UNIVERSITY OF NEW MEXICO HOSPITAL

Financial Statements with Supplementary Information

June 30, 2018 and 2017

(With Independent Auditors' Report Thereon)

UNIVERSITY OF NEW MEXICO HOSPITAL

Fiscal Year 2018 Official Roster

Board of Trustees

Jerry McDowell Albuquerque, NM	Chairperson (Term expires 7/31/19, Regent appointed)
Christine Glidden Albuquerque, NM	Vice-Chair (Term expires 4/25/20, County appointed)
Aimee Smidt, MD Albuquerque, NM	Member (Term expires 3/28/20, Regent appointed)
Nick Estes Albuquerque, NM	Member (Term expires 3/28/20, County appointed)
Raymond Loretto, DVM Jemez Pueblo	Secretary (Term expires 1/1/20, All Pueblo Council of Governors – Regent appointed)
A. Joseph Alarid Albuquerque, NM	Member (Term expires 6/30/18, Regent appointed)
Erik Lujan Albuquerque, NM	Member (Term expires 6/10/19, All Pueblo Council of Governors – Regent appointed)
Terry Horn Albuquerque, NM	Member (Term expires 10/31/20, Regent appointed)
Debbie Johnson	Member (Term expires 06/30/18, Regent appointed)

UNIVERSITY OF NEW MEXICO HOSPITAL

Fiscal Year 2018 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
Michael Chicarelli	Chief Executive Officer (Interim) – UNM Hospitals
Ella Watt	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. Wayne Johnson, 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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 4–15, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying comparison of budgeted and actual revenues and expenses (schedule 1), pledged collateral by banks (schedule 2), schedule of individual deposit and investment accounts (schedule 3), indigent care cost and funding report (schedule 4), and calculations of cost of providing indigent care (schedule 5) (Schedules 1–5) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1–5 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, except for the information marked as unaudited. Such information, except for the information marked as unaudited, 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 1–5 are fairly stated, in all material respects, in relation to the basic financial statements as a whole, except for the information marked as unaudited.

The information that is marked as unaudited in Schedules 4 and 5 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018 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 11, 2018

UNIVERSITY OF NEW MEXICO HOSPITAL

Management's Discussion and Analysis

June 30, 2018 and 2017

(unaudited)

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, 2018 and 2017. 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		
	2018	**2017**	**2016**
Assets:			
Current assets	$ 425,113,490	408,694,802	392,756,160
Capital assets	209,524,491	215,451,487	223,548,010
Noncurrent assets	42,002,940	40,440,198	37,093,211
Total assets	$ 676,640,921	664,586,487	653,397,381
Deferred outflows:			
Total deferred outflows of resources	$ 1,402,216	214,591	269,677
Liabilities:			
Current liabilities	$ 199,340,989	210,569,576	209,052,406
Noncurrent liabilities	107,283,132	109,573,774	116,814,441
Total liabilities	$ 306,624,121	320,143,350	325,866,847
Deferred inflows:			
Total deferred inflows of resources	$ 338,186	316,614	906,541
Net position:			
Net investment in capital assets	$ 111,704,491	112,026,487	114,583,010
Restricted net position, expendable	35,766,882	34,496,935	31,296,238
Unrestricted net position	223,609,457	197,817,692	181,014,422
Total net position	$ 371,080,830	344,341,114	326,893,670

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 $201.8 million, $178.3 million, and $143.3 million as of June 30, 2018, 2017, and 2016, respectively. The days cash on hand for the Hospital was 75, 68, and 58 as of June 30, 2018, 2017, and 2016, 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 $118.8 million, $116.1 million, and $127.8 million as of June 30, 2018, 2017, and 2016, respectively.

The increase in net patient receivables of $2.7 million as of June 30, 2018 compared to June 30, 2017 is primarily due to increased revenues and associated accounts receivable. The decrease in net patient receivables of $11.7 million as of June 30, 2017 compared to June 30, 2016 is primarily due to improved revenue cycle operations after a significant implementation of a new billing system in fiscal year 2016. At June 30, 2018, 2017, and 2016, the Hospital's current assets of $425.1 million, $408.7 million, and $392.8 million, respectively, were sufficient to cover current liabilities of $202.5 million (current ratio of 2.1), $210.6 million (current ratio of 1.9), and $209.1 million (current ratio of 1.87), 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. The most significant liability is the accounts payable balance of $60.5 million, $76.2 million, and $60.9 million as of June 30, 2018, 2017, and 2016, respectively. The balances in accounts payable were primarily related to medical supplies, including pharmaceuticals, purchased services, and minor equipment purchases outstanding at June 30, 2018 and 2017. The next most significant liability balance is the estimated third-party payor settlements of $45.7 million, $57.9 million, and $49.3 million as of June 30, 2018, 2017, and 2016, respectively. The 2018 decrease in the estimated settlement account is primarily due to the settlement of multiple prior year estimates. The decrease in estimated settlements at June 30, 2017 compared to 2016 was due to a payment of intergovernmental transfers due to the State of New Mexico from the prior year. The due to UNM balance was $33 million, $19.3 million, and $47.4 million as of June 30, 2018, 2017, and 2016, respectively. The due to UNM balance increased $13.7 million as of June 30, 2018 compared to June 30, 2017. The due to UNM balance decreased $28.1 million at June 30, 2017 compared to June 30, 2016. The changes in the due to UNM balances are primarily due to the timing of payments for services.

