, 2023 and 2022, respectively.

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, 2023 and 2022. The investment is accounted for using the equity method. The Hospital recorded laboratory expenses of approximately \$43.0 million in 2023 and \$42.6 million in 2022.

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Notes to Financial Statements

Note 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, 2023				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Hospital capital assets not being depreciated					
Land	\$ 2,739,087	\$ -	\$ -	\$ -	\$ 2,739,087
Construction in progress	142,673,424	261,680,493	(22,738,659)	-	381,615,258
	<u>\$ 145,412,511</u>	<u>\$ 261,680,493</u>	<u>\$ (22,738,659)</u>	<u>\$ -</u>	<u>\$ 384,354,345</u>
Hospital depreciable capital assets					
Building and building improvements	\$ 248,680,976	\$ -	\$ (7,057,425)	\$ -	\$ 241,623,551
Building service equipment	203,046,994	70,813	21,537,822	(145,070)	224,510,559
Major moveable equipment	183,210,861	12,541,569	244,256	(6,893,184)	189,103,502
Computer software	49,412,954	319,553	-	-	49,732,507
Computer equipment	22,973,849	4,341,855	-	(55,260)	27,260,444
Land and land improvements	12,722,485	-	7,478,288	-	20,200,773
Fixed equipment	17,494,085	52,174	535,718	(65,534)	18,016,443
Total depreciable capital assets	<u>737,542,204</u>	<u>17,325,964</u>	<u>22,738,659</u>	<u>(7,159,048)</u>	<u>770,447,779</u>
Less accumulated depreciation for					
Building and building improvements	(103,429,633)	(6,996,985)	-	-	(110,426,618)
Building service equipment	(133,692,174)	(6,812,853)	-	95,894	(140,409,133)
Major moveable equipment	(129,458,252)	(15,801,949)	-	6,779,335	(138,480,866)
Computer software	(47,591,599)	(965,191)	-	-	(48,556,790)
Computer equipment	(17,126,625)	(1,746,759)	-	55,260	(18,818,124)
Land and land improvements	(10,767,359)	(417,146)	-	-	(11,184,505)
Fixed equipment	(12,361,939)	(1,017,782)	-	65,539	(13,314,182)
Total accumulated depreciation	<u>(454,427,581)</u>	<u>(33,758,665)</u>	<u>-</u>	<u>6,996,028</u>	<u>(481,190,218)</u>
Hospital depreciable capital assets, net	<u>\$ 283,114,623</u>	<u>\$ (16,432,701)</u>	<u>\$ 22,738,659</u>	<u>\$ (163,020)</u>	<u>\$ 289,257,561</u>
Capital asset summary					
Hospital capital assets not being depreciated	\$ 145,412,511	\$ 261,680,493	\$ (22,738,659)	\$ -	\$ 384,354,345
Hospital depreciable capital assets at cost	<u>737,542,204</u>	<u>17,325,964</u>	<u>22,738,659</u>	<u>(7,159,048)</u>	<u>770,447,779</u>
Hospital total cost of capital assets	882,954,715	279,006,457	-	(7,159,048)	1,154,802,124
Less accumulated depreciation	<u>(454,427,581)</u>	<u>(33,758,665)</u>	<u>-</u>	<u>6,996,028</u>	<u>(481,190,218)</u>
Hospital capital assets, net	<u>\$ 428,527,134</u>	<u>\$ 245,247,792</u>	<u>\$ -</u>	<u>\$ (163,020)</u>	<u>\$ 673,611,906</u>

University of New Mexico Hospital Notes to Financial Statements

	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	(434,390,185)	(33,543,153)	-	13,505,757	(454,427,581)
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

Note 8 – Leases and Subscription-Based Information Technology Agreements

Leases – As discussed in Note 2, 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, 2023 and 2022 is as follows:

