



UNIVERSITY OF NEW MEXICO HOSPITAL
Financial Statements with Supplementary Information
June 30, 2021 and 2020
(With Independent Auditors' Report Thereon)

UNIVERSITY OF NEW MEXICO HOSPITAL

Fiscal Year 2021 Official Roster

Board of Trustees

Terry Horn	Chair Person (Term expires 6/30/23, Regent appointed)
Adelmo Archuleta	Vice-Chair (Term expires 6/30/22, Regent appointed)
Kurt Riley	Secretary (Term expires 6/30/23, All Pueblo Council of Governors – Regent appointed)
A. Joseph Alarid	Member (Term expires 6/30/21, Regent appointed)
Erik Lujan	Member (Term expires 6/30/22, All Pueblo Council of Governors – Regent appointed)
Jennifer K. Phillips, MD	Member (Term expires 6/30/21, Regent appointed)
Tamra Mason, PhD	Member (Term expires 6/30/22, Regent appointed)
Michael Brasher	Member (Term expires 6/30/23, County appointed)
Trey Hammond	Member (Term expires 6/30/23, County appointed)

UNIVERSITY OF NEW MEXICO HOSPITAL

Fiscal Year 2021 Official Roster

Administrative Officers

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

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of New Mexico Hospital (the Hospital), a division of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of New Mexico Hospital as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Hospital are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities that are attributable to the transactions of the Hospital. They do not purport to, and do not, present fairly the financial



position of the University of New Mexico as of June 30, 2021 and 2020, the changes in its financial position or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–15, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other 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), (Schedules 1–3) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1–3 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, 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 December 13, 2021 on our consideration of the Hospitals' 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 Hospital's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
December 13, 2021

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2021 and 2020

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, 2021 and 2020. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of the Hospital's management.

Using the Annual Financial Report

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

The financial statements prescribed by GASB Statement No. 34 (the statements of net position; statements of revenues, expenses, and changes in net position; and the statements of cash flows) present financial information in a form similar to that used by commercial corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service or goods are received, regardless of when cash is exchanged.

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

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

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

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2021 and 2020

Three-Year Comparison of Financial Results

Condensed summary of net position

	June 30		
	2021	2020	2019
Assets:			
Current assets	\$ 635,369,634	516,140,963	434,624,687
Capital assets	262,033,293	222,163,273	211,583,458
Noncurrent assets	<u>387,439,028</u>	<u>145,629,652</u>	<u>44,802,642</u>
Total assets	<u>\$ 1,284,841,955</u>	<u>883,933,888</u>	<u>691,010,787</u>
Deferred outflows:			
Total deferred outflows of resources	\$ 2,068,092	414,666	987,627
Liabilities:			
Current liabilities	\$ 363,372,018	300,981,161	198,806,109
Noncurrent liabilities	<u>87,648,128</u>	<u>89,001,292</u>	<u>94,807,071</u>
Total liabilities	<u>\$ 451,020,146</u>	<u>389,982,453</u>	<u>293,613,180</u>
Deferred inflows:			
Total deferred inflows of resources	\$ 557,072	487,107	344,985
Net position:			
Net investment in capital assets	\$ 181,678,293	135,858,273	119,463,458
Restricted net position, expendable	44,962,140	55,188,477	35,988,285
Unrestricted net position	<u>608,692,396</u>	<u>302,832,244</u>	<u>242,588,506</u>
Total net position	<u>\$ 835,332,829</u>	<u>493,878,994</u>	<u>398,040,249</u>

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 \$322.2 million, \$233.3 million and \$153.5 million as of June 30, 2021, 2020 and 2019, respectively. The \$88.9 million increase in unrestricted cash balances from June 30, 2020 to June 30, 2021 is primarily due to an increase in current liabilities and the timing of payments for those liabilities.

The \$79.8 million increase in unrestricted cash balances from June 30, 2019 to June 30, 2020 was due to receipt of \$78.0 million of advance payments from CMS, receipt of \$20 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act funding as well as a concentrated effort to conserve cash during the last quarter of the fiscal year.

The unrestricted days cash on hand for the Hospital was 90, 75 and 52 as of June 30, 2021, 2020 and 2019, 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.

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Management's Discussion and Analysis

June 30, 2021 and 2020

The second most significant current asset is patient receivables. The patient receivables balance was \$145.5 million, \$132.0 million and \$125.6 million as of June 30, 2021, 2020 and 2019, respectively. The increase in net patient receivables of \$12.5 million as of June 30, 2021 compared to June 30, 2020 is primarily due to increased patient revenues as a result of volume and Case Mix Index (CMI) increases. The increase in net patient receivables of \$6.4 million as of June 30, 2020 compared to June 30, 2019 is due to increased revenues and an improved collections rate.

At June 30, 2021, 2020 and 2019, the Hospital's current assets of \$635.4 million, \$516.1 million and \$434.6 million, respectively, were sufficient to cover current liabilities of \$363.4 million (current ratio of 1.7), \$301.0 million (current ratio of 1.7), and \$198.8 million (current ratio of 2.4), respectively.

Non-current assets include assets designated by management for capital replacement and 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 \$188.7 million, \$100.0 million and \$40.6 million as of June 30, 2021, 2020 and 2019, respectively. The restricted cash includes cash designated by management for capital replacement and cash restricted by donors. The \$88.7 million increase in unrestricted cash is due to additional amounts set aside during the fiscal year ended June 30, 2021 for capital replacement.

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

The most significant liability is estimated third-party payor settlements payable of \$109.9 million, \$69.4 million and \$42.1 million as of June 30, 2021, 2020 and 2019, respectively. The increase in estimated third-party payor settlements at June 30, 2021 as compared to 2020 is due to a payable for an intergovernmental transfer due to the NM Department of Health that was not paid until subsequent to June 30, 2021. The increase in estimated third-party payor settlements at June 30, 2020 as compared to 2019 is primarily due to a payable for an intergovernmental transfer due to the NM Department of Health and amounts due to contracted payors.

The next most significant liability is the Medicare advance payment plan balances of \$69.7 million, \$78.8 and \$0 as of June 30, 2021, 2020 and 2019. This liability is due to a CMS Advance payment of \$78.8 million received in the last quarter of fiscal year ended June 30, 2020. This advance was requested in response to uncertainties arising from the COVID-19 pandemic and the public health order limiting the elective visits and procedures that the Hospital could provide. In April 2021, the Hospital began repaying this advance in accordance with the terms of the advance.

The next most significant liability is the accounts payable balance of \$57.3 million, \$43.5 million, and \$47.0 million as of June 30, 2021, 2020, and 2019, respectively. The balances in accounts payable were primarily related to contract labor, medical supplies, including pharmaceuticals, purchased services, and minor equipment purchases outstanding at June 30, 2021 and 2020.

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 million offset by net non-operating revenue of \$170.5 million and \$196 million in a transfer of assets from the University of New Mexico. Management has designated \$75 million of the increase in net position along with the \$196 million of transferred assets for the partial funding of a new medical tower and a new patient parking structure. The patient parking structure replacement is part of the planned addition to the main hospital. Total net position as of June 30, 2020 increased by \$95.8 million to \$493.9 million. The

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Management's Discussion and Analysis

June 30, 2021 and 2020

increase was due to an operating loss of \$62.4 million offset by net nonoperating revenue of \$125.0 million and \$33.2 million in capital appropriations received from the State of New Mexico.

Condensed summary of revenues, expenses, and changes in net position			
	Year ended June 30		
	2021	2020	2019
Total operating revenues	\$ 1,308,231,066	1,111,285,353	1,038,675,731
Total operating expenses	(1,333,229,441)	(1,173,652,970)	(1,102,494,196)
Operating loss	(24,998,375)	(62,367,617)	(63,818,465)
Nonoperating revenues and expenses	170,452,210	125,041,362	90,777,884
Total increase in net position before capital appropriations	145,453,835	62,673,745	26,959,419
Capital appropriations	—	33,165,000	—
Capital initiatives transfer	196,000,000	—	—
Total increase in net position after capital appropriations	341,453,835	95,838,745	26,959,419
Net position, beginning of year	493,878,994	398,040,249	371,080,830
Net position, end of year	\$ 835,332,829	493,878,994	398,040,249

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 \$1.308 billion, \$1.111 billion and \$1.039 billion for the years ended 2021, 2020 and 2019, respectively.

Net patient service revenues comprises gross patient revenues net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were \$1.258 billion, \$1.056 billion and \$980.1 million for the years ended 2021, 2020 and 2019, respectively.

Net patient service revenues for the fiscal year 2021 increased \$201.2 million from \$1.056 billion in fiscal year 2020, which represents a 19% increase. This increase is attributed to increased patient volumes, increased case mix index, a \$23 million increase in Indirect Medical Education received from NM Medicaid and an increase in Directed Upper Payment Limit of \$40.0 million, net of associated IGT.

Net patient service revenues for fiscal year 2020 increased \$76.4 million from \$980.1 million in fiscal year 2019, which represents an 8% increase. This increase is attributed to continued improved revenue cycle management along with a \$25.1 million increase in Indirect Medical Education received from NM Medicaid.

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Management's Discussion and Analysis

June 30, 2021 and 2020

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

	Year ended June 30		
	2021	2020	2019
Total licensed beds	537	537	537
Percent of occupancy (staffed beds)	93.6 %	87.0 %	87.0 %
Discharges	25,127	24,661	25,418
Patient days	171,600	156,128	155,659
Observation days	12,430	14,920	14,876
Average length of stay	6.8	6.3	6.1
Outpatient visits	534,963	509,931	548,093
Emergency visits	101,494	80,100	83,616
Urgent care visits	10,404	17,681	20,369
Surgeries	19,661	18,198	20,126

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

Overall patient and observation days for 2020 increased by 513 from 2019, which represents a 0.3% increase. The Hospital was operating at full or near full capacity after taking into account both the inpatient days and observation volumes during fiscal years 2020 and 2019. Patient discharges decreased 757 compared to fiscal year 2019, which represents a 3.0% decrease. Surgical volumes decreased from the prior year by 9.6% due to the suspension of surgeries by public health order of the New Mexico State Governor 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.

