KPMG

UNIVERSITY OF NEW MEXICO HOSPITAL

Financial Statements with Supplementary Information

June 30, 2020 and 2019

(With Independent Auditors' Report Thereon)

UNIVERSITY OF NEW MEXICO HOSPITAL

Fiscal Year 2020 Official Roster

Board of Trustees

Terry Horn	Chair Person (Term expires 7/31/20, Regent appointed)
Jennifer K. Phillips, MD	Vice Chair (Term expires 1/15/22, Regent appointed)
A. Joseph Alarid	Member (Term expires 7/31/21, Regent appointed)
Erik Lujan	Member (Term expires 6/30/22, All Pueblo Council of Governors – Regent appointed)
Adelmo Archuleta	Member (Term expires 6/30/22, Regent appointed)
Tamra Mason, PhD	Member (Term expires 6/30/22, Regent appointed)
Kurt Riley	Member (Term expires 2/1/23, All Pueblo Council of Governors - Regent appointed)
Trey Hammond	Member (Term expires 4/28/23, County appointed)
Michael Brasher	Member (Term expires 4/28/23, County appointed)

UNIVERSITY OF NEW MEXICO HOSPITAL

Fiscal Year 2020 Official Roster

Administrative Officers

Garnett S. Stokes	President – University of New Mexico
Paul Roth, M.D.	Chancellor – UNM Health Sciences Center Dean, School of Medicine – UNM Health Sciences Center
Kate Becker	Chief Executive Officer– UNM Hospitals
Bonnie White	Chief Financial Officer – UNM Hospitals

UNIVERSITY OF NEW MEXICO HOSPITAL

Table of Contents

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, 2020 and 2019, 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 Hospital as of June 30, 2020 and 2019, 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, 2020 and 2019, 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 3–16, 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 8, 2020 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 8, 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, 2020 and 2019. 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.

(Continued)

Three-Year Comparison of Financial Results

Condensed summary of net position

		June 30		
		2020	**2019**	**2018**
Assets:				
Current assets	$	616,161,136	434,624,687	425,113,490
Capital assets		222,163,273	211,583,458	209,524,491
Noncurrent assets		45,609,479	44,802,642	42,002,940
Total assets	$	883,933,888	691,010,787	676,640,921
Deferred outflows:				
Total deferred outflows of resources	$	414,666	987,627	1,402,216
Liabilities:				
Current liabilities	$	300,981,161	198,806,109	199,340,989
Noncurrent liabilities		89,001,292	94,807,071	107,283,132
Total liabilities	$	389,982,453	293,613,180	306,624,121
Deferred inflows:				
Total deferred inflows of resources	$	487,107	344,985	338,186
Net position:				
Net investment in capital assets	$	135,858,273	119,463,458	111,704,491
Restricted net position, expendable		55,188,477	35,988,285	35,766,882
Unrestricted net position		302,832,244	242,588,506	223,609,457
Total net position	$	493,878,994	398,040,249	371,080,830

Current assets include cash and other assets that are deemed to be consumed or convertible to cash within one year and include cash, marketable securities, and accounts receivable. The Hospital's most significant current asset is cash and cash equivalents. The cash balance was $296.3 million, $141.1 million, and $184.2 million as of June 30, 2020, 2019, and 2018, respectively. The $155.2 million increase in cash balances from June 30, 2019 to June 30, 2020 is due to receipt of $78 million of advance payments from CMS, receipt of $20 million in Coronavirus Aid, Relief, and Economic Security (CARES) Act funding, IME payments of $30 million received, and a concentrated effort to conserve cash during the last quarter of the fiscal year. The days cash on hand for the Hospital was 90, 52, and 75 as of June 30, 2020, 2019, and 2018, 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.

The second most significant current asset is patient receivables. The patient receivables balance was $132.0 million, $125.6 million, and $118.8 million as of June 30, 2020, 2019, and 2018, respectively. 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. The improved collections overall is the result of an 18 month improvement process initiative within the revenue cycle of the Hospital. The increase in net patient receivables of $6.7 million as of June 30, 2019 compared to June 30, 2018 is primarily due to increased revenues and associated accounts receivable.

At June 30, 2020, 2019, and 2018, the Hospital's current assets of $616.2 million, $434.6 million, and $425.1 million, respectively, were sufficient to cover current liabilities of $301.0 million (current ratio of 2.0), $198.8 million (current ratio of 2.4), and $199.3 million (current ratio of 2.1), respectively.

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 the Medicare advance payment plan balances of $78.8 million, $0, and $0 as of June 30, 2020, 2019 and 2018. The increase is due to a CMS Advance payment of $78.8 million received in the last quarter of the fiscal year. 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.

The next most significant liability balance is the estimated third-party payor settlements payable of $69.4 million, $42.1 million, and $45.7 million as of June 30, 2020, 2019, and 2018, respectively. 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 decrease in estimate third-party payor settlements at June 30, 2019 as compared to 2018 is primarily due to a change in estimate of liabilities related to the 340B program offset by an increase in reserved amounts for the disproportionate share payments received from the state

The next most significant liability is the accounts payable balance of $43.5 million, $47.0 million, and $60.5 million as of June 30, 2020, 2019, and 2018, respectively. The balances in accounts payable were primarily related to medical supplies, including pharmaceuticals, purchased services, and minor equipment purchases outstanding at June 30, 2020 and 2019.

(Continued)

Total net position as of June 30, 2020 increased by $95.8 million to $493.9 million. The 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. Management has designated $40 million of the increase in net position 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, 2019 increased by $27.0 million to $398.0 million. The increase was due to an operating loss of $63.8 million offset by net nonoperating revenue of $90.8 million.

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

		Year ended June 30	
	2020	2019	2018
Total operating revenues	$ 1,111,285,353	1,038,675,731	957,850,521
Total operating expenses	(1,173,652,970)	(1,102,494,196)	(1,013,266,315)
Operating loss	(62,367,617)	(63,818,465)	(55,415,794)
Nonoperating revenues and expenses	125,041,362	90,777,884	82,155,510
Total increase in net position before capital appropriations	62,673,745	26,959,419	26,739,716
Capital appropriations	33,165,000	—	—
Total increase in net position after capital appropriations	95,838,745	26,959,419	26,739,716
Net position, beginning of year	398,040,249	371,080,830	344,341,114
Net position, end of year	$ 493,878,994	398,040,249	371,080,830

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 $1.111 billion, $1.039 billion, and $957.9 million for the years ended 2020, 2019, and 2018, 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 $1.056 billion, $980.1 million, and $924.4 million for the years ended 2020, 2019, and 2018, respectively.

Net patient service revenues for 2020 increased $76.4 million from $980.1 million in 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.

Net patient service revenues for 2019 increased $55.8 million from $924.4 million in 2018, which represents a 6% increase. This increase is attributed to improved revenue cycle management and improved cash collections over the prior year along with an $18.7 million increase in Indirect Medical Education received form NM Medicaid.

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

	Year ended June 30		
	2020	**2019**	**2018**
Total licensed beds	537	537	537
Percent of occupancy (staffed beds)	87.0 %	87.0 %	86.8 %
Discharges	24,661	25,418	25,413
Patient days	156,128	155,659	156,672
Observation days	14,920	14,876	13,416
Average length of stay	6.3	6.1	6.2
Outpatient visits	509,931	548,093	551,407
Emergency visits	80,100	83,616	89,032
Urgent care visits	17,681	20,369	20,867
Surgeries	18,198	20,126	19,634

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 Governor in response to the COVID-19 pandemic.