Total net position as of June 30, 2018 increased by $26.7 million to $371.1 million. The increase was due to an operating loss of $55.4 million offset by net nonoperating revenue of $82.2 million.

Total net position as of June 30, 2017 increased by $17.4 million to $344.3 million. The increase was due to an operating loss of $59.0 million offset by net nonoperating revenue of $76.5 million.

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

	Year ended June 30		
	2018	**2017**	**2016**
Total operating revenues	$ 957,850,521	927,644,546	871,638,746
Total operating expenses	(1,013,266,315)	(986,677,050)	(936,575,215)
Operating loss	(55,415,794)	(59,032,504)	(64,936,469)
Nonoperating revenues, expenses, other revenues, and special items	82,155,510	76,479,948	84,117,983
Total increase in net position	26,739,716	17,447,444	19,181,514
Net position, beginning of year	344,341,114	326,893,670	307,712,156
Net position, end of year	$ 371,080,830	344,341,114	326,893,670

(Continued)

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 $957.9 million, $927.6 million, and $871.6 million for the years ended 2018, 2017, and 2016, respectively.

Net patient service revenue comprises gross patient revenue net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were $924.4 million, $902.4 million, and $847.8 million for the years ended 2018, 2017, and 2016, respectively.

Net patient service revenues for 2018 increased $21.9 million from $902.4 million in 2017, which represents a 2% increase. The primary factor that caused the increase in net patient service revenue is an increase in outpatient services of 6% from fiscal year 2017 to fiscal year 2018 and increases in clinic, emergency room and urgent care volumes. Observation discharges increased 2% from fiscal year 2017 to fiscal year 2018.

Net patient service revenues for 2017 increased $54.6 million from $847.8 million in 2016, which represents a 6% increase. The primary factor that caused the increase in net patient service revenue was an increase in discharges and in the acuity of inpatients. The Hospital case mix index (CMI) increased from 1.8637 in 2016 to 1.9872 in 2017, a 6.6% increase resulting in an increase in revenue of $44.0 million. Discharges also increased 2%. The increase is also a result of not having a recurring Medicaid Disproportionate Share refund to the State of New Mexico that is reflected in 2016's net patient services revenue. During fiscal year 2017, the State of New Mexico enacted a 5% inpatient and 3% outpatient reimbursement reduction. The Hospital was able to mitigate the impact for these reimbursement reductions with improvements in revenue cycle initiatives, which reduced registration errors, ensured coordination of benefits, validated eligibility, and reduced prior authorization denials.

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

	Year ended June 30		
	2018	**2017**	**2016**
Total licensed beds	537	537	537
Percent of occupancy (staffed beds)	79.9 %	80.3 %	81.2 %
Discharges	25,413	25,248	24,827
Patient days	156,672	157,424	158,610
Observation days	13,416	14,573	13,411
Average length of stay	6.2	6.2	6.4
Outpatient visits	551,407	521,869	520,038
Emergency visits	89,032	78,467	84,523
Urgent care visits	20,867	17,613	17,665
Surgeries	20,404	20,887	19,947

(Continued)

Overall patient days for 2018 decreased by 752 from 2017, which represents a 1% decrease. The Hospital was operating at full or near full capacity after taking into account both the inpatient days and the observation volumes during fiscal years 2018 and 2017. 2018 discharges increased by 165 from 2017, or by 1%. Surgical volumes were down from the prior year due to a loss of neuro-surgeons and a pediatric cardiothoracic surgeon which also is reflective in the CMI which dropped to 1.9343 in fiscal year 2018 from 1.9872 in fiscal year 2017, or 2.6%.

Overall patient days for 2017 decreased 1,186 from 2016, which represents a 1.0% decrease. The Hospital was operating at full or near full capacity after taking into account both the inpatient days and the observation volumes during fiscal years 2017 and 2016. Although patient days were flat, 2017 discharges increased 638 from 2016, or by 3.3%. These increases were observed in the adult SAC/MedSurg units and in the Pediatric ICU. The Hospital was able to achieve decreases in lengths of stay of patients allowing more patients into the system to receive care.