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June 30, 2021 and 2020

As of June 30, 2021, 2020 and 2019, there were approximately 3,900, 5,900 and 7,300 active enrollees in UNM Care, respectively. The income threshold for UNM Care is 300% of the Federal Poverty Level (FPL), and patients may apply for this program at various locations throughout the Hospital and various community locations. The Hospital does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The cost of charity care provided under this program for fiscal years ended June 30, 2021, 2020 and 2019 was approximately \$30.7 million, \$34.6 million and \$39.5 million, respectively.

The Hospital provides care to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2021, 2020 and 2019 was \$59.0 million, \$65.2 million and \$70.8 million, respectively.

The Hospital provided intergovernmental transfers (IGTs) to the State of New Mexico in the amounts of \$61.7 million, \$52.2 million and \$40.6 million, respectively, for the years ended June 30, 2021, 2020 and 2019. Due to the economic conditions in the State of New Mexico and nationally, the State has been unable in prior fiscal years to fund a portion of the nonfederal share to obtain federal matching funds (the State's Portion) for certain aspects of Directed Payments, Indirect Medical Education (IME), Graduate Medical Education (GME), and enhanced capitation payments, thereby jeopardizing the viability of the Directed Payments, Enhanced Payments, IME and GME programs. As a result, the Hospital may, in the next fiscal year, enter into Memoranda of Understanding (MOUs) with the State of New Mexico under which the Hospital would agree to make IGTs to fund the nonfederal share of the Medicaid payment pursuant to federal Medicaid regulations at 42 CFR 433.51 (Eligible Operating Funds). The IGTs are recorded as a reduction of net patient service revenues in the accompanying statements of revenues, expenses and changes in net position.

Other Operating Revenue

The Hospital expanded its outpatient pharmacy capacity by entering into contract pharmacy service arrangements. These contracted pharmacies are located throughout Albuquerque and the State and are able to fill and refill prescriptions written by physicians credentialed at the Hospital for patients of the Hospital. The contracted pharmacy bills the patient's underlying insurance and remits the payments to the Hospital on a monthly basis, net of a dispensing fee. The Hospital has recorded \$44.0 million, \$47.0 million, and \$50.1 million for pharmacy services in other operating revenue for the years ended June 30, 2021, 2020, and 2019, respectively.

Operating Expenses

Operating expenses for the Hospital include items such as employee compensation and benefits, medical services, medical supplies, purchased services, depreciation and equipment. For the year ended June 30, 2021, operating expenses totaled \$1.333 billion, an increase from 2020 of \$160 million or 14%. The most significant expenditures were for employee compensation and benefits.

Compensation and benefits combined were \$632.2 million, \$509.0 million, and \$492.6 million for the years ended June 30, 2021, 2020, and 2019, respectively. For fiscal years ended June 30, 2021, 2020, and 2019, the percentage of compensation and benefits combined to total operating expenses was 47.4%, 43.4%, and 44.7%, respectively. Compensation and benefits increased \$123.3 million during the year ended June 30, 2021, due to the increased staffing needs to respond to the COVID-19 pandemic and associated compensation.

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2021 and 2020

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

Purchase services increased \$23.6 million (28.2%) during the year ended June 30, 2020 as a result of professional fees associated with substantial organization wide process improvements. The remaining increase in operating expense in 2020 compared to 2019 is attributed to the payment of gross receipts tax to the State. Effective July 1, 2019, the Hospital was no longer exempt from the payment of these taxes, which amounted to \$22.6 million in 2020. Other increases in 2020 were increases in medical services of \$9.8 million (6%) and medical supplies of \$6.5 million (31%). Medical services increased as a result of additional support of physician providers for wage increases and added positions for Medical Directors. Medical supplies increased as a result of rising pharmaceutical, chemotherapy and biologics costs. These increases were offset by a decrease in implantable devices, due to the suspension of surgeries during the COVID-19 pandemic. Chemotherapy and biologics supply cost increased primarily due to an increase in visits to the cancer center, which increased by 5% in fiscal year 2020 from 2019

Operating expense mix for the years ended June 30, 2021, 2020 and 2019 is detailed below:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Employee compensation	40 %	36 %	36 %
Benefits	8	8	9
Medical services	17	16	16
Medical supplies	18	18	19
Purchased services	6	9	8
Equipment	4	5	4
Depreciation	2	3	3
Occupancy	1	1	1
Other supplies	1	1	1
Other	1	2	3
Gross receipts tax	2	2	—

Nonoperating Revenues and Expenses

The sources of nonoperating revenues for the Hospital are Bernalillo County mill levy, CARES Act Funding, State appropriation, bequest and contributions, State of New Mexico Land and Permanent fund, investment revenues and other nonoperating revenue. The sources of nonoperating expenses for the Hospital are interest on capital asset related debt and other nonoperating expenses. Net nonoperating revenues were \$170.5 million, \$125.0 million and \$90.8 million for the years ended 2021, 2020 and 2019, respectively.

The Bernalillo County mill levy tax subsidy is the most significant nonoperating revenue, totaling \$95.3 million, \$92.3 million, and \$89.9 million in years ended 2021, 2020 and 2019, 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.

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June 30, 2021 and 2020

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

State appropriation funding of \$6.0 million, \$6.3 million and \$5.7 million in 2021, 2020 and 2019, respectively. Included in this amount was \$5.5 million, \$5.9 million and \$5.2 million for the Carrie Tingley Hospital (CTH) in 2021, 2020 and 2019, respectively, and \$451,000, \$455,500 and \$455,500 for the Young Children's Health Center (YCHC) in 2021, 2020 and 2019, respectively. State land revenue and oil and gas royalties for CTH for 2021, 2020 and 2019 were \$944 thousand, \$1.1 million and \$1 million, respectively.

Contribution revenue was \$2.8 million, \$3.2 million and \$2.2 million in 2021, 2020 and 2019, 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 \$2.8 million of interest expense on capital asset related debt for each of the years ended June 30, 2021, 2020 and 2019.

Capital Appropriation

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

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 million that have been recognized as an increase to net position.

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Management's Discussion and Analysis

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Capital Assets

At June 30, 2021, the Hospital had \$262.0 million invested in capital assets, net of accumulated depreciation of \$434.4 million. Depreciation charges for fiscal year 2021 totaled \$33.3 million compared to \$33.0 million and \$31.8 million in 2020 and 2019, respectively.

	June 30		
	2021	2020	2019
Land, building, and improvements	\$ 189,981,913	188,039,279	195,787,186
Building service equipment	174,467,212	171,836,271	170,484,524
Fixed equipment	16,857,857	16,617,580	20,695,700
Major moveable equipment	173,870,049	166,716,608	164,306,418
Computer equipment	20,631,691	17,872,551	16,720,481
Computer software	47,625,542	47,083,808	46,566,965
Construction in progress	72,989,212	27,354,076	6,316,872
	<u>696,423,476</u>	<u>635,520,173</u>	<u>620,878,146</u>
Less accumulated depreciation	<u>(434,390,183)</u>	<u>(413,356,900)</u>	<u>(409,294,688)</u>
Net property and equipment	<u>\$ 262,033,293</u>	<u>222,163,273</u>	<u>211,583,458</u>

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

Several new renovation projects were initiated during fiscal year 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 year 2021. The new medical building and parking structure are the most significant projects in the construction in progress balance and are multiyear projects expected to be completed by fiscal year 2025.

During 2020, the largest capital increases were within construction in progress (\$26.1 million in additions offset by \$5.1 million of completed projects) and major moveable equipment \$(13.7 million). These increases were offset by retirements of assets in the amount of \$29.1 million. The most significant major moveable equipment project was the purchase of new Stryker Prime stretchers for the Hospital. The Stryker Prime stretchers are designed for improved mobility, reduced physical strain on clinicians and improved patient comfort. The Hospital also purchased a Stryker NAV3i surgical platform, which is used to improve cranial, spine, ENT and orthopedic procedures. The Hospital completed the installation of Phillips IntelliVue patient monitors during 2020, which was a project carried over from 2019.

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Capital Commitments

As discussed further in the Factors Impacting Future Periods section, the Hospital is at physical capacity to treat adult patients. As such, the Hospital is planning an extensive addition project with plans to occupy the new building by the end of calendar year 2024. The Hospital plans to fund the expansion through a mixture of debt issuance and cash reserved for Capital Initiatives (note 16). A new parking structure will be constructed in advance of the new building and cash on hand will be used to fund the structure. The parking structure is anticipated to be \$96 million. Management has designated \$75 million of the fiscal year 2021 increase in net position in addition to the \$196 million of transferred assets to be set aside to partially fund the parking structure, to partially fund the new medical tower and purchase necessary equipment.

Debt Activity

The Hospital's bonds payable totaled \$80.4 million and \$86.3 million at June 30, 2021 and 2020, respectively. The bonds are Federal Housing Administration (FHA) insured Hospital Mortgage Revenue Bonds and were issued pursuant to a trust indenture, dated as of May 1, 2015. The bonds carry interest rates that range from 0.484% to 3.532%.

The current portion of this debt was \$6.1 million and \$6.0 million at June 30, 2021 and 2020, 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, 2021 and 2020 Single Audit.

Change in Net Position

The Hospital's total change in net position showed net increases for 2021 and 2020. Total net position (assets plus deferred outflows minus liabilities minus deferred inflows) is classified by the Hospital's ability to use these assets to meet operating needs. Unrestricted net position may be used to meet all operating needs of the Hospital. A portion of the Hospital's net position may be restricted as to use by sponsoring agencies, donors, or other nonhospital entities. The restricted net position is further classified as to the purpose for which the funds must be used. Restricted net position represents funds generated by contributions, gifts, and grants, as well as funds restricted for use in accordance with the trust indenture and debt agreements. Net position increased approximately \$341.5 million in fiscal year 2021. The increase in net position is due to net nonoperating revenue of \$366.5 million, offset by \$25.0 million in net operating loss. Net position increased approximately \$95.8 million in fiscal year 2020. The increase in net position is due to net nonoperating revenue of \$158.2 million, offset by \$62.4 million in net operating loss.