Overall patient and observation days for 2019 increased by 447 from 2018, 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 2019 and 2018. Patient discharges were flat from fiscal year 2018 to fiscal year 2019. Surgical volumes increased from the prior year by 2.5% due to additional surgeons and operational improvements.

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

As of June 30, 2020, 2019, and 2018, there were approximately 5,900, 7,300, and 7,100 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 co-payments. The cost of charity care provided under this program for fiscal years ended June 30, 2020, 2019, and 2018 was approximately $34.6 million, $39.5 million, and $31.0 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 2020, 2019, and 2018 was $65.2 million, $70.8 million, and $67.0 million, respectively.

The Hospital provided intergovernmental transfers (IGTs) to the State of New Mexico in the amounts of $52.2 million, $40.6 million and $40.6 million, respectively for the years ended June 30, 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 Indirect Medical Education (IME), Graduate Medical Education (GME), and enhanced capitation payments, thereby jeopardizing the viability of the 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 $47.0 million, $50.1 million, and $33.9 million for pharmacy services in other operating revenue for the years ended June 30, 2020, 2019, and 2018, 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, 2020, operating expenses totaled $1.174 billion, an increase from 2019 of $71.2 million or 6.5%. The most significant expenditures were for employee compensation and benefits.

Compensation and benefits combined were $509.0 million, $492.6 million, and $467.6 million for the years ended June 30, 2020, 2019, and 2018, respectively. For fiscal years ended June 30, 2020, 2019, and 2018, the percentage of compensation and benefits combined to total operating expenses was 43.4%, 44.7%, and 46.1%, respectively. Compensation and benefits increased $16.4 million during the year ended June 30, 2020 and is due to general wage increases of 2% effective July 1 of 2019 and targeted wage increases ranging from 1% to 3% effective September of 2019 offset by a decrease in employee health insurance expense.

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

(Continued)

$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.

Compensation and benefits increased $24.7 million from fiscal year 2018 to 2019 as a result of a 2% general wage increase implemented in 2019 and an approximate 19% increase in health insurance expense.

The remaining increase in operating expense in 2019 compared to 2018 is primarily attributed to an increase in medical supplies of $20 million (10.7%), purchased services of $20.8 million (33%), and medical services of $5.6 million (3.2%). Medical supplies increased as a result of rising pharmaceutical, chemotherapy and biologics costs. Increases in pharmaceuticals is attributed to increased surgical volumes. Chemotherapy and biologics supply cost increased primarily due to an increase in visits to the cancer center, which increased by 13% in fiscal year 2019 from 2018. Purchased services increased due to professional fees associated with a substantial operational improvement project that the Hospital undertook in fiscal year 2019 as well as increased fees associated with the contract pharmacy program. Medical services increased as a result of additional support of physician providers for wage increases and added positions for Medical Directors.

Operating expense mix for the years ended June 30, 2020, 2019 and 2018 is detailed below:

	2020	2019	2018
Employee compensation	36 %	36 %	38 %
Benefits	8	9	8
Medical services	16	16	17
Medical supplies	18	19	18
Purchased services	9	8	6
Equipment	5	4	5
Depreciation	3	3	3
Occupancy	1	1	2
Other supplies	1	1	2
Other	2	3	1
Gross Receipts Tax	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 $125.0 million, $90.8 million and $82.2 million for the years ended 2020, 2019 and 2018, respectively.

The Bernalillo County mill levy tax subsidy is the most significant nonoperating revenue, totaling $92.3 million, $89.9 million, and $86.5 million in years ended 2020, 2019 and 2018, respectively. This tax subsidy is provided for the operations and maintenance of the Hospital. The proceeds of the mill levy may not be repurposed for any purpose other than that which the voters approved.

The Hospital received $20.3 million in funding from the CARES Act during the year ended June 30, 2020 to supplement lost revenues and increased costs associated with responding to the COVID-19 pandemic.

State appropriation funding of $6.3 million, $5.7 million and $5.3 million in 2020, 2019 and 2018, respectively. Included in this amount was $5.9 million, $5.2 million and $4.9 million for the Carrie Tingley Hospital (CTH) in 2020, 2019 and 2018, respectively and $455,500, $455,500 and $455,500 for the Young Children's Health Center (YCHC) in 2020, 2019 and 2018, respectively. State land revenue and oil and gas royalties for CTH for 2020, 2019 and 2018 were $1.1 million, $1 million and $1 million, respectively.

Contribution revenue was $3.2 million, $2.2 million and $2.3 million in 2020, 2019 and 2018, 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.

For the years ended June 30, 2019, and 2018, mission support was the most significant nonoperating expense, totaling $10.1 million and $10.7 million in 2019 and 2018, respectively. Mission support is provided to the University of New Mexico Health Sciences Center to further clinical activities and support the overall mission for the Health System. Included in nonoperating expense was $3.0 million, $3.0 million and $3.1 million of interest expense on capital asset related debt for each of the years ended June 30, 2020, 2019 and 2018, respectively.

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.

Capital Assets

At June 30, 2020, the Hospital had $222.2 million invested in capital assets, net of accumulated depreciation of $413.4 million. Depreciation charges for fiscal year 2020 totaled $33.0 million compared to $31.8 million and $31.1 million in 2019 and 2018, respectively.

	June 30		
	2020	2019	2018
Land, building, and improvements	$ 188,039,279	195,787,186	193,542,542
Building service equipment	171,836,271	170,484,524	166,617,393
Fixed equipment	16,617,580	20,695,700	18,226,848
Major moveable equipment	166,716,608	164,306,418	157,961,879
Computer equipment	17,872,551	16,720,481	15,244,408
Computer software	47,083,808	46,566,965	42,513,780
Construction in progress	27,354,076	6,316,872	6,067,198
	635,520,173	620,878,146	600,174,048
Less accumulated depreciation	(413,356,900)	(409,294,688)	(390,649,557)
Net property and equipment	$ 222,163,273	211,583,458	209,524,491

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.

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. The new medical building and parking structure are the most significant projects in the construction in progress balance and are multi-year projects expected to be completed by fiscal year 2025.

During 2019, the largest capital increases were within major moveable equipment ($18.1 million) and computer software ($4.1 million). These increases were offset by retirements and the removal of old, fully depreciated assets with original cost less than $5 thousand. The larger major moveable equipment purchases included an Artis Q BiPlane, a Stealth S8 Surgical Navigation System, and a Terumo Apheresis System. The Artis Q is designed for interventional radiology with improved contrast resolution from multiple angles and up to 60% reduced radiation. The Stealth S8 combines hardware, software, tracking algorithms, image data merging and specialized instruments to more precisely guide neurosurgery and spine procedures. The Terumo Apheresis System is designed to provide a more efficient platform for delivery of apheresis procedures. The larger building improvement projects that were capitalized included renovation of one of the operating rooms and a new roof for the entire operating room suite. Several new projects were initiated during fiscal year 2019,

(Continued)

including renovations at the main hospital and multiple off-site clinics. These projects were part of the construction in progress balance at June 30, 2019.

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 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 $76 million. Management has designated $40 million of the fiscal year 2020 increase in net position to be set aside to partially fund the parking structure and furnish the new medical tower with necessary equipment.