	Balance at June 30, 2022	Additions	Deductions	Balance at June 30, 2023
Lease assets				
Buildings	\$ 12,496,041	\$ -	\$ -	\$ 12,496,041
Equipment	1,536,545	-	-	1,536,545
Total lease assets	<u>14,032,586</u>	<u>-</u>	<u>-</u>	<u>14,032,586</u>
Less accumulated amortization				
Buildings	(2,972,703)	(1,457,353)	-	(4,430,056)
Equipment	(769,910)	(380,241)	-	(1,150,151)
Total accumulated amortization	<u>(3,742,613)</u>	<u>(1,837,594)</u>	<u>-</u>	<u>(5,580,207)</u>
Total lease assets, net	<u>\$ 10,289,973</u>	<u>\$ (1,837,594)</u>	<u>\$ -</u>	<u>\$ 8,452,379</u>
	Balance at June 30, 2021	Additions	Deductions	Balance at June 30, 2022
Lease assets				
Buildings	\$ 12,496,041	\$ -	\$ -	\$ 12,496,041
Equipment	1,536,545	-	-	1,536,545
Total lease assets	<u>14,032,586</u>	<u>-</u>	<u>-</u>	<u>14,032,586</u>
Less accumulated amortization				
Buildings	(1,358,911)	(1,613,792)	-	(2,972,703)
Equipment	(353,095)	(416,815)	-	(769,910)
Total accumulated amortization	<u>(1,712,006)</u>	<u>(2,030,607)</u>	<u>-</u>	<u>(3,742,613)</u>
Total lease assets, net	<u>\$ 12,320,580</u>	<u>\$ (2,030,607)</u>	<u>\$ -</u>	<u>\$ 10,289,973</u>

Changes in long-term lease liabilities for the years ended June 30, 2023 and 2022 are summaries below:

Balance at June 30, 2022	Additions	Deductions	Balance at June 30, 2023	Amounts Due Within One Year
<u>\$ 10,590,951</u>	<u>\$ -</u>	<u>\$ (1,751,827)</u>	<u>\$ 8,839,124</u>	<u>\$ 1,756,624</u>
Balance at June 30, 2021	Additions	Deductions	Balance at June 30, 2022	Amounts Due Within One Year
<u>\$ 12,320,580</u>	<u>\$ -</u>	<u>\$ (1,729,629)</u>	<u>\$ 10,590,951</u>	<u>\$ 1,751,826</u>

University of New Mexico Hospital
Notes to Financial Statements

Future annual lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2024	\$ 1,756,624	\$ 263,144	\$ 2,019,768
2025	1,308,391	209,320	1,517,711
2026	324,792	184,215	509,007
2027	332,838	173,499	506,337
2028	320,171	162,614	482,785
2029-2033	1,660,989	655,372	2,316,361
2034-2038	1,473,782	395,477	1,869,259
2039-2043	1,603,442	146,558	1,750,000
2044-2048	58,095	238	58,333
Total	<u>\$ 8,839,124</u>	<u>\$ 2,190,437</u>	<u>\$ 11,029,561</u>

Subscription-based information technology arrangements (SBITA) – The Hospital adopted GASB Statement No. 96, Subscription-based information technology arrangements, for the year ended June 30, 2023, with retrospective application to all periods presented.

The impact of the adoption of GASB 96 on opening net position and on previously reported balances as of June 30, 2023 is as follows:

	<u>June 30</u>		
	<u>2022 as reported</u>	<u>2022 adjustments</u>	<u>2022 as adjusted</u>
Assets			
Current assets	\$ 577,382,198	\$ -	\$ 577,382,198
Capital assets, net	428,527,134	-	428,527,134
Right to use and SBITA assets, net	10,289,973	36,422,183	46,712,156
Other noncurrent assets	310,699,359	-	310,699,359
Total assets	<u>\$ 1,326,898,664</u>	<u>\$ 36,422,183</u>	<u>\$ 1,363,320,847</u>
Deferred outflows of resources	<u>\$ 911,385</u>	<u>\$ -</u>	<u>\$ 911,385</u>
Liabilities			
Current liabilities	\$ 351,352,562	\$ 6,474,261	\$ 357,826,823
Noncurrent liabilities	136,889,160	29,947,922	166,837,082
Total liabilities	<u>\$ 488,241,722</u>	<u>\$ 36,422,183</u>	<u>\$ 524,663,905</u>
Deferred inflows of resources	<u>\$ 2,087,724</u>	<u>\$ -</u>	<u>\$ 2,087,724</u>
Net position			
Net investment in capital assets	\$ 302,286,867	\$ -	\$ 302,286,867
Restricted	37,665,522	-	37,665,522
Unrestricted	497,528,214	-	497,528,214
Total net position	<u>\$ 837,480,603</u>	<u>\$ -</u>	<u>\$ 837,480,603</u>