Factors Impacting Future Periods

The Bernalillo County mill levy that the Hospital receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially increase as a result of increased property values. The voters approved the renewal of the mill levy in the November 2016 election. The mill levy is subject to approval by the Bernalillo County voters every eight years and it will be up for renewal in the November 2024 election. The Hospital's facilities are leased from the County by UNM under the 1999 lease agreement, as described under note 1 to the financial statements. Section IV. Term of this agreement provides for either party to the lease to reopen the terms and conditions by giving notices in the first three months of 2014, 2022, 2030 and 2038. 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

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the County in support of the negotiations. The agreement was finalized in February 2018. Under the MOU, the Hospital is required to allocate 15% of the mill levy proceeds to the UNM Psychiatric Center, fund one or more navigational services and a transition planning and case management service (Re-entry Center) at \$2,060,000 adjusted annually, and to comply with certain reporting and collaboration efforts as described in the MOU. In June 2018, the Hospital and County entered into a program MOU for the Bernalillo County Re-entry Resource Center, under which UNM Hospitals would establish within its budget at least \$800,000 for this program.

Coronavirus disease 2019 (COVID-19) is an infectious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2). It was first identified in December 2019 in Wuhan, Hubei, China, and has resulted in an ongoing pandemic. On January 31, 2020, Health and Human Services Secretary Alex Azar II declared a Public Health Emergency (PHE) for the United States to help the healthcare community respond to COVID-19. The PHE is still in effect and is expected to remain in effect until at least December 31, 2021. The Coronavirus Aid, Relief, and Economic Security (CARES) Act passed on March 27, 2020. One of the purposes was to reimburse eligible healthcare providers for healthcare-related expenses or lost revenue attributable to COVID-19. The act also provided grants to Healthcare entities based on prior year Medicare payments. The CARES act exempted Medicare from the effects of sequestration from May 1, 2020 to December 31, 2020. This also extends until at least December 31, 2021. In addition, it authorized accelerated payments to Medicare providers, which are advances to be paid back beginning one year after the payments were received. Medicare began withholding Medicare payments in April 2021 to pay back the advance received.

The long-term financial impact of COVID-19 is not known at this time as there are multiple factors, which may influence the outcome. Among them are the impact of the current surge and a possible winter surge if there is one, the impact of telehealth on a historical business model or whether there will be another shutdown of non-essential healthcare services. Timing of the booster vaccine or further development of anti-viral treatments is also unknown.

The Hospital faces the potential for negative impacts to revenues based on the current and anticipated budget situation in New Mexico with the ongoing COVID-19 issues and the collapse of the oil industry in New Mexico, which is a large driver of revenues in the State budget. On July 1, 2021, NM Human Services Department (HSD) updated all NM hospitals Cost to Charge Ratios (CCR). The CCR is part of the formula used to determine the payment amount on Medicaid outlier cases. The potential decrease in the Hospital's Net Revenue for FY22 is estimated to be \$35M.

On August 3, 2021, Centers for Medicare & Medicaid Services (CMS) released the Federal Fiscal Year (FFY) 2022 Inpatient Prospective Payment System (IPPS) Final Rule. The IPPS rates are estimated to remain almost unchanged with a slight decrease of 0.05%. The 2.96% increase to the national labor and non-labor components of the DRG rate were offset by a 1.04% decrease in the hospitals wage index as the hospital did not qualify for a geographical wage reclassification for FFY 2022. The Hospital's Uncompensated Care (UC) DSH payments are estimated to decrease \$1.462M. For FFY 2022 UC-based DSH payments, CMS finalized to use FFY 2018 cost report data, the Hospital's UC data for fiscal year ended June 30, 2019, which the CMS has audited. For FFY 2022, CMS finalized a National UC funding Pool that was \$1.1B less than FFY 2021.

The Hospital's finalized wage index decreased 1.04% dropping from 0.8845 to 0.8753. For FFY 2022, the hospital will receive the New Mexico Rural wage index as a designated rural referral center. Under the Final Rule, the Hospital's average hourly wage meets the criteria for an individual geographic reclass to Santa Fe County for FFY2023–FFY2025.

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The 2022 IPPS Final Rule continues the Affordable Care Act (ACA) that hospitals scoring in the top quartile of the nation for Hospital-acquired Conditions (HACs) are subject to a 1% penalty reduction in payments. Since the Hospital's HAC score is in the highest quartile, the Hospital will continue to be subject to the 1% decrease. The Hospital's payment rates are expected to have a 0.0121% negative impact under the Hospital Readmission Reduction Program and a 0.4824% negative impact under the Value Based Purchasing Program as required by ACA. The negative impact of these three quality pay-for-performance programs is estimated at \$1.202 million for federal fiscal year 2022, which is a 12.33% increase compared to the payment reductions experienced in 2021.

Under FFY 2022 IPPS Final Rule, CMS removed the requirement to report payer-specific negotiated rates on hospital cost reports that had been promulgated in the FFY 2021 IPPS final rule. CMS had planned to use Managed Medicare negotiated rates to recalibrate MS-DRG weights by fiscal year 2024.

On August 4, 2021, CMS issued the proposed Calendar Year (CY) 2022 Outpatient Prospective Payment System (OPPS) rule. CMS proposes to raise the base OPPS Payment rate by 2.3%, which is a market basket increase of 2.5%, less a multi-factor productivity adjustment of 0.2%. CMS proposed continuation of Average Sales Price minus 22.5% for 340b Drugs. CMS has proposed to halt the elimination of the Inpatient Only (IPO) List and after reviewing services that were removed in the CY2021 OPPS Final rule, has proposed that 298 services be put back on the IPO list beginning CY2022. The overall impact of the proposed OPPS rule on the Hospital's reimbursement is estimated to be a reduction of 0.83% or \$465 thousand.

CMS also continues their site-neutral policy under ACA Section 603 of the Bipartisan Budget Act of 2015 for services furnished in off-campus provider-based departments (PBDs). These services are paid under the Medicare Physician Fee Schedule (MPFS), set at 40% of the amount paid under OPPS.

Effective January 1, 2019, hospitals were required to publish their chargemaster online. On June 24, 2019, President Trump signed an executive order that targets lowering healthcare prices by disclosing prices to patients. On November 27, 2019, CMS finalized the policy and made the changes effective January 1, 2021. The Hospital is required to make public a machine-readable file online that includes all standard charges for all hospital items and services. Standard charges were defined as the hospital's gross charge and payer-specific negotiated charge for an item or service. In addition to publishing negotiated rates with insurance companies, they must publish cash discount prices as well as the minimum and maximum negotiated charges for 300 'shoppable' services that are displayed and packaged in a consumer-friendly manner. In addition, it set forth the expectation that there would be some type of monitoring put in place for noncompliance and actions to address hospital noncompliance. The Hospital is in compliance with this regulation.

CMS proposes in the CY 2022 OPPS Rule to amend several previously finalized hospital price transparency policies, including increasing the amount of the penalties for noncompliance through use of a sliding scale based on hospital bed count. The agency also proposes actions to prohibit conduct that the agency believes serves as barriers to accessing standard charge information. Additionally, CMS clarifies the information it expects from hospital online price estimator tools.

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June 30, 2021 and 2020

On July 1, 2021, the Biden administration released part 1 of the No Surprises Act interim final rule, which passed as part of the Consolidated Appropriations Act of 2021. The rule establishes new patient protections from balanced billing and excessive cost-sharing, known as surprise billing. The rule was released by the departments of Health and Human Services (HHS), the Treasury, and Labor and the Office of Personnel Management. It bars healthcare insurers, carriers, and providers from billing patients more than in-network cost sharing amounts in certain circumstances. The ban on surprise billing applies to emergency services, air ambulance services provided by out-of-network providers, and non-emergency services provided by out-of-network providers at in-network facilities in certain circumstances, among others. The rule also outlines notice and consent requirements to allow patients to waive these balance billing protections in certain circumstances; and payment methodologies and cost sharing for these out-of-network services.

The HHS will issue No Surprises Act regulations in several phases. Part 1 of the regulation will be finalized on September 13, 2021 and be applicable to plans beginning January 1, 2022. The second regulation is expected to be published by October 1, 2021 and will establish a payer audit process. The third regulation should be published by December 27, 2021 and will detail the independent resolution dispute process and patient transparency provisions.

On March 18, 2021 New Mexico House Bill 112 passed in the NM Senate and was signed by the Governor. This bill, Health Benefits for Certain Non-Citizens, requires that state or local health benefits be provided to all non-citizens, regardless of immigration status, if they meet all other qualifying criteria. The effective date of this bill was July 1, 2021 and allowed the Hospital to remove citizenship as one of the criteria used to determine eligibility for the Hospital's financial assistance program. It is expected that charity costs will increase as a result but there should be a related decrease in bad debt. This will also expand financial assistance to indigent non-citizens residing outside of Bernalillo County. Prior to this, the Hospital was unable to extend financial assistance to non-U.S. citizens based on the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). Title IV Subtitle B Section 411 of PRWORA states non-qualified aliens or non-immigrants are not eligible for State and Local public benefits except in the case of services that are needed for the treatment of an emergency medical condition, immunizations or for testing and treatment of symptoms of communicable diseases. Section 411 (d) permits States to enact a State law, which affirmatively provides for such eligibility.

On March 16, 2021 New Mexico Senate Bill 71 (SB71) passed the NM House and was signed by the Governor on March 17, 2021. SB71, Patient's Debt Collection Protection Act, requires health care providers to provide screening to uninsured patients for insurance and financial assistance. There is also language in SB71 requiring clear billing information be provided to patients. SB71 was effective July 1, 2021, and the NM Office of Superintendent of Insurance (OSI) issued an order adopting emergency rules on June 10, 2021. A proposed Final Bill was issued by OSI on August 24, 2021. Public comments are due by September 27, 2021. The Hospital is largely compliant with the provisions of SB71; however, there may be some operational changes that may be necessary to be fully compliant. The operational changes may require additional resources of which the financial impact is unknown at this point.