Debt Activity

The Hospital's bonds payable totaled $86.3 million and $92.1 million at June 30, 2020 and 2019, 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 $6.0 million and $5.8 million at June 30, 2020 and 2019, 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, 2020 and 2019 Single Audit.

Change in Net Position

The Hospital's total change in net position showed net increases for 2020 and 2019. 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 $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. Net position increased approximately $27.0 million in fiscal year 2019. The increase in net position is due to net nonoperating revenue of $90.8 million, offset by $63.8 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 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, 2019 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 Hospital activated the Emergency Operations Center (EOC) on March 5, 2020 to prepare for COVID-19. On March 13, 2020 the American College of Surgeons issued Recommendations for Management of Elective Surgical Procedures, which included recommendations on minimizing, postponing, or canceling elective surgeries, endoscopies, or other invasive procedures. They also recommended immediately minimizing the use of items needed to care for patients (such as ICU beds, personal protective equipment, cleaning supplies and ventilators). On March 24, 2020 the New Mexico Department of Health issued a Public Health Order prohibiting hospitals and other healthcare facilities from providing non-essential health care services, procedures, and surgeries.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act passed on March 27, 2020. One of the purposes was to reimburse eligible health care providers for health care–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. In addition, it authorized accelerated payments to Medicare providers which are advances to be paid back beginning one year after the payments were received. The Hospital expects Medicare to begin withholding Medicare payments in April 2021 to pay back the advance received.

CMS has issued multiple 1135 waivers since the PHE was declared. The waivers help ensure that sufficient healthcare items and services are available to meet the needs of individuals enrolled in the Medicare, Medicaid and CHIP programs. The waivers also ensure that providers that furnish these items and services in good faith, but are unable to comply with one or more of these requirements as a result of the consequences of the COVID-19 pandemic, may be paid for these items and services and exempted from sanctions for noncompliance, absent any determination of fraud or abuse. One of the waivers expanded the use of telehealth and telephone visits. The waiver also implemented payment for telephone visits under the physician fee schedule which previously were not payable on the fee schedule. The telehealth visits for professional fees are being paid at the same rate as an in person visit under the physician fee schedule. The Hospital is only able to bill and be paid for one code on telehealth and telephone visits. The payment for this code is significantly less than what the payment would be for an in person visit. There is support to make the expanded telehealth and telephone services permanent. CMS has also increased Medicare payment rates for patients that are hospitalized due to COVID-19. It is unknown how long these increased payments will be in effect. NM HSD also increased payment rates for inpatients diagnosed with COVID-19 beginning April 1, 2020. HSD has issued proposed State Plan Amendment (SPA) 20-0017 which would discontinue this temporary rate increase effective September 30, 2020.

The Hospital resumed non-essential health care services, procedures, and surgeries in mid-May after the NM Public Health Order was lifted. The COVID-19 pandemic is ongoing and the national public health emergency order is still in place. 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 whether there will be additional federal funding (grants or loans), the impact of a second surge if there is one, the impact of telehealth on a historical business model or whether there will be another total shutdown of non-essential healthcare services. Timing of the development of anti-viral treatments or a potential vaccine 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 April 22, 2020, CMS approved for New Mexico a State-directed payment to establish a value-based purchasing quality payment arrangement for inpatient and outpatient hospital services provided by hospitals that guarantee access to care for Native Americans. The payments are to be paid quarterly for the service period January 1, 2020 through December 31, 2020. The supplemental payments are to ensure network stability for the contracted Medicaid managed care organizations and the delivery of Medicaid services in New Mexico. The Hospital has agreed to work collaboratively with the MCO's on maintaining network stability, including collaboration on sustainable reimbursement rates for Medicaid beneficiaries enrolled in the managed care program. The State-directed payment must be submitted to CMS for approval to continue past December 31, 2020.

On September 2, 2020, CMS released the fiscal year 2020 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates are estimated to increase 4.6%. The increase is primarily due to an 8.83% increase in the hospital's Medicare Fee for Service case mix index and a 2.84% increase to the national labor and non labor components of the DRG rate. The hospital's Uncompensated Care DSH payments are estimated to decrease $81,500. CMS finalized to continue using one year of UC data from worksheet S 10 of the Medicare cost report to calculate each hospital's share of UC in the DSH calculation. For FY 2021 UC based DSH payments, CMS finalized to use FFY 2017 cost report data, the hospital's fiscal year ending June 30, 2018, which the agency has audited. In subsequent years, CMS finalized to continue using one year of S 10 data from the most recent audited cost reports.

The Hospital's finalized reclassified wage index decreased 3.84% dropping from .9198 to .8845. The Bernalillo County average hourly wage has not kept pace nationally and as a result has caused the counties wage index to continue to drop, so much so that the Bernalillo County is no longer eligible for a group geographic wage index reclassification to Santa Fe County. Under the Final Rule, the hospital's average hourly wage does not meet the criteria for an individual geographic reclass to Santa Fe County for FY2022.

The 2021 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 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 0.012% negative impact under the Hospital Readmission Reduction Program and a 0.323% 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 $1.070 million for federal fiscal year 2021, which is consistent with the payment reductions experienced in 2020.

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. Specific actions weren't included in the executive order but the Department of Health and Human Services was directed to develop a policy and begin the rule-making process. 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 hospitals 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. On December 4, 2019, the American Hospital Association (AHA) and several providers filed suit in the U.S. District Court for the District of Columbia against the U.S. Secretary of Health and Human Services challenging the final rule issued by CMS. On May 7, 2020, an attorney for the plaintiff argued that negotiated rates are not standard charges because they are privately negotiated with insurance companies. On June 23, 2020, a federal judge ruled against AHA and the other hospitals citing that negotiated pricing is already seen by patients on their explanation of benefits. The AHA is appealing the ruling; however, any decision may not be issued before the requirements take effect January 1, 2021. Under the IPPS final rule, the information for managed Medicare Advantage Plans is required on the hospital cost report, with further guidance on this process forthcoming. CMS expects that this data could be ready to be used to recalibrate MS-DRG weights by fiscal year 2024, and the agency finalize the rule to use the negotiated rates to recalibrate the MS-DRG weights beginning in 2024 as early as the final 2021 IPPS rule.

On August 4, 2020, CMS issued the proposed calendar year 2021 OPPS rule. CMS proposes to raise the base OPPS Payment rate by 2.6%, which is a market basket increase of 3.0%, less a multi-factor productivity adjustment of 0.4%. However, due to a proposed 3.3% decrease in the wage index and a 6.2% proposed decrease to Average Sales Price of 340b Drugs, the overall impact of the proposed OPPS rule on the Hospital's reimbursement is estimated to be a reduction of 2.24%, or $1.161 million.

CMS also proposes to continue 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.