University of New Mexico Hospital
Notes to Financial Statements

A summary of the SBITA asset activity during the years ended June 30, 2023 and 2022 is as follows:

	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2023</u>
SBITA assets				
Software	\$ 43,137,658	\$ -	\$ -	\$ 43,137,658
Total SBITA assets	<u>43,137,658</u>	<u>-</u>	<u>-</u>	<u>43,137,658</u>
Less accumulated amortization				
Software	(6,715,475)	(6,715,473)	-	(13,430,948)
Total accumulated amortization	<u>(6,715,475)</u>	<u>(6,715,473)</u>	<u>-</u>	<u>(13,430,948)</u>
Total SBITA assets, net	<u>\$ 36,422,183</u>	<u>\$ (6,715,473)</u>	<u>\$ -</u>	<u>\$ 29,706,710</u>
	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2022</u>
SBITA assets				
Software	\$ -	\$ 43,137,658	\$ -	\$ 43,137,658
Total SBITA assets	<u>-</u>	<u>43,137,658</u>	<u>-</u>	<u>43,137,658</u>
Less accumulated amortization				
Software	-	(6,715,475)	-	(6,715,475)
Total accumulated amortization	<u>-</u>	<u>(6,715,475)</u>	<u>-</u>	<u>(6,715,475)</u>
Total SBITA assets, net	<u>\$ -</u>	<u>\$ 36,422,183</u>	<u>\$ -</u>	<u>\$ 36,422,183</u>

Changes in SBITA liabilities for the years ended June 30, 2023 and 2022 are summarized below:

<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2023</u>	<u>Amounts Due Within One Year</u>
<u>\$ 36,422,184</u>	<u>\$ -</u>	<u>\$ (6,397,537)</u>	<u>\$ 30,024,647</u>	<u>\$ 6,369,004</u>
<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>
<u>\$ -</u>	<u>\$ 43,137,658</u>	<u>\$ (6,715,474)</u>	<u>\$ 36,422,184</u>	<u>\$ 6,474,261</u>

University of New Mexico Hospital

Notes to Financial Statements

A schedule of future minimum SBITA payments for the University as of June 30, 2023 is as follows:

<u>Years Ending June 30,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2024	\$ 6,369,004	\$ 866,164	\$ 7,235,168
2025	5,740,942	671,234	6,412,176
2026	5,440,622	485,176	5,925,798
2027	4,947,319	320,912	5,268,231
2028	1,239,501	224,617	1,464,118
2029-2033	6,287,259	481,256	6,768,515
Total	<u>\$ 30,024,647</u>	<u>\$ 3,049,359</u>	<u>\$ 33,074,006</u>

Note 9 – Compensated Absences

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

Sick leave – Full-time employees accrue four hours of sick leave each two-week pay period (13 days per annum) up to a maximum of 1,040 hours to be used for major and minor sick leave. Seven of these days are accumulated into a minor sick leave bank. Part-time employees who are at least 0.5 FTE earn sick leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange for annual leave, major sick leave or cash all hours accumulated in excess of 24 hours on an hour-for-hour basis. At termination, only employees who retire from the Hospital and qualify under the Hospital's policy or estates of employees who die as the result of a compensable occupational illness or injury are eligible for payment of unused accumulated hours. Accrued sick leave as of June 30, 2023 and 2022 of approximately \$4.6 million and \$4.6 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.

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.

University of New Mexico Hospital

Notes to Financial Statements

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, 2023 and 2022 of approximately \$25.8 million and \$26.2 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 \$667,000 and \$671,000 as of June 30, 2023 and 2022, 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, 2023 and 2022, the following changes occurred in accrued compensated absences:

Balance July 1, 2022	Increase	Decrease	Balance June 30, 2023
\$ 31,520,720	\$ 37,463,544	\$ (37,902,162)	\$ 31,082,102
Balance July 1, 2021	Increase	Decrease	Balance June 30, 2022
\$ 36,367,457	\$ 37,996,859	\$ (42,843,596)	\$ 31,520,720

Note 10 – Bonds Payable and Mortgage Payable

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%.