Contacting the Hospital's Financial Management

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

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Net Position

June 30, 2021 and 2020

Assets	2021	2020
Current assets:		
Cash and cash equivalents	\$ 322,208,275	233,276,201
Marketable securities	36,987,893	36,980,388
Restricted assets by trustee for debt service	206,887	206,644
Receivables:		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately \$207,211,000 in 2021 and \$200,279,000 in 2020)	144,539,749	131,952,324
Due from University of New Mexico	487,074	2,235,542
Due from University of New Mexico Health System	715,117	477,859
Due from University of New Mexico Medical Group	8,989,221	1,284,811
Estimated third-party payor settlements	89,141,368	78,989,784
Bernalillo County Treasurer	1,898,085	1,592,384
Other	6,928,990	6,792,200
Total net receivables	252,699,604	223,324,904
Prepaid expenses	4,751,480	5,784,866
Inventories	18,515,495	16,567,960
Total current assets	635,369,634	516,140,963
Noncurrent assets:		
Assets held by trustee:		
Restricted for mortgage reserve fund	17,962,481	17,961,660
Restricted by donors	18,759,402	18,976,443
Assets designated by UNM Hospital	315,903,272	81,043,730
Assets designated by UNM Hospital Board of Trustees	34,813,873	27,647,819
Total restricted and designated assets	387,439,028	145,629,652
Capital assets, net	262,033,293	222,163,273
Total noncurrent assets	649,472,321	367,792,925
Total assets	\$ 1,284,841,955	883,933,888
Deferred Outflows		
Total deferred outflows related to pensions	\$ 2,068,092	414,666

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Statements of Net Position

June 30, 2021 and 2020

Liabilities	2021	2020
Current liabilities:		
Accounts payable	\$ 57,348,525	43,493,832
Accrued payroll	36,904,455	36,782,271
Due to University of New Mexico	37,161,304	30,798,552
Due to University of New Mexico Medical Group	2,466,904	1,831,717
Bonds payable – current	6,105,000	5,950,000
Interest payable bonds	74,352	78,290
Accrued compensated absences	36,367,457	26,876,573
Estimated third-party payor settlements	109,898,699	69,381,738
Medicare Advance Payment Plan	69,712,600	78,829,539
Other accrued liabilities	7,332,722	6,958,649
Total current liabilities	<u>363,372,018</u>	<u>300,981,161</u>
Noncurrent liabilities:		
Bonds payable	74,250,000	80,355,000
Due to affiliates	8,801,054	6,354,088
Net pension liability	4,597,074	2,292,204
Total noncurrent liabilities	<u>87,648,128</u>	<u>89,001,292</u>
Total liabilities	<u>\$ 451,020,146</u>	<u>389,982,453</u>
Deferred Inflows		
Total deferred inflows related to pensions	\$ 557,072	487,107
Net Position		
Net investment in capital assets	\$ 181,678,293	135,858,273
Restricted, expendable		
For unspent capital appropriation	8,033,370	18,043,730
For grants, bequests, and contributions	18,759,402	18,976,443
In accordance with the trust indenture and debt agreement	18,169,368	18,168,304
Unrestricted	608,692,396	302,832,244
Total net position	<u>\$ 835,332,829</u>	<u>493,878,994</u>

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Net patient service	\$ 1,257,695,536	1,056,491,421
State and local contracts and grants	1,932,248	1,992,950
Other operating	<u>48,603,282</u>	<u>52,800,982</u>
Total operating revenues	<u>1,308,231,066</u>	<u>1,111,285,353</u>
Operating expenses:		
Employee compensation	530,387,725	417,318,762
Benefits	101,861,176	91,669,878
Medical services	228,191,526	187,790,513
Medical supplies	234,670,892	212,846,005
Purchased services	76,811,198	107,288,110
Equipment	57,668,513	53,259,636
Depreciation	33,296,522	33,020,044
Occupancy	17,595,411	16,071,768
Other	17,780,915	21,275,853
Other supplies	9,927,637	10,529,610
Gross Receipts Tax	<u>25,037,926</u>	<u>22,582,791</u>
Total operating expenses	<u>1,333,229,441</u>	<u>1,173,652,970</u>
Operating loss	<u>(24,998,375)</u>	<u>(62,367,617)</u>
Nonoperating revenues (expenses):		
Bernalillo County mill levy	95,312,579	92,326,229
State appropriation	5,978,300	6,335,600
Bequests and contributions	2,754,668	3,181,645
Equity in income of TriCore and TriCore Lab Svc Corp.	7,166,054	1,284,480
State of New Mexico Land and Permanent Fund proceeds	943,833	1,069,319
Cares Act Funding	60,916,918	20,268,888
Investment income (interest, dividends, gains, and losses)	491,880	3,420,511
Interest on capital asset-related debt	(2,814,507)	(2,934,229)
Other nonoperating revenue	984,001	1,067,434
Other nonoperating expense	<u>(1,281,516)</u>	<u>(978,515)</u>
Net nonoperating revenue (expense)	<u>170,452,210</u>	<u>125,041,362</u>
Increase in net position before capital appropriations and transfer of assets	145,453,835	62,673,745
Capital appropriations	—	33,165,000
Capital Initiatives Transfer	<u>196,000,000</u>	<u>—</u>
Increase in net position after capital appropriations and transfer of assets	341,453,835	95,838,745
Net position, beginning of year	<u>493,878,994</u>	<u>398,040,249</u>
Net position, end of year	\$ <u><u>835,332,829</u></u>	\$ <u><u>493,878,994</u></u>

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Cash received from Medicaid and Medicare	\$ 897,410,328	777,958,201
Cash received from insurance and patients	387,846,221	338,673,172
Cash received from contracts and grants	6,272,787	2,022,878
Cash received from Medicare Advance Payment Plan	—	78,829,539
Cash payments to employees	(518,215,927)	(407,269,436)
Cash payments to suppliers	(520,678,617)	(551,812,791)
Cash payments to University of New Mexico	(199,017,348)	(150,097,117)
Cash payments to University of New Mexico Health System	(237,258)	(238,761)
Cash (payments to) received from University of New Mexico Medical Group	(10,797,237)	149,034
Cash payments to State of New Mexico for intergovernmental transfer	(18,900,000)	(42,793,530)
Cash payments to the State of NM for Gross Receipts Tax	(26,623,507)	(24,168,372)
Cash payments to affiliates	2,446,966	1,963,632
Other receipts	44,095,945	51,289,290
	<u>43,602,353</u>	<u>74,505,739</u>
Net cash provided by operating activities		
Cash flows from noncapital financing activities:		
Cash received from Bernalillo County mill levy	95,006,878	92,023,076
Cash received from state general fund and other state fund appropriations	5,781,200	5,667,257
Cash received from State of New Mexico Land and Permanent Fund	943,833	1,069,319
Cash receipts for other than capital or operating purposes	534,698	1,067,434
Cash received from contributions for other-than-capital purposes	2,849,933	3,181,645
Cash received from CARES Act	60,916,918	20,268,888
Cash paid for mission support	—	(5,533,418)
	<u>166,033,460</u>	<u>117,744,201</u>
Net cash provided by noncapital financing activities		
Cash flows from capital financing activities:		
Principal payments of bonds	(5,950,000)	(5,815,000)
Interest payments on capital assets-related to debt	(2,818,445)	(2,937,536)
Purchases of capital assets	(72,721,697)	(43,718,275)
Cash payments for debt issuance	(480,000)	—
Cash received from capital appropriations	—	33,165,000
Cash received from Capital Initiatives Transfers	50,000,000	—
Cash payments for debt-related activities	(604,416)	(649,507)
	<u>(32,574,558)</u>	<u>(19,955,318)</u>
Net cash used in capital financing activities		
Cash flows from investing activities:		
Cash withdrawals from 2015 bond reserve fund	1,037	692,467
Proceeds from sales and maturities of investments	14,996,232	42,355,186
Purchase of investments	(15,531,478)	(42,941,174)
Interest and dividends on investments	1,047,529	2,416,832
	<u>513,320</u>	<u>2,523,311</u>
Net cash provided by investing activities		
Net increase in cash and cash equivalents	177,574,575	174,817,933
Cash and cash equivalents, beginning of year	<u>333,296,374</u>	<u>158,478,441</u>
Cash and cash equivalents, end of year	\$ <u>510,870,949</u>	<u>333,296,374</u>

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Cash Flows

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating loss to net cash provided by (used in) operating activities:		
Operating loss	\$ (24,998,375)	(62,367,617)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	33,296,522	33,020,044
Provision for doubtful accounts	58,988,165	65,163,407
Changes in assets, deferred outflows, liabilities, and deferred inflows:		
Patient receivables	(71,575,590)	(71,549,135)
Due from University of New Mexico	1,748,468	381,621
Due from University of New Mexico Health System	(237,258)	(238,761)
Due from University of New Mexico Medical Group	(7,704,410)	1,230,800
Estimated third-party payor settlements receivables	(10,151,584)	(3,574,765)
Other receivables and prepaid expenses	866,588	4,380,769
Inventories	(1,947,535)	(380,913)
Deferred outflow of resources related to pensions	(1,653,426)	572,961
Medicare Advanced Payment Plan	(9,116,939)	78,829,539
Accounts payable	13,854,693	(3,521,059)
Accrued expenses	9,896,333	(4,802,498)
Due to University of New Mexico	6,362,752	8,330,753
Due to University of New Mexico Medical Group	635,187	1,427,448
Estimated third-party payor settlements liabilities	40,516,961	27,316,802
Due to affiliates	2,446,966	1,963,632
Net pension liability	2,304,870	(1,819,411)
Deferred inflow of resources related to pensions	69,965	142,122
Net cash provided by operating activities	<u>\$ 43,602,353</u>	<u>74,505,739</u>

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2021 and 2020

(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:

	<u>2021</u>	<u>2020</u>
Total operating revenues	\$ 12,687,088	12,875,150
Total operating expenses	<u>(20,623,131)</u>	<u>(19,527,631)</u>
Operating loss	(7,936,043)	(6,652,481)
Nonoperating revenue	<u>6,519,562</u>	<u>7,154,566</u>
Total (decrease) increase in net position	(1,416,481)	502,085
Net position, beginning of year	<u>5,387,524</u>	<u>4,885,439</u>
Net position, end of year	<u>\$ 3,971,043</u>	<u>5,387,524</u>

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(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

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

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

(b) Recent Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the

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foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. The Hospital is evaluating the impact the standard will have on its financial statements.

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

In June 2020, GASB issued Statement No. 97, *Certain component unit criteria, and accounting and financial reporting for internal revenue code section 457 deferred compensation plans – an amendment of GASB Statements No. 14 and 84 and a supersession of GASB Statement No. 32*. Among other things, this statement strives to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. The Hospital is evaluating the impact the standard will have on its financial statements.

(c) Use of Estimates

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

(d) Operating Revenues and Expenses

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

(e) Grants and Contracts

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

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(f) Nonoperating Revenue and Expenses

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

These revenue and expense streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Appropriations are recognized in the year they are appropriated, regardless of when actually received. Bequests and contributions are recognized when all applicable eligibility requirements have been met. Investment income is recognized in the period in which it is earned. The mill levy is recognized in the period in which it is collected by the County. Interest expense incurred on the outstanding debt obligations and other expenses related to servicing debt are recognized when due. Transfers of assets to the Health System are recognized when incurred. Coronavirus Aid, Relief, and Economic Security (CARES) Act funding is recognized in the period in which the terms and conditions of the funds have been met.