In January 2018, the Centers for Medicare and Medicaid Services (CMS) reset Medicare payments for drugs obtained under the 340b program from the average sales price (ASP) plus 6 percent to ASP minus 22.5 percent. On December 27, 2018, Judge Rudolph Contreras of the U.S. District Court for the District of Columbia ruled in The American Hospital Association, et al. v. Alex Azar, et al. that the U.S. Department of Health and Human Services (HHS) could not legally implement the 2018 payment redistribution from 340B hospitals to all hospital under the Medicare OPPS. The judge ordered additional briefing from both parties on the appropriate remedy for the payment reductions. In May 2019, the court extended the decision that the cuts were unlawful to encompass the 2019 OPPS rule and again deferred a decision on the appropriate remedy, concluding that HHS should make a first attempt at developing a remedy given the complexity of the Medicare program. The court retained jurisdiction to reconsider, if HHS did not promptly provide a remedy and provide a progress report by August 2019. The court entered a final judgement without a ruling for a remedy in July 2019. CMS appealed the ruling and on July 31, 2020 the U.S. Court of Appeals for the District of Columbia reversed the district court's ruling and upheld HHS's payment reduction. The court indicated that the Secretary of HHS had broad discretion to adjust payment rates based on costs. In the regulatory arena, CMS released the Hospital OPPS FY 2021 Proposed rule on August 4, 2020. The proposed rule increased the Medicare Part B drug payment cuts to hospitals in the 340b program starting January 1, 2021. Specifically, CMS proposes to reimburse 340b hospitals at average sales price (ASP) minus 28.7 percent based on the results of the Hospital Acquisition Cost Survey for 340B-Acquired Specified Covered Drugs. This is proposed as an alternative to continuing the current policy of paying ASP minus 22.5 percent for 340B-acquired drugs.

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, 2020 and 2019

Assets		**2020**	**2019**
Current assets:			
Cash and cash equivalents	$	296,276,201	141,102,731
Restricted cash for unexpended capital appropriation		18,043,730	—
Cash with donor restrictions		18,976,443	17,375,710
Marketable securities		36,980,388	35,628,393
Restricted assets by trustee for debt service		206,644	173,272
Receivables:			
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $200,279,000 in 2020 and $231,519,000 in 2019)		131,952,324	125,566,596
Due from University of New Mexico		2,235,542	2,163,620
Due from University of New Mexico Health System		477,859	239,098
Due from University of New Mexico Medical Group		1,284,811	2,515,611
Estimated third-party payor settlements		78,989,784	75,415,019
Bernalillo County Treasurer		1,592,384	1,289,231
Other		6,792,200	5,320,960
Total net receivables		223,324,904	212,510,135
Prepaid expenses		5,784,866	11,647,399
Inventories		16,567,960	16,187,047
Total current assets		616,161,136	434,624,687
Noncurrent assets:			
Assets held by trustee:			
Restricted for mortgage reserve fund		17,961,660	18,439,303
Assets designated by UNM Hospital Board of Trustees		27,647,819	26,363,339
Total restricted assets		45,609,479	44,802,642
Capital assets, net		222,163,273	211,583,458
Total noncurrent assets		267,772,752	256,386,100
Total assets	$	883,933,888	691,010,787
Deferred Outflows			
Total deferred outflows related to pensions	$	414,666	987,627

(Continued)

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Net Position

June 30, 2020 and 2019

Liabilities		**2020**	**2019**
Current liabilities:			
Accounts payable	$	43,493,832	47,014,891
Accrued payroll		36,782,271	30,801,676
Due to University of New Mexico		30,798,552	28,005,425
Due to University of New Mexico Medical Group		1,831,717	404,269
Bonds payable – current		5,950,000	5,815,000
Interest payable bonds		78,290	81,598
Accrued compensated absences		26,876,573	24,320,262
Estimated third-party payor settlements		69,381,738	42,064,936
Medicare Advance Payment Plan		78,829,539	—
Other accrued liabilities		6,958,649	20,298,052
Total current liabilities		300,981,161	198,806,109
Noncurrent liabilities:			
Bonds payable		80,355,000	86,305,000
Due to affiliates		6,354,088	4,390,456
Net pension liability		2,292,204	4,111,615
Total noncurrent liabilities		89,001,292	94,807,071
Total liabilities	$	389,982,453	293,613,180
Deferred Inflows			
Total deferred inflows related to pensions	$	487,107	344,985
Net Position			
Net investment in capital assets	$	135,858,273	119,463,458
Restricted, expendable			
For unspent capital appropriation		18,043,730	—
For grants, bequests, and contributions		18,976,443	17,375,710
In accordance with the trust indenture and debt agreement		18,168,304	18,612,575
Unrestricted		302,832,244	242,588,506
Total net position	$	493,878,994	398,040,249

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2020 and 2019

	2020	2019
Operating revenues:		
Net patient service	$ 1,056,491,421	980,135,755
State and local contracts and grants	1,992,950	2,130,531
Other operating	52,800,982	56,409,445
Total operating revenues	1,111,285,353	1,038,675,731
Operating expenses:		
Employee compensation	417,318,762	397,053,923
Benefits	91,669,878	95,543,455
Medical services	187,790,513	177,999,556
Medical supplies	212,846,005	206,298,977
Purchased services	107,288,110	83,705,799
Equipment	53,259,636	48,822,256
Depreciation	33,020,044	31,784,887
Occupancy	16,071,768	14,456,942
Other	21,275,853	35,989,977
Other supplies	10,529,610	10,838,424
Gross Receipts Tax	22,582,791	—
Total operating expenses	1,173,652,970	1,102,494,196
Operating loss	(62,367,617)	(63,818,465)
Nonoperating revenues (expenses):		
Bernalillo County mill levy	92,326,229	89,853,146
State appropriation	6,335,600	5,656,600
Bequests and contributions	3,181,645	2,162,383
Equity in income of TriCore and TriCore Lab Svc Corp.	1,284,480	2,478,705
State of New Mexico Land and Permanent Fund proceeds	1,069,319	1,038,464
Cares Act Funding	20,268,888	—
Investment income (interest, dividends, gains, and losses)	3,420,511	3,022,568
Interest on capital asset-related debt	(2,934,229)	(3,034,937)
Health System mission support	—	(10,066,836)
Other nonoperating revenue	1,067,434	585,298
Other nonoperating expense	(978,515)	(917,507)
Net nonoperating revenue (expense)	125,041,362	90,777,884
Increase in net position before capital appropriations	62,673,745	26,959,419
Capital appropriations	33,165,000	—
Increase in net position after capital appropriations	95,838,745	26,959,419
Net position, beginning of year	398,040,249	371,080,830
Net position, end of year	$ 493,878,994	398,040,249

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Cash Flows

Years ended June 30, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Cash received from Medicaid and Medicare	$	777,958,201	585,459,514
Cash received from insurance and patients		338,673,172	380,812,265
Cash received from contracts and grants		2,022,878	1,458,022
Cash received from Medicare Advance Payment Plan		78,829,539	—
Cash payments to employees		(407,269,436)	(392,868,502)
Cash payments to suppliers		(551,812,791)	(500,266,267)
Cash payments to University of New Mexico		(150,097,117)	(164,056,551)
Cash payments to University of New Mexico Health System		(238,761)	400,319
Cash payments to University of New Mexico Medical Group		149,034	(5,611,492)
Cash payments to State of New Mexico for intergovernmental transfer		(42,793,530)	(40,600,000)
Cash payments to the State of NM for Gross Receipts Tax		(24,168,372)	—
Cash payments to affiliates		1,963,632	(6,563,739)
Other receipts		51,289,290	57,330,855
Net cash provided by (used in) provided by operating activities		74,505,739	(84,505,576)
Cash flows from noncapital financing activities:			
Cash received from Bernalillo County mill levy		92,023,076	89,869,506
Cash received from state general fund and other state fund appropriations		5,667,257	4,988,257
Cash received from State of New Mexico Land and Permanent Fund		1,069,319	1,038,464
Cash receipts for other than capital or operating purposes		1,067,434	515,831
Cash received from contributions for other-than-capital purposes		3,181,645	2,162,383
Cash received from CARES Act		20,268,888	—
Cash paid for mission support		(5,533,418)	(15,730,256)
Net cash provided by noncapital financing activities		117,744,201	82,844,185
Cash flows from capital financing activities:			
Principal payments of bonds		(5,815,000)	(5,700,000)
Interest payments on capital assets-related to debt		(2,937,536)	(3,040,023)
Purchases of capital assets		(43,718,275)	(33,774,384)
Cash received from capital appropriations		33,165,000	—
Cash payments for debt-related activities		(649,507)	(702,708)
Net cash used in capital financing activities		(19,955,318)	(43,217,115)
Cash flows from investing activities:			
Cash withdrawals from 2015 bond reserve fund		692,467	—
Proceeds from sales and maturities of investments		42,355,186	17,624,644
Purchase of investments		(42,941,174)	(18,006,460)
Interest and dividends on investments		2,416,832	1,958,293
Net cash provided by investing activities		2,523,311	1,576,477
Net increase (decrease) in cash and cash equivalents		174,817,933	(43,302,029)
Cash and cash equivalents, beginning of year		158,478,441	201,780,470
Cash and cash equivalents, end of year	$	333,296,374	158,478,441