University of New Mexico Hospital

Notes to Financial Statements

The Regents granted the GNMA Issuer in respect of the UNM Hospital 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 \$69,130,000 (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 \$2.5 million and \$2.7 million for the years ended June 30, 2023 and 2022, respectively. Interest income earned from the investment of the bond proceeds was approximately \$670,000 and \$7,000 for the years ended June 30, 2023 and 2022, respectively.

University of New Mexico Hospital Notes to Financial Statements

Bonds payable activity consists of the following:

		Year Ended June 30, 2023				
		Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
FHA Insured Hospital Mortgage Revenue	Bond Series 2015	\$ 74,250,000	\$ -	\$ (6,285,000)	\$ 67,965,000	\$ 6,480,000
		\$ 74,250,000	\$ -	\$ (6,285,000)	\$ 67,965,000	\$ 6,480,000
		Year Ended June 30, 2022				
		Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
FHA Insured Hospital Mortgage Revenue	Bond Series 2015	\$ 80,355,000	\$ -	\$ (6,105,000)	\$ 74,250,000	\$ 6,285,000
		\$ 80,355,000	\$ -	\$ (6,105,000)	\$ 74,250,000	\$ 6,285,000

Future debt service (including mandatory redemptions) as of June 30, 2023 for the bonds is as follows:

Years Ending June 30,	Principal	Interest	Total
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	7,520,000	1,367,502	8,887,502
2029-2032	33,060,000	2,684,762	35,744,762
Total	\$ 67,965,000	\$ 12,028,623	\$ 79,993,623

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%.

Mortgage payable – 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 years ended June 30, 2023 and 2022, the Hospital drew down \$114.8 million and \$51.7 million and incurred interest of \$3.5 million and \$881 thousand, respectively.

University of New Mexico Hospital Notes to Financial Statements

Mortgage payable activity consists of the following:

Year Ended June 30, 2023					
	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
Mortgage payable	\$ 51,689,289	\$ 114,810,679	\$ -	\$ 166,499,968	\$ -
	\$ 51,689,289	\$ 114,810,679	\$ -	\$ 166,499,968	\$ -
Year Ended June 30, 2022					
	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
Mortgage payable	\$ -	\$ 51,689,289	\$ -	\$ 51,689,289	\$ -
	\$ -	\$ 51,689,289	\$ -	\$ 51,689,289	\$ -

Note 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, 2023 and 2022 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.

University of New Mexico Hospital

Notes to Financial Statements

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

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

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

	2023	2022
Charges at established rates	\$ 2,433,257,920	\$ 2,469,882,663
Charity care	(92,452,848)	(80,749,647)
Contractual adjustments	(1,041,947,346)	(1,055,565,409)
Provision for doubtful accounts	(34,966,468)	(48,411,955)
Net patient revenues	\$ 1,263,891,258	\$ 1,285,155,652

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 2020 have been final settled for the Medicaid programs. Cost reports through 2018, except for 2005 have been final settled for the Medicare program. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Current year estimates, settlements of prior-year cost reports, and changes in prior-year estimates resulted in net increases to net patient service revenues of approximately \$22.1 million and \$27.4 million for the years ended June 30, 2023 and 2022, respectively. During the fiscal year ended June 30, 2023, a \$1.7 million liability for Medicare and a \$1.6 million liability for Medicaid were accrued as estimates for the fiscal year 2023 cost report. 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. 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

Note 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>2023</u>	<u>2022</u>
Charges foregone, based on established rates	\$ 92,452,848	\$ 80,749,647
Estimated costs and expenses incurred to provide charity care	53,666,372	46,802,256
Equivalent percentage of charity care charges foregone to total gross revenue	4%	3%

Note 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.