(g) Cash and Cash Equivalents

The Hospital considers all highly liquid investments (excluding amounts whose use is limited) purchased with an original maturity of three months or less to be cash equivalents. For purposes of the statement of cash flows, cash and cash equivalents includes cash and cash equivalents, restricted cash for unexpended capital appropriation and cash with donor restrictions. Total cash within the statements of net position at June 30 are as follows:

	2021	2020
Current assets:		
Unrestricted cash and cash equivalents	\$ 322,208,275	233,276,201
Noncurrent assets:		
Cash restricted by donors	18,759,402	18,976,443
Cash designated by UNM Hospital	169,903,272	81,043,730
	\$ 510,870,949	333,296,374

(h) Investments and Investment Return

Investments are recorded at fair market value. At June 30, 2021 and 2020, 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.

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(i) Inventories

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

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

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

Assets designated by management include receivables and cash designated for the partial construction and purchase of equipment for the planned patient tower and parking garage. At June 30, 2021, \$146 million of this asset is a receivable from UNM with the remaining balance in cash.

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

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

(k) Capital Assets

Capital assets are stated at cost or at estimated fair value on date of acquisition. Donated property and equipment are stated at fair market value when received. The Hospital's capitalization policy for assets includes all items with a unit cost of more than \$5,000. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets as indicated in the "Estimated Useful Lives of Depreciable Hospital Assets," Revised 2018 Edition published by the American Hospital Association. Repair and maintenance costs are charged to expense as incurred. On a quarterly basis, the Hospital assesses long-lived assets in order to determine whether or not it is necessary to retire, replace, or impair based on condition of the assets and their intended use. There was approximately \$400,700 of impairment of capital assets for the year ended June 30, 2021.

(l) 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, 2021 was \$69.7 million.

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(m) Pensions

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

(n) Due to Affiliates

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

(o) 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.

(p) 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.

(q) 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.

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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 \$767,000 and \$657,000 in aggregate, authorized by Bernalillo County, the City of Albuquerque, and the NM Hospital Equipment Loan Council, during the years ended June 30, 2021 and 2020, respectively, as a result of the exemptions and abatements granted.

(r) 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 2021 include \$6.0 million in the General Fund. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Subsection J, Higher Education.

In the year ended June 30, 2020 the Hospital received funding from the state for capital outlay. The state capital appropriation is included in the Capital Outlay Expenditures Act, which is approved by the House and Senate of the State Legislature and signed by the governor before going into effect. The funds appropriated for 2020 include \$3.2 million to plan, design, construct, renovate, furnish and equip a movement disorders specialized center for the Hospital and \$30.0 million to plan design, construct, furnish and equip a new medical tower at the Hospital. There were no funds appropriated for capital in 2021.

(s) 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, 2021 and 2020, there was no income generated from unrelated activities.

(t) Gross Receipts Taxes

Effective July 1, 2019, the Hospital is no longer exempted from NM State Gross Receipts tax. 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.

(u) 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 \$61.7 million and \$52.2 million in IGT obligations for fiscal years ended June 30, 2021 and 2020, 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.

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(v) 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, 2021 and 2020.

(w) 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. At June 30, 2021 and 2020, the estimated amount of the Hospital's IBNR and accrued claims was approximately \$5.1 million and \$4.7 million, respectively, which is included in accrued payroll. As the Hospital receives all cash and pays all obligations of the Center, the estimated amount of the Center's IBNR and accrued invoices recorded in the Hospital's accrued payroll was approximately \$485,000 and \$450,000 at June 30, 2021 and 2020, respectively. The liability for IBNR was based on actuarial analysis calculated using information provided by BCBSNM.

Changes in the reported Hospital liability during fiscal years 2021 and 2020 resulted from the following:

	<u>Beginning of fiscal year</u>	<u>Current year claims and changes in estimates</u>	<u>Claim payments</u>	<u>Balance at fiscal year-end</u>
2020–2021	\$ 4,740,891	49,685,610	(49,315,155)	5,111,346
2019–2020	5,144,911	46,229,275	(46,633,295)	4,740,891

(x) Classification

Certain 2020 amounts have been reclassified to conform to the 2021 presentation.

(3) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

(i) Deposits

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

The carrying amounts of the Hospital's deposits with financial institutions at June 30, 2021 and 2020 are \$532,004,853 and \$341,076,940, respectively.

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Bank balances are collateralized as follows:

	<u>June 30</u>	
	<u>2021</u>	<u>2020</u>
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	\$ 250,000	500,000
Amount collateralized with securities held in the Hospital's name	<u>581,882,552</u>	<u>430,817,967</u>
	<u>\$ 582,132,552</u>	<u>431,317,967</u>

(ii) *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, 2021 and 2020, the Hospital's bank deposits were not exposed to custodial credit risk.

(b) Marketable Securities

(i) *Interest Rate Risk – Debt Investments*

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

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

	<u>June 30, 2021</u>		
	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1–5 years</u>
Items subject to interest rate risk:			
Money market funds	\$ 37,951	37,951	—
U.S. Treasury notes	<u>36,949,942</u>	<u>6,778,156</u>	<u>30,171,786</u>
Total items subject to interest rate risk	<u>36,987,893</u>	<u>6,816,107</u>	<u>30,171,786</u>
Total marketable securities	<u>\$ 36,987,893</u>	<u>6,816,107</u>	<u>30,171,786</u>

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June 30, 2021 and 2020

	June 30, 2020		
	<u>Fair value</u>	<u>Less than 1 year</u>	<u>1–5 years</u>
Items subject to interest rate risk:			
Money market funds	\$ 834,313	834,313	—
U.S. Treasury notes	35,894,468	4,474,709	31,419,759
U.S. government agency or government-sponsored entity obligations:			
FHLMC	<u>251,607</u>	<u>251,607</u>	<u>—</u>
Total items subject to interest rate risk	<u>36,980,388</u>	<u>5,560,629</u>	<u>31,419,759</u>
Total marketable securities	<u>\$ 36,980,388</u>	<u>5,560,629</u>	<u>31,419,759</u>

(ii) *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 \$37.0 million and \$36.1 million at 2021 and 2020, respectively, are insured, registered, and held by the counterparty's agent in the Hospital's name.

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

(iii) *Credit Risk – Debt Investments*

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

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A summary of the marketable securities at June 30, 2021 and 2020 and their exposure to credit risk is as follows:

	2021		2020	
	Rating	Fair value	Rating	Fair value
Items not subject to credit risk:				
U.S. Treasury securities:				
Treasury notes	N/A	\$ 36,949,942	N/A	\$ 35,894,468
Items subject to credit risk:				
Money market funds	Not rated	37,951	Not rated	834,313
U.S. government agency obligations:				
FHLMC	Moody's-AAA	—	Moody's-AAA	251,607
Total items subject to credit risk		<u>37,951</u>		<u>1,085,920</u>
Total marketable securities		\$ <u>36,987,893</u>		\$ <u>36,980,388</u>

(iv) Concentration of Credit Risk – Investments

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

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

The Hospital has no exposure to concentrated credit risk as of June 30, 2021.

(c) Long-Term Investments

(i) Interest Rate Risk – Debt Investments

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

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June 30, 2021 and 2020

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

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

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

	<u>June 30, 2020</u>	
	<u>Fair value</u>	<u>Less than 1 year</u>
Items subject to interest rate risk:		
Money market fund	\$ 17,961,660	17,961,660
Items not subject to interest rate risk:		
Investments in nonpublic entities*	<u>27,647,819</u>	<u>—</u>
Total long-term investments	<u>\$ 45,609,479</u>	<u>17,961,660</u>

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

(ii) Custodial Credit Risk – Debt Investments

As of June 30, 2021 and 2020, 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.

(iii) Credit Risk – Debt Investments

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

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A summary of the investments at June 30, 2021 and 2020 and their exposure to credit risk is as follows:

	2021		2020	
	Rating	Fair value	Rating	Fair value
Items subject to credit risk:				
Money market funds	Not rated	\$ 17,962,481	Not rated	\$ 17,961,660
Items not subject to credit risk:				
Investments in nonpublic entities*	N/A	<u>34,813,873</u>	N/A	<u>27,647,819</u>
Total long-term investments		<u>\$ 52,776,354</u>		<u>\$ 45,609,479</u>

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

(4) Fair Value Measurement

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

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

Level 2 inputs to the valuation methodology include the following:

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

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.

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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).

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

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, 2021		
	Level 1	Level 2	Level 3
Fixed income	\$ 36,949,942	—	—
Investment in TriWest	—	—	5,000,000
Total	<u>\$ 36,949,942</u>	<u>—</u>	<u>5,000,000</u>

	Assets at fair value as of June 30, 2020		
	Level 1	Level 2	Level 3
Fixed income	\$ 35,894,468	251,607	—
Investment in TriWest	—	—	5,000,000
Total	<u>\$ 35,894,468</u>	<u>251,607</u>	<u>5,000,000</u>

(5) Concentration of Risk

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

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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:

	2021		2020	
Medicaid	\$ 102,734,464	29 %	\$ 97,740,646	29 %
Medicare	85,966,565	24	83,172,220	25
Other third-party payors	108,583,969	32	102,470,709	31
Others	54,465,630	15	48,847,478	15
Total patient accounts receivable	351,750,628	100 %	332,231,053	100 %
Less allowance for uncollectible accounts and contractual adjustments	(207,210,879)		(200,278,729)	
Patient accounts receivable, net	\$ 144,539,749		\$ 131,952,324	

(6) Restricted and Designated Assets

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

	2021	2020
Cash designated by management for capital initiatives	\$ 23,869,902	—
Cash designated by management for capital replacement	138,000,000	63,000,000
Restricted cash for unexpended capital appropriation	8,033,370	18,043,730
Cash with donor restrictions	18,759,402	18,976,443
Capital initiatives receivable from UNM	146,000,000	—
Restricted for mortgage reserve fund	17,962,481	17,961,660
Designated by UNM Hospital Board of Trustees	34,813,873	27,647,819
	\$ 387,439,028	145,629,652

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.