(Continued)

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Cash Flows

Years ended June 30, 2020 and 2019

		2020	2019
Reconciliation of operating loss to net cash provided by (used in) operating activities:			
Operating loss	$	(62,367,617)	(63,818,465)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense		33,020,044	31,784,887
Provision for doubtful accounts		65,163,407	70,830,338
Changes in assets, deferred outflows, liabilities, and deferred inflows:			
Patient receivables		(71,549,135)	(77,552,471)
Due from University of New Mexico		381,621	(173,000)
Due from University of New Mexico Health System		(238,761)	400,319
Due from University of New Mexico Medical Group		1,230,800	164,690
Estimated third-party payor settlements receivables		(3,574,765)	(44,140,798)
Other receivables and prepaid expenses		4,380,769	(1,360,604)
Inventories		(380,913)	580,575
Deferred outflow of resources related to pensions		572,961	414,589
Medicare Advanced Payment Plan		78,829,539	—
Accounts payable		(3,521,059)	(13,456,377)
Accrued expenses		(4,802,498)	22,831,488
Due to University of New Mexico		8,330,753	696,089
Due to University of New Mexico Medical Group		1,427,448	(1,451,529)
Estimated third-party payor settlements liabilities		27,316,802	(3,601,045)
Due to affiliates		1,963,632	(6,563,739)
Net pension liability		(1,819,411)	(97,322)
Deferred inflow of resources related to pensions		142,122	6,799
Net cash provided by (used in) provided by operating activities	$	74,505,739	(84,505,576)

See accompanying notes to financial statements.

(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:

		2020	2019
Total operating revenues	$	12,875,150	15,209,396
Total operating expenses		(19,527,631)	(20,127,432)
Operating loss		(6,652,481)	(4,918,036)
Nonoperating revenue		7,154,566	6,164,344
Total increase in net position		502,085	1,246,308
Net position, beginning of year		4,885,439	3,639,131
Net position, end of year	$	5,387,524	4,885,439

(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 Positio*n. 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 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 June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The objective of the statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and aims to simplify accounting for interest cost incurred before the end of a construction period. Under this statement interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. Interest costs incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. Statement No. 89 is effective for reporting periods beginning after December 15, 2020. 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.

(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.

(h) Investments and Investment Return

Investments are recorded at fair market value. At June 30, 2020 and 2019, 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.

(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 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 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 $309,000 of impairment of capital assets for the year ended June 30, 2020.

(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 that funds are repaid or recouped by CMS beginning 120 days after receipt and must be fully repaid or recouped within one year of receipt. Funds received under this program during the year ended June 30, 2020 were $79 million and are accounted for as a liability within the current liabilities section of the balance sheet until such time as they are either repaid or recognized into revenue.

(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.

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 $657,000 and $614,000 in aggregate, authorized by Bernalillo County, the City of Albuquerque, and the NM Hospital Equipment Loan Council, during the years ended June 30, 2020 and 2019, 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 2020 include $6.3 million in the General Fund. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Subsection J, Higher Education.

The funding for 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 million to plan design, construct, furnish and equip a new medical tower at the Hospital

(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, 2020 and 2019, 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 $52.2 million and $40.6 million in IGT obligations for fiscal years ended June 30, 2020 and 2019, 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.

(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, 2020 and 2019.

(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, 2020 and 2019, the estimated amount of the Hospital’s IBNR and accrued claims was approximately $4.7 million and $5.1 million, respectively, which is included in accrued payroll. As the Hospital receives all cash and pays all obligations of the Center, the estimated amount of the Center’s IBNR and accrued invoices recorded in the Hospital’s accrued payroll was approximately $450,000 and $488,000 at June 30, 2020 and 2019, 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 2020 and 2019 resulted from the following:

		Beginning of fiscal year	Current year claims and changes in estimates	Claim payments	Balance at fiscal year-end
2019–2020	$	5,144,911	46,229,275	(46,633,295)	4,740,891
2018–2019		6,124,473	44,202,994	(45,182,556)	5,144,911

(x) *Classification*

Certain 2019 amounts have been reclassified to conform to the 2020 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, 2020 and 2019 are $333,296,374 and $158,478,441, respectively.

Bank balances are collateralized as follows:

		June 30 2020	June 30 2019
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$	500,000	500,000
Amount collateralized with securities held in the Hospital's name		430,817,967	191,450,501
	$	431,317,967	191,950,501

(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, 2020 and 2019, 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:

	June 30, 2020		
	Fair value	**Less than 1 year**	**1–5 years**
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	251,607	251,607	—
Total items subject to interest rate risk	36,980,388	5,560,629	31,419,759
Total marketable securities	$ 36,980,388	5,560,629	31,419,759

	June 30, 2019		
	Fair value	**Less than 1 year**	**1–5 years**
Items subject to interest rate risk:			
Money market funds	$ 3,515,170	3,515,170	—
U.S. Treasury notes	21,038,833	8,548,296	12,490,537
U.S. government agency or government-sponsored entity obligations:			
FHLB	3,991,680	3,991,680	—
FHLMC	4,736,427	4,486,504	249,923
FNMA	2,346,283	2,346,283	—
Total items subject to interest rate risk	35,628,393	22,887,933	12,740,460
Total marketable securities	$ 35,628,393	22,887,933	12,740,460

(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 $36 million and $32 million at 2020 and 2019, respectively, are insured, registered, and held by the counterparty's agent in the Hospital's name.

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

(iii) Credit Risk – Debt Investments

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

A summary of the marketable securities at June 30, 2020 and 2019 and their exposure to credit risk is as follows:

	2020			2019		
	Rating		**Fair value**	**Rating**		**Fair value**
Items not subject to credit risk:						
U.S. Treasury securities:						
Treasury notes	N/A	$	35,894,468	N/A	$	21,038,833
Items subject to credit risk:						
Money market funds	Not rated		834,313	Not rated		3,515,170
U.S. government agency obligations:						
FHLB	Moody's-AAA		—	Moody's-AAA		3,991,680
FHLMC	Moody's-AAA		251,607	Moody's-AAA		4,736,427
FNMA	Moody's-AAA		—	Moody's-AAA		2,346,283
Total items subject to credit risk			1,085,920			14,589,560
Total marketable securities		$	36,980,388		$	35,628,393

(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's exposure to concentrated credit risk is approximately $252,000, which is invested in Federal Home Loan Mortgage Corporation (FHLMC) securities, which equates to 1% of marketable securities held as of June 30, 2020.