University of New Mexico Hospital

Notes to Financial Statements

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

	2023	2022
UNM Health Sciences Center	\$ 6,401,164	\$ 6,193,002
UNM Medical Group	5,624,934	5,816,029
UNM Sandoval Regional Medical Center	3,482,731	3,439,942
	\$ 15,508,829	\$ 15,448,973

In addition to the items above, the Hospital recorded \$680 thousand and \$985 thousand of operating expenses related to contributed services provided to the UNM Health System in the fiscal years ended June 30, 2023 and 2022, 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:

	2023	2022
UNM Health Sciences Center	\$ 264,426,799	\$ 250,022,715
UNM Sandoval Regional Medical Center	908,702	737,554
UNM Medical Group	1,763,764	1,639,685
UNM	2,242,178	2,242,178
	\$ 269,341,443	\$ 254,642,132

The following amounts are reflected in the Due from/to University of New Mexico entities balance as of June 30:

	2023	2022
Due from UNM	\$ 2,213,103	\$ 908,805
Due from UNM Medical Group	19,082,418	6,778,889
Due from UNM Sandoval Regional Medical Center	1,248,068	1,657,606
	\$ 22,543,589	\$ 9,345,300

University of New Mexico Hospital
Notes to Financial Statements

	2023	2022
Due to UNM	\$ 54,304,075	\$ 50,540,461
Due to UNM Medical Group	2,628,802	2,347,053
	\$ 56,932,877	\$ 52,887,514

Note 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 \$18.5 million and \$19.1 million in years ended June 30, 2023 and 2022, respectively. Total employee contributions under this plan were approximately \$29.2 million and \$28.2 million in years ended June 30, 2023 and 2022, respectively. The Hospital also offers a Roth 403(b) defined-contribution plan option. Total employee contributions were approximately \$3.3 million and \$3.0 million in years ended June 30, 2023 and 2022, respectively.

The Hospital offers a deferred compensation plan, called the UNM Hospital 457(b) Deferred Compensation Plan, which provides employees with additional retirement savings 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 for years ended June 30, 2023 or 2022 as the Hospital does not contribute to this plan. Total employee contributions under this plan were approximately \$4.7 million and \$4.9 million for years ended June 30, 2023 and 2022, 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 UNM Hospital 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 \$785 thousand and \$759 thousand in fiscal years 2023 and 2022, 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, 2023 and 2022 of approximately \$536.0 thousand and \$1.1 million, respectively.

University of New Mexico Hospital

Notes to Financial Statements

Note 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.

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.

The Hospital began construction of a new critical care patient tower during the year ended June 30, 2022. The total budgeted construction related cost is \$537.4 million. As of June 30, 2023, the Hospital has incurred construction cost of \$320.9 million with an estimated \$216.4 million committed budget remaining.

Note 17 – Subsequent Events

On April 18, 2023, the UNM Board of Regents approved the Health Sciences Center proposal to consolidate UNM Sandoval Regional Medical Center (SRMC) into the Hospital operations effective January 1, 2024. The Hospital will acquire all assets and assume all liabilities of SRMC under a zero-dollar purchase agreement. The agreement has been filed with HUD and debt holders were notified as of June 26, 2023. Conditional approval from HUD was received as of July 25, 2023, subject to completion of Intercreditor Agreement, the Amended and Restated Regulatory Agreement, and Loan Modification documents.

The Hospital has evaluated subsequent events from the date of the statement of net position through October 3, 2023, the date at which the financial statements were available to be issued. No matters requiring adjustment to the financial statements have been identified.

Supplementary Information

University of New Mexico Hospital
Comparison of Budgeted and Actual Revenues and Expenses – Schedule 1
Year Ended June 30, 2023

	Budget (Original)	Budget (Final)	Actual	Budget Variance
Operating revenues				
Net patient service	\$ 1,242,386,997	\$ 1,225,941,945	\$ 1,263,891,258	\$ 37,949,313
Other operating revenue	55,694,670	36,158,518	37,552,329	1,393,811
Total operating revenues	1,298,081,667	1,262,100,463	1,301,443,587	39,343,124
Operating expenses	1,400,769,560	1,417,831,834	1,431,431,798	13,599,964
Operating loss	(102,687,893)	(155,731,372)	(129,988,211)	25,743,161
Nonoperating revenues and other revenues, net	104,370,811	113,379,703	113,942,596	562,893
Increase (decrease) in net position	<u>\$ 1,682,918</u>	<u>\$ (42,351,669)</u>	<u>\$ (16,045,615)</u>	<u>\$ 26,306,054</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 report of independent auditors.