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Assets Designated by Board of Trustees – The Hospital owns 289.7 shares of tracking stock in TriWest, an organization formed to administer healthcare benefits to military retirees and dependents of active duty personnel in the CHAMPUS/TriCare Central Region. The investment in TriWest is accounted for at fair value, which approximates cost. The Hospital recognized no return on investment during the years ended June 30, 2021 and 2020.

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 \$23,095,000 and \$15,929,000 at June 30, 2021 and 2020, respectively, which is being accounted for using the equity method.

The Hospital has a 50% interest in TriCore Laboratory Services Corporation (TLSC), which was organized to provide laboratory services, on a centralized basis for its members, the Hospital and Presbyterian Healthcare Services. The investment carrying amounts are approximately \$6.7 million at June 30, 2021 and 2020. The investment is accounted for using the equity method. The Hospital recorded laboratory expenses of approximately \$39.1 million in 2021 and \$33.5 million in 2020.

(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, 2021				Ending balance
	Beginning balance	Additions	Transfers	Retirements	
Hospital capital assets not being depreciated:					
Land	\$ 1,747,245	—	—	—	1,747,245
Construction in progress	27,354,076	52,798,079	(7,162,943)	—	72,989,212
	<u>\$ 29,101,321</u>	<u>52,798,079</u>	<u>(7,162,943)</u>	<u>—</u>	<u>74,736,457</u>
Hospital depreciable capital assets:					
Land and land improvements	\$ 12,191,183	—	390,371	—	12,581,554
Building and building improvements	174,100,847	—	1,653,382	(101,115)	175,653,114
Building service equipment	171,836,275	186,821	4,305,349	(1,861,233)	174,467,212
Major moveable equipment	166,716,608	16,311,817	63,472	(9,221,848)	173,870,049
Fixed equipment	16,617,580	125,919	388,358	(274,000)	16,857,857
Computer equipment	17,872,551	2,790,558	—	(31,418)	20,631,691
Computer software	47,083,808	508,503	353,519	(320,286)	47,625,544
Total depreciable capital assets	<u>606,418,852</u>	<u>19,923,618</u>	<u>7,154,451</u>	<u>(11,809,900)</u>	<u>621,687,021</u>

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	Year ended June 30, 2021				Ending balance
	Beginning balance	Additions	Transfers	Retirements	
Less accumulated depreciation for:					
Land improvements	\$ (9,996,047)	(412,884)	—	—	(10,408,931)
Building and building improvements	(97,522,911)	(5,161,149)	—	101,115	(102,582,945)
Building service equipment	(120,590,091)	(7,978,513)	—	1,803,106	(126,765,498)
Major moveable equipment	(116,086,151)	(15,276,177)	4,034	9,755,373	(121,602,921)
Fixed equipment	(10,188,522)	(1,215,578)	—	247,905	(11,156,195)
Computer equipment	(14,553,488)	(1,308,824)	—	31,418	(15,830,894)
Computer software	(44,419,690)	(1,943,397)	—	320,288	(46,042,799)
Total accumulated depreciation	<u>(413,356,900)</u>	<u>(33,296,522)</u>	<u>4,034</u>	<u>12,259,205</u>	<u>(434,390,183)</u>
Hospital depreciable capital assets, net	\$ <u>193,061,952</u>	<u>(13,372,904)</u>	<u>7,158,485</u>	<u>449,305</u>	<u>187,296,838</u>
Capital asset summary:					
Hospital capital assets not being depreciated	\$ 29,101,321	52,798,079	(7,162,945)	—	74,736,455
Hospital depreciable capital assets, at cost	<u>606,418,852</u>	<u>19,923,618</u>	<u>7,154,451</u>	<u>(11,809,900)</u>	<u>621,687,021</u>
Hospital total cost of capital assets	635,520,173	72,721,697	(8,494)	(11,809,900)	696,423,476
Less accumulated depreciation	<u>(413,356,900)</u>	<u>(33,296,522)</u>	<u>4,034</u>	<u>12,259,205</u>	<u>(434,390,183)</u>
Hospital capital assets, net	\$ <u>222,163,273</u>	<u>39,425,175</u>	<u>(4,460)</u>	<u>449,305</u>	<u>262,033,293</u>

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	Year ended June 30, 2020				Ending balance
	Beginning balance	Additions	Transfers	Retirements	
Hospital capital assets not being depreciated:					
Land	\$ 1,747,245	—	—	—	1,747,245
Construction in progress	6,316,872	26,145,541	(5,108,337)	—	27,354,076
	<u>\$ 8,064,117</u>	<u>26,145,541</u>	<u>(5,108,337)</u>	<u>—</u>	<u>29,101,321</u>
Hospital depreciable capital assets:					
Land and land improvements	\$ 12,144,367	—	184,422	(137,606)	12,191,183
Building and building improvements	181,895,574	—	2,186,499	(9,981,226)	174,100,847
Building service equipment	170,484,524	380,011	2,603,179	(1,631,439)	171,836,275
Major moveable equipment	164,306,418	13,681,803	15,046	(11,286,659)	166,716,608
Fixed equipment	20,695,700	1,258,011	119,191	(5,455,322)	16,617,580
Computer equipment	16,720,481	1,570,484	—	(418,414)	17,872,551
Computer software	46,566,965	682,425	—	(165,582)	47,083,808
Total depreciable capital assets	<u>612,814,029</u>	<u>17,572,734</u>	<u>5,108,337</u>	<u>(29,076,248)</u>	<u>606,418,852</u>
Less accumulated depreciation for:					
Land improvements	(9,732,084)	(401,569)	—	137,606	(9,996,047)
Building and building improvements	(102,485,025)	(5,015,492)	—	9,977,606	(97,522,911)
Building service equipment	(114,283,461)	(7,974,022)	—	1,667,392	(120,590,091)
Major moveable equipment	(112,515,439)	(14,707,511)	—	11,136,799	(116,086,151)
Fixed equipment	(14,441,729)	(1,210,255)	—	5,463,462	(10,188,522)
Computer equipment	(13,425,232)	(1,537,641)	—	409,385	(14,553,488)
Computer software	(42,411,718)	(2,173,554)	—	165,582	(44,419,690)
Total accumulated depreciation	<u>(409,294,688)</u>	<u>(33,020,044)</u>	<u>—</u>	<u>28,957,832</u>	<u>(413,356,900)</u>
Hospital depreciable capital assets, net	<u>\$ 203,519,341</u>	<u>(15,447,310)</u>	<u>5,108,337</u>	<u>(118,416)</u>	<u>193,061,952</u>
Capital asset summary:					
Hospital capital assets not being depreciated	\$ 8,064,117	26,145,541	(5,108,337)	—	29,101,321
Hospital depreciable capital assets, at cost	612,814,029	17,572,734	5,108,337	(29,076,248)	606,418,852
Hospital total cost of capital assets	620,878,146	43,718,275	—	(29,076,248)	635,520,173
Less accumulated depreciation	<u>(409,294,688)</u>	<u>(33,020,044)</u>	<u>—</u>	<u>28,957,832</u>	<u>(413,356,900)</u>
Hospital capital assets, net	<u>\$ 211,583,458</u>	<u>10,698,231</u>	<u>—</u>	<u>(118,416)</u>	<u>222,163,273</u>

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(8) Compensated Absences

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

(a) Sick Leave

Full-time employees accrue four hours of sick leave each two-week pay period (13 days per annum) up to a maximum of 1,040 hours to be used for major and minor sick leave. Seven of these days are accumulated into a minor sick leave bank. Part-time employees who are at least 0.5 FTE earn sick leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange for annual leave, major sick leave or cash all hours accumulated in excess of 24 hours on a hour-for-hour basis. At termination, only employees who retire from the Hospital and qualify under the Hospital's policy or estates of employees who die as the result of a compensable occupational illness or injury are eligible for payment of unused accumulated hours. Accrued sick leave as of June 30, 2021 and 2020 of approximately \$10.0 million and \$4.3 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.

(b) Annual Leave

Full-time employees accrue annual leave based on their length of employment up to a maximum of 480 hours. Part-time employees who are at least 0.5 FTE earn annual leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange for cash up to 80 annual leave hours accumulated in excess of 240 hours. At termination, employees are eligible for payment of unused accumulated hours, not to exceed 480 hours. Accrued annual leave as of June 30, 2021 and 2020 of approximately \$25.7 million and \$22.0 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.

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Additionally, compensatory time and holiday, totaling approximately \$675,000 and \$607,000 as of June 30, 2021 and 2020, 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, 2021 and 2020, the following changes occurred in accrued compensated absences:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2021</u>
\$	26,876,573	42,680,023	(33,189,139)	36,367,457

	<u>Balance</u> <u>July 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2020</u>
\$	24,320,262	32,625,365	(30,069,054)	26,876,573

(9) Bonds Payable

On December 12, 2014, the Regents adopted a Parameters Resolution authorizing the issuance of the Government National Mortgage Association (GNMA)-Backed, HUD-Insured Mortgage Bonds to redeem and refinance prior bonds. On May 7, 2015, the Regents adopted Resolutions authorizing the execution of amended FHA Documents and loan modification documents. On May 14, 2015, the Hospital issued \$115,000,000 in bonds (2015 Series bonds). The bonds were issued pursuant to a trust indenture, dated as of May 1, 2015, by and between the Hospital and Wells Fargo Bank, National Association, as trustee for the purpose of refinancing a previously issued bond series. The 2015 Series bonds carry interest rates that range from 0.484% to 3.532%.

The Regents granted the GNMA Issuer in respect of the UNMH HUD-Insured Bonds a security interest in all of the Hospital's revenues, cash (with the exception of the proceeds of the UNM Hospital mill levy and state appropriations), accounts receivable, contract rights, and the proceeds of the same. In addition, in that certain Regulatory Agreement signed by the Regents, that is still in effect today, the University agreed and committed to HUD that it would not "assign, transfer, dispose of, or encumber any personal property of the project including revenues from any source." Lastly, in accordance with the terms of the Lease under which the University leases a portion of the Hospital facility from Bernalillo County, all reserves of the Hospital covered by the Lease are restricted to use for operation and maintenance of the Hospital. Failure to abide by the terms of the regulatory agreement with HUD could trigger an event of default. Events of default with financial consequences include failure to pay monthly debt servicing payments as agreed; transfer of or use of the mortgaged property for purposes other than the operation of the Hospital; and failure to adequately maintain the mortgaged property. In the event of default, HUD has the option to declare the entire balance immediately due and payable if the triggering event is not remedied within 30 days.