(c) Long-Term Investments

(i) Interest Rate Risk – Debt Investments

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

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

		June 30, 2020	
		Fair value	**Less than 1 year**
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*		27,647,819	—
Total long-term investments	$	45,609,479	17,961,660

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

		June 30, 2019	
		Fair value	**Less than 1 year**
Items subject to interest rate risk:			
Money market fund	$	18,439,303	18,439,303
Items not subject to interest rate risk:			
Investments in nonpublic entities*		26,363,339	—
Total long-term investments	$	44,802,642	18,439,303

* 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, 2020 and 2019, 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.

A summary of the investments at June 30, 2020 and 2019 and their exposure to credit risk is as follows:

	2020			2019		
	Rating		**Fair value**	**Rating**		**Fair value**
Items subject to credit risk:						
Money market funds	Not rated	$	17,961,660	Not rated	$	18,439,303
Items not subject to credit risk:						
Investments in nonpublic entities*	N/A		27,647,819	N/A		26,363,339
Total long-term investments		$	45,609,479		$	44,802,642

* 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.

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, 2020		
	Level 1	**Level 2**	**Level 3**
Fixed income	$ 35,894,468	251,607	—
Investment in TriWest	—	—	5,000,000
Total	$ 35,894,468	251,607	5,000,000

	Assets at fair value as of June 30, 2019		
	Level 1	**Level 2**	**Level 3**
Fixed income	$ 21,038,833	11,074,390	—
Investment in TriWest	—	—	5,000,000
Total	$ 21,038,833	11,074,390	5,000,000

(5) Concentration of Risk

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

	2020		2019	
Medicaid	$ 97,740,646	29 %	$ 105,478,344	30 %
Medicare	83,172,220	25	69,800,523	20
Other third-party payors	102,470,709	31	105,747,829	29
Others	48,847,478	15	76,058,705	21
Total patient accounts receivable	332,231,053	100 %	357,085,401	100 %
Less allowance for uncollectible accounts and contractual adjustments	(200,278,729)		(231,518,805)	
Patient accounts receivable, net	$ 131,952,324		$ 125,566,596	

(6) Restricted and Designated Assets

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

	2020	2019
Current:		
Restricted cash for unexpended capital appropriation	$ 18,043,730	—
Cash with donor restrictions	18,976,443	17,375,710
Restricted for debt service	206,644	173,272
Noncurrent:		
Restricted for mortgage reserve fund	17,961,660	18,439,303
Designated by UNM Hospital Board of Trustees	27,647,819	26,363,339
	$ 82,836,296	62,351,624

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

The Hospital has established a “Mortgage Reserve Fund” in accordance with the requirements and conditions of the FHA Regulatory Agreement. Notwithstanding any other provision in the Regulatory

Agreement, the Mortgage Reserve Fund may be used by HUD if the Hospital is unable to make a mortgage note payment on the due date. The Hospital is required to make contributions to the fund based on the Mortgage Reserve Fund schedule.

Assets Designated by 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, 2020 and 2019.

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 $15,929,359 and $14,741,388 at June 30, 2020 and 2019, 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, 2020 and 2019. The investment is accounted for using the equity method. The Hospital recorded laboratory expenses of approximately $33.5 million in 2020 and $34 million in 2019.

(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, 2020				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
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
	$ 8,064,117	26,145,541	(5,108,337)	—	29,101,321
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	612,814,029	17,572,734	5,108,337	(29,076,248)	606,418,852
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	(409,294,688)	(33,020,044)	—	28,957,832	(413,356,900)
Hospital depreciable capital assets, net	$ 203,519,341	(15,447,310)	5,108,337	(118,416)	193,061,952
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	(409,294,688)	(33,020,044)	—	28,957,832	(413,356,900)
Hospital capital assets, net	$ 211,583,458	10,698,231	—	(118,416)	222,163,273

	Year ended June 30, 2019				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Hospital capital assets not being depreciated:					
Land	$ 1,747,245	—	—	—	1,747,245
Construction in progress	6,067,198	8,656,256	(8,406,582)	—	6,316,872
	$ 7,814,443	8,656,256	(8,406,582)	—	8,064,117
Hospital depreciable capital assets:					
Land and land improvements	$ 11,853,081	—	291,286	—	12,144,367
Building and building improvements	179,942,216	—	2,632,645	(679,287)	181,895,574
Building service equipment	166,617,393	9,958	4,395,817	(538,644)	170,484,524
Major moveable equipment	157,961,879	18,097,847	—	(11,753,308)	164,306,418
Fixed equipment	18,226,848	1,481,067	1,086,834	(99,049)	20,695,700
Computer equipment	15,244,408	1,476,073	—	—	16,720,481
Computer software	42,513,780	4,053,185	—	—	46,566,965
Total depreciable capital assets	592,359,605	25,118,130	8,406,582	(13,070,288)	612,814,029
Less accumulated depreciation for:					
Land improvements	(9,340,022)	(392,062)	—	—	(9,732,084)
Building and building improvements	(98,447,190)	(4,694,318)	—	656,483	(102,485,025)
Building service equipment	(106,898,157)	(7,920,644)	—	535,340	(114,283,461)
Major moveable equipment	(110,264,283)	(14,123,308)	—	11,872,152	(112,515,439)
Fixed equipment	(13,467,904)	(1,049,606)	—	75,781	(14,441,729)
Computer equipment	(11,901,879)	(1,523,353)	—	—	(13,425,232)
Computer software	(40,330,122)	(2,081,596)	—	—	(42,411,718)
Total accumulated depreciation	(390,649,557)	(31,784,887)	—	13,139,756	(409,294,688)
Hospital depreciable capital assets, net	$ 201,710,048	(6,666,757)	8,406,582	69,468	203,519,341
Capital asset summary:					
Hospital capital assets not being depreciated	$ 7,814,443	8,656,256	(8,406,582)	—	8,064,117
Hospital depreciable capital assets, at cost	592,359,605	25,118,130	8,406,582	(13,070,288)	612,814,029
Hospital total cost of capital assets	600,174,048	33,774,386	—	(13,070,288)	620,878,146
Less accumulated depreciation	(390,649,557)	(31,784,887)	—	13,139,756	(409,294,688)
Hospital capital assets, net	$ 209,524,491	1,989,499	—	69,468	211,583,458

(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 an hour-for-hour basis. At termination, only employees who retire from the Hospital and qualify under the Hospital's policy or estates of employees who die as the result of a compensable occupational illness or injury are eligible for payment of unused accumulated hours. Accrued sick leave as of June 30, 2020 and 2019 of approximately $4.3 million and $4 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, 2020 and 2019 of approximately $22 million and $19.8 million, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

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

Additionally, compensatory time and holiday, totaling approximately $607,000 and $552,000 as of June 30, 2020 and 2019, 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, 2020 and 2019, the following changes occurred in accrued compensated absences:

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

	Balance July 1, 2018	Increase	Decrease	Balance June 30, 2019
$	24,034,791	29,875,450	(29,589,979)	24,320,262

(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.