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 copays and deductibles if they meet the income guidelines. The Hospital uses the same sliding income scale as the Affordable Care Act to determine if insurance coverage is considered affordable. If coverage is determined not to be affordable, patients may be granted a hardship waiver to qualify for UNM Care and would not be required to pursue coverage under the HIX.

As of June 30, 2018, 2017, and 2016, there were approximately 7,000, 6,700, and 6,800 active enrollees in UNM Care, respectively. The income threshold for UNM Care is 300% of the Federal Poverty Level (FPL), and patients may apply for this program at various locations throughout the Hospital and various community locations. The Hospital does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The cost of charity care provided under this program for fiscal years ended June 30, 2018, 2017, and 2016 was $31.0 million, $30.1 million, and $37.3 million, respectively. The implementation of the ACA resulted in a decrease in the cost of charity care of $7.2 million in 2017 from 2016.

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 2018, 2017, and 2016 was $67.0 million, $90.3 million, and $52.1 million, respectively. The cost of care provided to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance for years ended June 30, 2018, 2017, and 2016 was $35.5 million, $49.0 million, and $29.2 million, respectively. The decrease in the cost is associated with an increase in patients who have insurance due to the implementation of the HIX. Medicaid expansion was only for 0–138% of the FPL, which would have been charity patients only.

For the years ended June 30, 2018, 2017, and 2016, the Hospital provided intergovernmental transfers (IGTs) to the State of New Mexico in the amounts of $40.6 million, $40.6 million, and $23.1 million, respectively. Due

to the economic conditions in the State of New Mexico and nationally, the State has been unable in prior fiscal years to fund a portion of the 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 and IME and GME programs. As a result, the Hospital may, in the next fiscal year, enter into Memoranda of Understanding with the State of New Mexico under which the Hospital would agree to make IGTs to fund the nonfederal share of the Medicaid payment pursuant to federal Medicaid regulations at 42 CFR 433.51 (Eligible Operating Funds). The IGTs are recorded as a reduction of net patient service revenues in the accompanying statements of revenues, 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 $26.0 million, $17.4 million, and $15.2 million for pharmacy services in other operating revenue for the years ended June 30, 2018, 2017, and 2016, respectively.

Operating Expenses

Operating expenses for the Hospital include items such as employee compensation and benefits, medical services, medical supplies, and equipment. For the year ended June 30, 2018, operating expenses, including depreciation of $31.1 million, totaled $1.0 billion, an increase from 2017 of $26.6 million or 2.7%. The most significant expenditures were for employee compensation and benefits.

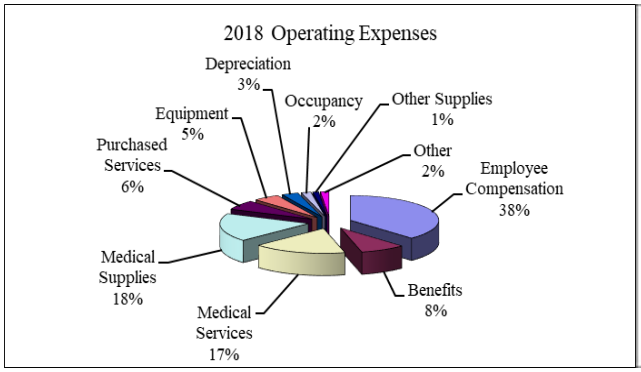
Compensation and benefits combined were $467.6 million, $463.0 million, and $438.1 million for the years ended June 30, 2018, 2017, and 2016, respectively. For fiscal years ended June 30, 2018, 2017, and 2016, the percentage of compensation and benefits combined to total operating expenses was 46.1%, 46.9%, and 46.4%, respectively. The $4.5 million increase from fiscal year 2017 to 2018 is attributable to merit-based increases awarded throughout fiscal year 2018 on employees' anniversary dates and an increase in full time equivalent (FTE) employees. Merit-based increases averaged between 2% - 3.2% for employees whose performance was determined to be satisfactory or higher.