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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 \$99,029,361 (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 \$2.8 million and \$2.9 million for the years ended June 30, 2021 and 2020, respectively. Interest income earned from the investment of the bond proceeds was approximately \$2,000 and \$247,000 for the years ended June 30, 2021 and 2020, respectively.

Bonds payable activity consists of the following:

Year ended June 30, 2021					
	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
FHA Insured Hospital Mortgage:					
Revenue:					
Bond Series 2015	\$ 86,305,000	—	(5,950,000)	80,355,000	6,105,000
	<u>\$ 86,305,000</u>	<u>—</u>	<u>(5,950,000)</u>	<u>80,355,000</u>	<u>6,105,000</u>
Year ended June 30, 2020					
	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
FHA Insured Hospital Mortgage:					
Revenue:					
Bond Series 2015	\$ 92,120,000	—	(5,815,000)	86,305,000	5,950,000
	<u>\$ 92,120,000</u>	<u>—</u>	<u>(5,815,000)</u>	<u>86,305,000</u>	<u>5,950,000</u>

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Future debt service (including mandatory redemptions) as of June 30, 2021 for the bonds is as follows:

	Principal	Interest	Total
Years ending June 30:			
2022	\$ 6,105,000	2,676,657	8,781,657
2023	6,285,000	2,515,913	8,800,913
2024	6,480,000	2,334,779	8,814,779
2025	6,690,000	2,141,545	8,831,545
2026	6,975,000	1,874,344	8,849,344
2027–2031	39,085,000	5,445,815	44,530,815
2032	8,735,000	232,141	8,967,141
	\$ 80,355,000	17,221,194	97,576,194

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%.

(10) Net Patient Service Revenues

The majority of the Hospital's revenue is generated through agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established charges. Approximately 64% of the Hospital's gross patient revenues for fiscal years ended June 30, 2021 and 2020 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.

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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 OPSS.

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:

	<u>2021</u>	<u>2020</u>
Charges at established rates	\$ 2,356,444,285	2,133,547,497
Charity care	(53,210,085)	(61,818,227)
Contractual adjustments	(986,550,499)	(950,074,442)
Provision for doubtful accounts	<u>(58,988,165)</u>	<u>(65,163,407)</u>
Net patient revenues	<u>\$ 1,257,695,536</u>	<u>1,056,491,421</u>

The Hospital is reimbursed by the Medicare and Medicaid programs on a prospective payment basis for hospital services, with certain items reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Hospital. The annual cost reports are subject to audit by the Medicare Administrative Contractor and the Medicaid audit agent. Cost reports through 2017 have been final settled for the Medicaid programs. Cost reports through 2013, 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 \$7.3 million and \$3.5 million for the years ended June 30, 2021 and 2020, respectively. During the fiscal year ended June 30, 2021, a \$2.0 million receivable for Medicare and a \$1.4 million liability for Medicaid were accrued as estimates for the fiscal year 2021 cost report. During the fiscal year ended June 30, 2020, a \$749,000 receivable for Medicare and

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a \$1.1 million liability for Medicaid were accrued as estimates for the fiscal year 2020 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.

During fiscal year 2020, the Hospital received a reimbursement from Tricare of \$1,032,000, which is included in the totals above. During fiscal year 2020, the Hospital received an aggregate settlement of \$775,000 from U.S. Public Health Services, which is included in the totals above.

(11) Charity Care

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

	<u>2021</u>	<u>2020</u>
Charges foregone, based on established rates	\$ 53,210,085	61,818,227
Estimated costs and expenses incurred to provide charity care	30,692,453	34,574,343
Equivalent percentage of charity care charges foregone to total gross revenue	2 %	3 %

(12) Malpractice Insurance

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

The NMTCA provides that total liability for all claims that arise out of a single occurrence shall not exceed \$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.

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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.

(13) 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:

	2021	2020
UNM Health Sciences Center	\$ 5,897,692	3,246,742
UNM Medical Group	5,226,076	4,680,300
UNM Sandoval Regional Medical Center	3,270,443	3,144,998
	\$ 14,394,211	11,072,040

In addition to the items above, the Hospital recorded \$844,155 and \$742,670 of operating expenses related to contributed services provided to the UNM Health System in the fiscal years ended June 30, 2021 and 2020, 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:

	2021	2020
UNM Health Sciences Center	\$ 247,707,510	208,973,379
UNM Sandoval Regional Medical Center	534,012	383,027
UNM Medical Group	1,399,734	2,128,162
UNM	2,242,178	2,242,178
	\$ 251,883,434	213,726,746

(14) Defined-Contribution Benefit Plans

The Hospital has a defined-contribution plan covering eligible employees, which provides retirement benefits. The name of the plan is UNM Hospital Tax Sheltered Annuity Plan, formerly known as the University of New Mexico Hospital/Bernalillo Medical Center Tax Sheltered Annuity Plan. The Hospital contributes either 6% or 8% of an employee's salary to the plan, depending on employment level. The plan

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2021 and 2020

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 \$18.1 million and \$15.6 million in fiscal years 2021 and 2020, respectively. Total employee contributions under this plan were approximately \$25.1 million and \$20.4 million in fiscal years 2021 and 2020, respectively. The Hospital also offers a Roth 403b defined-contribution plan option. Total employee contributions were approximately \$2.7 million and \$2.0 million in fiscal years 2021 and 2020, respectively.

The Hospital also has a deferred compensation plan, called the UNM Hospital 457(b) Deferred Compensation Plan, which provides employees with additional retirement savings plan. The Hospital does not contribute to this plan. Employees can make voluntary contributions to this plan. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. The plan is administered by the Hospital's Human Resources Department. There was no expense for the deferred compensation plan in 2021 or 2020 as the Hospital does not contribute to this plan. Total employee contributions under this plan were approximately \$3.8 million and \$3.6 million in 2021 and 2020, respectively.

In addition, the Hospital has a 401(a) defined-contribution plan, called the UNM Hospital 401(a) Plan, which was established for the purpose of providing retirement benefits for eligible participants and their beneficiaries. The 401(a) plan allows for tax-deferred employer contributions based on management's recommendation that is approved by the Board of Trustees on an annual basis. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. All assets of the plan are held in a trust fund, are not considered hospital assets, and are under the direction of a plan administrator. The expense for the 401(a) defined-contribution plan was \$603,000 and \$527,000 in fiscal years 2021 and 2020, respectively. Only the Hospital contributes to this plan.

(15) Commitments and Contingencies

(a) Lease Commitments

The Hospital is committed under various leases for building and office space and data processing equipment. Rental expenses on operating leases and other nonlease equipment amounted to approximately \$10,361,000 and \$8,172,000 during fiscal years ended June 30, 2021 and 2020, respectively.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2021 and 2020

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2021, under noncancelable operating leases and memoranda of understanding, are as follows:

	<u>Amount</u>
Years ending June 30:	
2022	\$ 2,799,943
2023	2,756,383
2024	2,868,284
2025	2,724,724
2026	1,713,873
2027–2031	8,026,922
2032–2036	8,412,589
2037–2041	2,421,492
2042–2046	<u>1,152,979</u>
	<u>\$ 32,877,189</u>

(b) Contingencies

The Hospital is currently a party to various claims and legal proceedings. The Hospital makes provisions for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Hospital believes it has adequate provisions for potential liability in litigation matters. The Hospital reviews these provisions on a periodic basis and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

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

Based on the information that is currently available to the Hospital, the Hospital believes that the ultimate outcome of litigation matters, individually and in aggregate, will not have a material adverse effect on its results of operations or financial position. However, litigation is inherently unpredictable.

UNIVERSITY OF NEW MEXICO HOSPITAL

Notes to Financial Statements

June 30, 2021 and 2020

(16) Capital Initiatives

In fiscal year 2015, the Hospital and the UNM HSC entered into an MOU to collaborate on strategic capital projects. Per the agreement, the Hospital recorded a nonoperating expense of approximately \$129 million in fiscal year 2015 to provide for the development of clinical facilities pursuant to the agreement. All capital facilities are owned by UNM HSC for use by the Hospital. Capital project disbursements from capital initiatives funds held by UNM HSC in fiscal years 2021 and 2020 and the ending balances for each fiscal year are reflected in the table below.

	<u>July 1 beginning balance</u>	<u>Transfer of assets from fund</u>	<u>Capital project disbursements from fund</u>	<u>June 30 ending balance</u>
Fiscal year 2021	\$ 196,333,561	(196,000,000)	—	333,561
Fiscal year 2020	196,811,094	—	(477,533)	196,333,561

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

During the fiscal year ended June 30, 2021, \$196 million of the capital initiatives balance was transferred to the Hospital and is reflected in the accompanying Statements of Revenues, Expenses and Changes in Net Position as capital initiatives transfer and the unexpended amounts have been designated for capital projects. At June 30, 2021, \$146 million is outstanding as a receivable from UNM HSC and \$23.9 million is unspent designated cash. This total of \$169.9 million is reflected in the assets designated by UNM Hospital further discussed in footnote 6. The remaining \$26.1 million of the transferred assets was expended during the year ended June 30, 2021 for capital projects.

(17) Subsequent Events

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.

UNIVERSITY OF NEW MEXICO HOSPITAL

Comparison of Budgeted and Actual Revenues and Expenses

Year ended June 30, 2021

	<u>Budget (original)</u>	<u>Budget (final)</u>	<u>Actual</u>	<u>Budget variance</u>
Operating revenues:				
Net patient service	\$ 1,045,980,483	1,222,084,195	1,257,695,536	35,611,341
Other operating revenue	58,951,236	47,286,379	50,535,530	3,249,151
Total operating revenues	1,104,931,719	1,269,370,574	1,308,231,066	38,860,492
Operating expenses	<u>(1,181,561,351)</u>	<u>(1,304,974,594)</u>	<u>(1,333,229,441)</u>	<u>(28,254,847)</u>
Operating loss	(76,629,632)	(35,604,020)	(24,998,375)	10,605,645
Nonoperating revenues and other revenues, net	105,709,623	163,853,876	170,452,210	6,598,334
Increase in net position before transfer of assets	29,079,991	128,249,856	145,453,835	17,203,979
Capital initiatives transfer	<u>—</u>	<u>—</u>	<u>196,000,000</u>	<u>196,000,000</u>
Increase in net position after transfer of assets	<u>\$ 29,079,991</u>	<u>128,249,856</u>	<u>341,453,835</u>	<u>213,203,979</u>

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

See accompanying independent auditors' report.