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 $2.9 million and $3 million for the years ended June 30, 2020 and 2019, respectively. Interest income earned from the investment of the bond proceeds was approximately $247,000 and $385,000 for the years ended June 30, 2020 and 2019, respectively.

Bonds payable activity consists of the following:

	Year ended June 30, 2020				
	Beginning balance	**Additions**	**Deductions**	**Ending balance**	**Amounts due within one year**
FHA Insured Hospital Mortgage:					
Revenue:					
Bond Series 2015	$ 92,120,000	—	(5,815,000)	86,305,000	5,950,000
	$ 92,120,000	—	(5,815,000)	86,305,000	5,950,000

	Year ended June 30, 2019				
	Beginning balance	**Additions**	**Deductions**	**Ending balance**	**Amounts due within one year**
FHA Insured Hospital Mortgage:					
Revenue:					
Bond Series 2015	$ 97,820,000	—	(5,700,000)	92,120,000	5,815,000
	$ 97,820,000	—	(5,700,000)	92,120,000	5,815,000

Future debt service (including mandatory redemptions) as of June 30, 2020 for the bonds is as follows:

	Principal	Interest	Total
Years ending June 30:			
2021	$ 5,950,000	2,818,446	8,768,446
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
2026–2030	37,645,000	6,788,063	44,433,063
2031–2032	17,150,000	764,237	17,914,237
	$ 86,305,000	20,039,640	106,344,640

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% and 65% of the Hospital's gross patient revenues for fiscal years ended June 30, 2020 and 2019 were derived from the Medicare and Medicaid programs, the continuation of which are dependent upon governmental policies. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established charges for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from major third-party payors is as follows:

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

Medicaid – Inpatient acute care services rendered to Medicaid FFS program beneficiaries are paid at prospectively determined rates per discharge based upon the MS-DRG system. These rates vary according to clinical factors, patient diagnosis, and negotiated base rates for each Medicaid Managed Care Organization (MCO).

As a state-operated teaching hospital, the Hospital is eligible for enhanced reimbursement rates under the SNCP program effective April 1, 2014. These enhanced reimbursement rates have been recorded in the financial statements in net patient service revenue. For outpatients, payments are made based upon an OPPS.

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

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:

	2020	**2019**
Charges at established rates	$ 2,133,547,497	2,075,239,510
Charity care	(61,818,227)	(75,919,705)
Contractual adjustments	(950,074,442)	(948,353,712)
Provision for doubtful accounts	(65,163,407)	(70,830,338)
Net patient revenues	$ 1,056,491,421	980,135,755

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 $3.5 million and $11.8 million for the years ended June 30, 2020 and 2019, respectively. During the fiscal year ended June 30, 2020, a $749,000 receivable for Medicare and a $1.1 million liability for Medicaid were accrued as estimates for the fiscal year 2020 cost report. During the fiscal year ended June 30, 2019, a $945,000 liability for Medicare and a $813,000 liability for Medicaid were accrued as estimates for the fiscal year 2019 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 years 2020 and 2019, the Hospital received aggregate settlements of $775,000 and $1.3 million, respectively, from U.S. Public Health Services, which are 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:

		2020	2019
Charges foregone, based on established rates	$	61,818,227	75,919,705
Estimated costs and expenses incurred to provide charity care		34,574,343	39,480,136
Equivalent percentage of charity care charges foregone to total gross revenue		3 %	4 %

(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.

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:

		2020	2019
UNM Health Sciences Center	$	3,246,742	3,628,613
UNM Medical Group		4,680,300	4,562,645
UNM Sandoval Regional Medical Center		3,144,998	2,712,841
	$	11,072,040	10,904,099

In addition to the items above, the Hospital recorded $742,670 and $1,423,527 of operating expenses related to contributed services provided to the UNM Health System in the fiscal years ended June 30, 2020 and 2019, 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:

		2020	2019
UNM Health Sciences Center	$	208,973,379	197,084,283
UNM Sandoval Regional Medical Center		383,027	488,965
UNM Medical Group		2,128,162	2,768,407
UNM		2,242,178	2,305,901
	$	213,726,746	202,647,556

(14) Defined-Contribution Benefit Plans

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

The expense for the defined-contribution plan was approximately $15.6 million and $15.8 million in fiscal years 2020 and 2019, respectively. Total employee contributions under this plan were approximately $20.4 million and $19.3 million in fiscal years 2020 and 2019, respectively. The Hospital also offers a Roth 403b defined-contribution plan option. Total employee contributions were approximately $2 million and $1.8 million in fiscal years 2020 and 2019, 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 2020 or 2019 as the Hospital does not contribute to this plan. Total employee contributions under this plan were approximately $3.6 million in 2020 and 2019.

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 $527,000 and $582,000 in fiscal years 2020 and 2019, 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 $8,172,000 and $8,206,000 during fiscal years ended June 30, 2020 and 2019, respectively.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2020, under noncancelable operating leases and memoranda of understanding, are as follows:

		Amount
Year(s) ending June 30:		
2021	$	2,258,925
2022		1,580,474
2023		1,567,008
2024		1,607,028
2025		1,435,747
2026–2030		2,401,534
2031–2035		2,386,302
2036–2040		2,463,602
2041–2045		1,665,414
	$	17,366,034

(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.

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.

(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 2020 and 2019 and the ending balances for each fiscal year are reflected in the table below.

	July 1 beginning balance	UNMH contributions to fund	Capital project disbursements from fund	June 30 ending balance
Fiscal year 2020	$ 196,811,094	—	(477,533)	196,333,561
Fiscal year 2019	201,348,776	—	(4,537,682)	196,811,094

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.

(17) Subsequent Events

Subsequent to June 30, 2020, the Hospital received additional CARES Act Funds in the amounts of $48 million from the Safety Net Relief Fund and $12 million from the High Impact Fund. These amounts have not been recognized within the financial statements as the Hospital determined the terms surrounding recognition of these funds was not met as of June 30, 2020. These funds will be recognized in subsequent periods as the terms surrounding recognition are met.

In addition, on September 19, 2020, HHS released a notice to Provider Relief Fund recipients regarding post-payment reporting requirements for these grants received under the CARES Act. The notice provided substantive changes to the data elements that recipients must submit as part of the reporting process, including details regarding healthcare related expenses and lost revenues attributed to coronavirus. On October 22, 2020, HHS released further guidance, specifically revising the lost revenue calculation methodology. As of June 30, 2020, the Hospital recognized amounts received to date, and is currently evaluating the impact of the notice on reporting of grant receipts in subsequent periods. Management does not believe the application of the new guidance will have a material adverse effect on Hospital's consolidated financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Comparison of Budgeted and Actual Revenues and Expenses

Year ended June 30, 2020

		Budget (original)	Budget (final)	Actual	Budget variance
Operating revenues:					
Net patient service	$	995,922,983	1,026,176,954	1,056,491,421	30,314,467
Other operating revenue		49,615,684	55,585,110	54,793,932	(791,178)
Total operating revenues		1,045,538,667	1,081,762,064	1,111,285,353	29,523,289
Operating expenses		(1,132,880,001)	(1,173,755,897)	(1,173,652,970)	102,927
Operating loss		(87,341,334)	(91,993,833)	(62,367,617)	29,626,216
Nonoperating revenues and other revenues, net		97,938,958	156,933,375	158,206,362	1,272,987
Increase in net position	$	10,597,624	64,939,542	95,838,745	30,899,203

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.