**University of New Mexico Hospital
Pledged Collateral by Banks – Schedule 2
Year Ended June 30, 2023**

	Pledged Collateral			Wells Fargo Bank Albuquerque, New Mexico	Total
	Type of Security	CUSIP	Maturity		
Funds on deposit					
Demand deposits				\$ 232,810,159	\$ 232,810,159
FDIC insurance				(250,000)	(250,000)
				<u>232,560,159</u>	<u>232,560,159</u>
Total uninsured public funds					
50% collateral requirement per Section 6-10-17 NMSA				<u>116,280,080</u>	<u>116,280,080</u>
Pledged collateral*					
	FNMA	3140XCFZ6	3/1/2048	81,717,770	81,717,770
	FNMA	3140XCTK4	7/1/2047	119,659,634	119,659,634
	FNMA	3140XF7M7	2/1/2050	24,037,008	24,037,008
	FNMA	3140XFSZ5	7/1/2043	45,742,158	45,742,158
	GNMA	36179XX50	4/20/2053	<u>6,501,025</u>	<u>6,501,025</u>
				<u>277,657,595</u>	<u>277,657,595</u>
Total pledged collateral					
Excess of pledged collateral over the required amount				<u>\$ 161,377,515</u>	<u>\$ 161,377,515</u>

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

See accompanying report of independent auditors.

University of New Mexico Hospital
Schedule of Individual Deposit Investment Accounts – Schedule 3
Year Ended June 30, 2023

Name of Bank/Broker	Account Type	Balance Per Bank Statement	Reconciled Balance Per Financial Statement
UNM Hospital cash			
Wells Fargo Bank			
Operating - Checking	Non-interest bearing	\$ 232,788,180	\$ 220,492,157
Operating - Savings	Interest bearing	21,980	21,980
Petty cash	Cash on hand	-	38,645
Total UNM Hospital cash		<u>\$ 232,810,160</u>	<u>\$ 220,552,782</u>
UNM Hospital short-term investments			
US Bank			
US Bank	Money market funds	\$ 478,843	\$ 478,843
US Bank	U.S. Treasury notes	35,767,375	35,767,375
Total UNM Hospital short-term investments		<u>\$ 36,246,218</u>	<u>\$ 36,246,218</u>
UNM Hospital long-term investments			
Investment in TriWest			
Investment in TriCore Reference Lab (TRL)	Equity securities	\$ 5,000,000	\$ 5,000,000
Investment in TLSC	Equity securities	25,312,139	25,312,139
	Equity securities	6,718,460	6,718,460
Total UNM Hospital long-term investments		<u>\$ 37,030,599</u>	<u>\$ 37,030,599</u>

See accompanying report of independent auditors.

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

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Joseph M. Maestas, P.E.
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, which comprise the statement of net position as of June 30, 2023, 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, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 3, 2023.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Albuquerque, New Mexico
October 3, 2023

**University of New Mexico Hospital
Summary of Audit Results
Year Ended June 30, 2023**

Type of auditor report issued: Unmodified

Fiscal year 2023 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 Audit Findings
Year Ended June 30, 2023**

None

University of New Mexico Hospital
Exit Conference
Year Ended June 30, 2023

An exit conference was conducted on October 2, 2023 with members of the Finance and Audit Committee of UNM Hospital Board of Trustees and members of the Hospital's management. During this meeting, the contents of this report were discussed.

University of New Mexico Hospital

Kate Becker, UNM Hospital Chief Executive Officer

Bonnie White, UNM Hospital Chief Financial Officer

Julie Alliman, Executive Director of Finance, UNM Hospitals

Angela Vigil, Executive Director of Compliance, UNM Hospitals

Sara M. Frasch, UNM Hospital Chief Human Resources Officer

Jennifer R. James, Senior Associate University Hospital

Monica Zamora, Vice Chair

Adelmo Archuleta, Board Member

Dr. Anjali Taneja, Board Member

Moss Adams LLP

Josh Lewis, Partner

Lauren Kistin, Senior Manager