UNIVERSITY OF NEW MEXICO HOSPITAL

Pledged Collateral by Banks

Year ended June 30, 2021

	Pledged collateral			Wells Fargo Bank	Total
	Type of security	CUSIP	Maturity	Albuquerque, New Mexico	
Funds on deposit:					
Demand deposits				\$ 532,004,853	532,004,853
FDIC insurance				(250,000)	(250,000)
Total uninsured public funds				<u>531,754,853</u>	<u>531,754,853</u>
50% collateral requirement per Section 6-10-17 NMSA				265,877,427	265,877,427
Pledged collateral*					
	FMAC	3132A5D36	7/1/2045	33,013,816	33,013,816
	FMAC	3132A5EK7	11/1/2045	3,708,697	3,708,697
	FMAC	3132A5GQ2	3/1/2047	45,747,048	45,747,048
	FMAC	3132A5GW9	4/1/2047	20,832,183	20,832,183
	FMAC	3132A5HB4	7/1/2047	52,390,267	52,390,267
	FMAC	31339U4Z0	11/1/1949	6,622,405	6,622,405
	FMAC	3133A2EZ9	2/1/2050	19,538,250	19,538,250
	FMAC	3133KGTP3	10/1/2049	34,469,315	34,469,315
	FMAC	3133KGZL5	11/1/2049	37,504,697	37,504,697
	FNMA	3138W7GH1	3/1/2043	47,725,652	47,725,652
	FNMA	3140EWA70	5/1/2031	16,586,348	16,586,348
	FNMA	3140FCTG3	2/1/2047	62,331,395	62,331,395
	FNMA	3140J8XU2	8/1/2038	7,904,205	7,904,205
	FNMA	3140K16J0	1/1/2050	25,350,808	25,350,808
	FNMA	3140K5JR9	2/1/2050	42,817,232	42,817,232
	FNMA	31418B5E2	6/1/2031	21,002,381	21,002,381
	FNMA	31418CU77	3/1/2048	37,926,895	37,926,895
	FNMA	31418DGL0	10/1/2049	66,410,958	66,410,958
Total pledged collateral				<u>581,882,552</u>	<u>581,882,552</u>
Excess of pledged collateral over the required amount				<u>\$ 316,005,125</u>	<u>316,005,125</u>

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

See accompanying independent auditors' report.

UNIVERSITY OF NEW MEXICO HOSPITAL

Schedule of Individual Deposit and Investment Accounts

Year ended June 30, 2021

Name of bank/broker	Account type	Balance per bank statement	Reconciled balance per financial statement
UNM Hospital cash:			
Wells Fargo Bank:			
Operating	Checking	\$ 531,982,134	510,809,910
Operating	Savings	22,719	22,719
Petty cash	Cash on hand	—	38,320
Total UNM Hospital cash		<u>\$ 532,004,853</u>	<u>510,870,949</u>
UNM Hospital short-term investments:			
US Bank	Money market funds	\$ 37,951	37,951
US Bank	U.S. Treasury notes	36,949,942	36,949,942
Total UNM Hospital short-term investments		<u>\$ 36,987,893</u>	<u>36,987,893</u>
UNM Hospital long-term investments:			
Investment in TriWest	Equity securities	\$ 5,000,000	5,000,000
Investment in TriCore Reference Lab (TRL)	Equity securities	23,095,413	23,095,413
Investment in TLSC	Equity securities	6,718,460	6,718,460
Total UNM Hospital long-term investments		<u>\$ 34,813,873</u>	<u>34,813,873</u>

See accompanying independent auditors' report.



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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the University of New Mexico Hospital (the Hospital), a division of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, organized as the University of New Mexico Hospital, which comprise the statement of net position as of June 30, 2021, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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



We note certain matters that are required to be reported per Section 12-6-5 NMSA 1978, that we have described in the accompanying schedule of findings and responses as items 2021-001.

The Hospital's Response to the Finding

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

Purpose of this Report

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

KPMG LLP

Albuquerque, New Mexico
December 13, 2021

UNIVERSITY OF NEW MEXICO HOSPITAL

Summary of Audit Results

Fiscal year ended June 30, 2021

Type of auditor report issued: Unmodified

Fiscal year 2021 Findings and responses:

Material weakness: No matters to report

Significant deficiencies: No matters to report

Material noncompliance: No matters to report

UNIVERSITY OF NEW MEXICO HOSPITAL

Schedule of Finding and Responses

Fiscal year ended June 30, 2021

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

2021-001 (2020-001, 2019-002, 2018-003, 2017-001) User Access Review – Other Matter

Condition

In our testwork related to the controls over user access reviews, we noted in the one sampled quarter for Soarian and Lawson systems that lookback procedures or impact assessments were not completed after the user access reviews for the individuals identified for access change (termination, user change, etc.), to determine whether the user(s) performed any inappropriate activity from the time the applicable change noted/requested to the time they were removed from the application.

Also, in accordance with the organization's user account policy, access to applications must be disabled from applications within three business days of the termination date. We noted that in our test of the design of the user termination control in the Soarian system, a request for removal of access was not sent until seven days after the users terminations date. However, the system access removal was promptly completed within a day of receipt of the request.

In prior years we identified certain controls over user access reviews were not operating effectively. Management continues to update processes and procedures to address the specific deficiencies identified in prior years. The root cause of prior year deficiencies relates to departmental leadership training of account disable requirements and the employee termination checklist when employees leave the organization, as well as the training of application administration personnel on accurate documentation and timely completion of disabling accounts.

Management has implemented the following over the past several years to address the control deficiencies: updated documented procedures for the Cerner account audits and increased the audit sample sizes; developed more specific training for IT analysts; utilized a nightly safety net report from the HR department to identify employee records that were terminated; and emphasized IT and HR collaborations on the termination processes and procedures. In addition, in fiscal year 2021 a monthly distribution of a termination listing to application owners was implemented and this new procedure is in the review stage.

Management is still in process of refining policy and processes for lookback or impact procedures. Subsequent 2021 audit period, instructions have been communicated to the application analysts for the Soarian and Lawson to include account last login dates to support the lookback requirements during quarterly audit for all exceptions identified.

Criteria

The entity's systems process, record, and store information that is vital to the entity's daily operations, and certain systems contain protected health information of the entity's patients. It is critical that access to these systems is properly maintained to prevent inappropriate transactions from occurring, data from being lost, and to prevent protected health information from being released. The entity has a formal policy to periodically review user access to ensure active employees have the proper level of access in the applicable systems, and that terminated employees have been timely deactivated. Based on industry standards, the appropriate disabling of access within IT systems would occur within a reasonable time, three business days from terminations per the organization's policy.

UNIVERSITY OF NEW MEXICO HOSPITAL

Schedule of Finding and Responses

Year ended June 30, 2021

Effect

There is an increased risk that a terminated or unauthorized employee has continued access to IT systems and the data contained therein subsequent to termination or change of employment terms or responsibilities, potentially resulting in a breach of data or protected health information.

Cause

The controls related to the removal of terminated users and the user access review process was not operating effectively, and aspects of its performance could not be evidenced through documentation retained.

Recommendation

We recommend that the disabling of user access within IT systems should take place within a reasonable time (three business days per the organizations policy). Management should continue to develop lookback procedures to ensure no inappropriate activity has occurred due to access changes. Management should continue to enhance its review of user access, which should occur periodically during the year.

A departmental manager or individual responsible for the functional data should perform the user access review. Evidence of the performance of the review, including remedial action taken, should be maintained.

Management Response

The controls in place to deactivate Soarian Financials accounts in a timely fashion are appropriate and working as designed when the Soarian Team is notified by the organizational supervisors of the terminating employees. The process of notification to the Soarian team is triggered by the individual supervisors in the organization as identified on the exit checklist created by HR department. The exit checklist includes submission of the Termination action in the Human Resources system as well as communication to the Termination Notification email distribution list that notifies the application teams to disable accounts. IT/PFS Management will work with Human Resources to initiate additional education on exit checklist requirements and timeline expectations to organization supervisors to support timely notification of terminating employees.

The controls in place to disable Lawson accounts are also appropriate and have an additional safeguard when the organizational supervisors submit termination actions for the employee record. Lawson accounts are tied to HSCNetID AD authentication. HSCNetID AD accounts are controlled by an Identity Management software that terminates the HSCNetID AD account when the employee record is terminated in the source system, making the authentication unusable for Lawson accounts if they have not been disabled.

User Access Reviews will continue to be performed by the Soarian and Lawson teams. For accounts identified as active after the employee termination date, the last login date for the Soarian account audit and the last login for the Lawson HSCNetID AD account will be documented. These documented dates will be the look back documentation.

The Chief Information Officer, Chief Financial Officer and Chief Human Resources Officer will be responsible for the corrective action plan with a completion date of March 31, 2022.

UNIVERSITY OF NEW MEXICO HOSPITAL

Summary of Prior Year Findings

Year ended June 30, 2021

Finding 2020-001 User Access Review – Other Matter (finding that does not rise to the level of significant deficiency)

Current Status – *Repeat and Modified (See Finding 2021-001)*

UNIVERSITY OF NEW MEXICO HOSPITAL

Exit Conference

Year ended June 30, 2021

An exit conference was conducted on October 8, 2021 with members of the Finance and Audit Committee of the Board of Trustees and members of the Hospital's management. During this meeting, the contents of this report were discussed.

University of New Mexico Hospital

Terry Horn, Compliance and Audit Committee Chair

Del Archuleta, Compliance and Audit Committee Member

Tamra Mason, Compliance and Audit Committee Member

Kurt Riley, Compliance and Audit Committee Member

Kate Becker, CEO UNM Hospitals

Julie Alliman, Executive Director of Finance, UNM Hospitals

Angela Vigil, Executive Director of Compliance, UNM Hospitals

Scot Sauder, In House Council, UNM HSC

Ava Lovell, Senior Executive Officer for Finance and Administration, UNM HSC

Ajay Gupta, Partner, Clifton Larson Allen

Dave Strzyzewski, Senior Manager, Clifton Larson Allen

KPMG

John Kennedy, Partner

Jaime Cavin, Managing Director