Schedule 2

UNIVERSITY OF NEW MEXICO HOSPITAL

Pledged Collateral by Banks

Year ended June 30, 2020

	Pledged collateral				Wells Fargo Bank	
	Type of security	**CUSIP**	**Maturity**		**Albuquerque, New Mexico**	**Total**
Funds on deposit:						
Demand deposits				$	341,076,940	341,076,940
FDIC insurance					(500,000)	(500,000)
Total uninsured public funds					340,576,940	340,576,940
50% collateral requirement per Section 6-10-17 NMSA					170,288,470	170,288,470
Pledged collateral*						
	FEPC	3132A5D36	7/1/2045		60,285,408	60,285,408
	FEPC	3132A5GQ2	3/1/2047		12,523,519	12,523,519
	FEPC	3132A5GW9	4/1/2047		63,455,960	63,455,960
	FEPC	3132A5HB4	7/1/2047		26,358,911	26,358,911
	FEPC	3133KGTP3	10/1/2049		14,695,349	14,695,349
	FNMS	3140FCTG3	2/1/2047		31,174,025	31,174,025
	FNMS	3140K5JR9	2/1/2050		16,811,331	16,811,331
	FNMS	31418CND2	8/1/2047		75,963,934	75,963,934
	FNMS	31418CU77	3/1/2048		69,076,764	69,076,764
	FNMS	31418CUA0	2/1/2048		53,703,928	53,703,928
	FNMS	31418DGL0	10/1/2049		6,768,838	6,768,838
Total pledged collateral					430,817,967	430,817,967
Excess of pledged collateral over the required amount				$	260,529,497	260,529,497

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

See accompanying independent auditors' report.

Schedule 3

UNIVERSITY OF NEW MEXICO HOSPITAL

Schedule of Individual Deposit and Investment Accounts

Year ended June 30, 2020

Name of bank/broker	Account type		Balance per bank statement	Reconciled balance per financial statement
UNM Hospital cash:				
Wells Fargo Bank:				
Operating	Checking	$	29,308,227	21,489,641
Operating	Savings		311,768,713	311,768,713
Petty cash	Cash on hand		—	38,020
Total UNM Hospital cash		$	341,076,940	333,296,374
UNM Hospital short-term investments:				
Morgan Stanley	Money market funds	$	834,313	834,313
Morgan Stanley	U.S. Treasury notes		35,894,468	35,894,468
Morgan Stanley	FHLMC		251,607	251,607
Total UNM Hospital short-term investments		$	36,980,388	36,980,388
UNM Hospital long-term investments:				
Investment in TriWest	Equity securities	$	5,000,000	5,000,000
Investment in TriCore Reference Lab (TRL)	Equity securities		15,929,359	15,929,359
Investment in TLSC	Equity securities		6,718,460	6,718,460
Total UNM Hospital long-term investments		$	27,647,819	27,647,819

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, 2020, 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 8, 2020.

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 2020-001.

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 8, 2020

UNIVERSITY OF NEW MEXICO HOSPITAL

Summary of Audit Results

Fiscal year ended June 30, 2020

Type of auditor report issued: Unmodified

Fiscal year 2020 Findings and responses:

Material weakness: No matters to report

Significant deficiencies: No matters to report

Material non-compliance: No matters to report

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

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

2019-002, 2018-003 and 2017-001 Repeat and Modified

Condition

Our testwork revealed that controls over user access reviews are not operating effectively.

This was validated in the following:

- We noted two terminated users in the Soarian application that had their access inappropriately re-enabled after their termination date. Management provided evidence that normal protocols were followed for terminating users prior to the inappropriate re-enablement. However, the system host was unable to produce a security report showing the users with re-enabled accounts to determine how these specific accounts were re-enabled.

- For the Cerner application, we identified 17 terminated users that retained active accounts in the Cerner system as of the date of testwork. For 14 out of the 17 terminated users, we noted the Active Directory accounts were disabled. We also verified that none of the 17 terminated employees recorded activity in the Cerner system subsequent to their termination date.

- For all in-scope systems (Cerner, Soarian, and Lawson) lookback procedures 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.

- For the Cerner application April 2020 user access review, we noted that a number of accounts were verified, however, there was no documented review of the appropriateness/completeness of the accounts (determine whether they are terminated or no longer required access, etc.) performed for the period.

- For the Lawson application, KPMG noted that the user access review was not fully completed for the February 2020 period. The listing was reviewed, however, there was no documentation to evidence the accounts requiring modifications (if any) for the period under review or those modifications being completed.

In years 2017, 2018, and 2019 we identified certain controls over user access reviews were not operating effectively. Management updated processes and procedures to address the specific deficiencies identified, which included implementing increased training initiatives and user access review audits, formalizing the processes for exit checklist and service desk creation of termination tickets, and querying tasks closed by analyst of other groups. Within the UNM Health System, there are several IT applications and components to the user access controls of those systems. The UNM Health System reorganized the IT department and individuals' responsibilities during FY 2020 and updated the following controls and procedures: the complete employee listings are to be reviewed during the quarterly internal audit process, and the terminations are to be independently reviewed monthly. These organizational and process changes were implemented mid-year.

Criteria

The entity's system processes, records, and stores information that is vital to its daily operations and certain systems contain protected health information of its patients. It is critical that access to this system is properly maintained to prevent inappropriate transactions from occurring, data from being lost, and to prevent protected health information from being released. 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, or five working days of termination.

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 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, or five working days of termination of employment. 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 processes of UNM Health System agree with the expectation of account disabling within 5 business days of termination. Information Technology departments have instituted daily automated reporting from the Health System Human Resources systems to notify if an employee has been termed in the system. Quarterly account reviews have been scheduled to determine if the disable process was completed successfully, and to identify if any HR records were changed from Active with a backdated termination date that is not picked up on the daily reports.

Account review processes for the different UNM Health System departments will be reviewed and updated to include retention of finding, action taken, and retention of the quarterly reviews for documentation purposes.

Additionally, the creation and implementation of a monthly listing of terminated employees will be created and provided to the Health System Management over each system to verify the termination processing has been completed by the personnel tasked with account disabling.

The Chief Information Officer will be responsible for the corrective action plan, with a completion date of March 31, 2021.

Finding 2019-001 Related Party Transaction Policies and Procedures – Other Matter (finding that does not rise to the level of significant deficiency)

Current Status – *Resolved*

Finding 2019-002 User Access Review – Other Matter (finding that does not rise to the level of significant deficiency)

Current Status – *Repeat and Modified* (see Finding 2020-001)

UNIVERSITY OF NEW MEXICO HOSPITAL

Exit Conference

Year ended June 30, 2019

An exit conference was conducted on September 23, 2020 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

Bonnie White, CFO UNM Hospitals

Jennifer James, Associate University Counsel

Angela Vigil, Executive Director Compliance, UNM Hospitals

Sara Frasch, Chief Human Resources Officer, UNM Hospitals

Julie Alliman, Executive Director of Finance & Controller, UNM Hospitals

Dawn Harrington, CIO UNM Hospitals

David Grisham, Manager IT Cyber Security, UNM Hospitals

Robert Morgan, Engineer IT Systems Security, UNM Hospitals

Sarah Ramer, Internal Auditor, UNM Hospitals

Victor Griego, Interim Director of Internal Audit, UNM

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

KPMG

John Kennedy, Partner

Jaime Cavin, Managing Director

Ruth Senior, Senior Manager