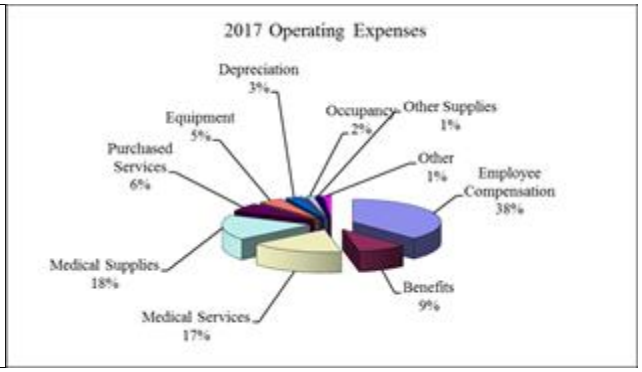
The remaining increase in operating expense in 2018 compared to 2017 was primarily attributed to an increase in medical supplies of $9.4 million (5.3%), equipment of $3.9 million (8.7%), medical services of $3.6 million (2.1%) and occupancy of $3.4 million (23.5%). Medical supplies increased as a result of rising pharmaceutical and biologics costs. The sharp increase in the cost of pharmaceuticals was the result of rampant inflation across the nation in the pharmaceutical industry. Equipment costs grew due to increases in software and maintenance subscriptions, equipment service contracts and noncapital equipment. Medical services increased as a result of additional support of physician providers for wage increases, coverage of locum tenens for services with specialty provider vacancies (dermatology, obstetrics, and gynecology), additional emergency services and pediatric physician coverage, and increases in resident positions. Occupancy increased due to additional spending on building repairs and services.

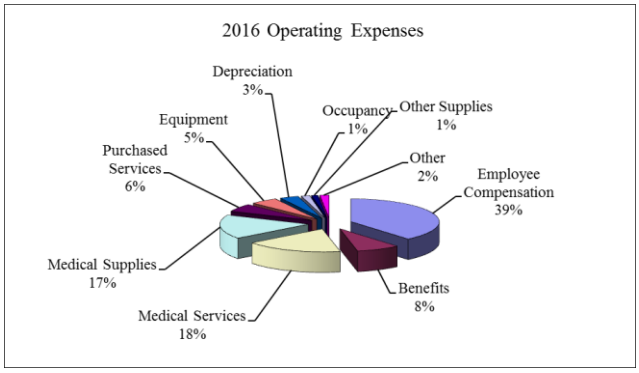
The $24.9 million increase in compensation and benefits from fiscal year 2016 to 2017 is attributable to merit-based increases awarded through fiscal year 2016 on employees' anniversary dates. The full impact of these increases is reflected in the fiscal year 2017 compensation and benefits. The increase in compensation and benefits from fiscal year 2016 to 2017 is also partially attributed to an increase in FTEs. The need for additional resources was driven by the need to support expanded clinical services including lifeguard rotary, care management services, radiology, pharmacy, and centralized scheduling, as well as the need to support coding and billing due to increased volumes.

The remaining increase in operating expense in 2017 compared to 2016 was primarily attributed to an increase in medical supplies of $17.8 million (11%), purchased services of $9.3 million (18%), and medical services of $1.8 million (1%). Medical supplies increased as a result of increased pharmaceutical and biologics costs. The sharp increase in the cost of pharmaceuticals was the result of rampant inflation across the nation in that industry. Purchased services increased due to services related to recovery of denials and underpayments from third party payors. Medical services increased as a result of increased support of physician providers for wage increases, coverage of locum tenens for services with specialty provider vacancies (dermatology, obstetrics and gynecology), additional emergency services and pediatric physician coverage, and increases in resident positions.

The following pie charts depict the operating expense mix for the years ended June 30, 2018, 2017, and 2016:







Nonoperating Revenues and Expenses

The sources of nonoperating revenues for the Hospital are Bernalillo County mill levy, 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 mission support, interest on capital asset related debt and other nonoperating expenses. Net nonoperating revenues were $82.2 million and $76.5 million for the years ended 2018 and 2017, respectively.

For the years ended June 30, 2018 and 2017, the Bernalillo County mill levy tax subsidy was the most significant nonoperating revenue, totaling $86.5 million in 2018 and $82.1 million in 2017. This tax subsidy is provided for the operations and maintenance of the Hospital. The proceeds of the mill levy may not be repurposed for any purpose other than that which the voters approved.

The next largest source of nonoperating revenue in 2018 was State appropriation funding of $5.3 and $5.4 million in 2018 and 2017, respectively. Included in this amount was $4.7 and $4.9 million for the Carrie Tingley Hospital (CTH) in 2018 and 2017, respectively and $455,500 and $460,100 for the Young Children's Health Center (YCHC) in 2018 and 2017, respectively. State land revenue and oil and gas royalties for CTH for 2018 and 2017 were $1 million and $890,000, respectively.

Contribution revenue was $2.3 million in 2018 and 2017. The primary source for contributions is the annual Children's Miracle Network fund-raising drive, which raised approximately $1 million in 2018. In addition, there were donations which 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, 2018 and 2017, mission support was the most significant nonoperating expense, totaling $10.7 million in 2018 and $11.8 million in 2017. 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 $3.1 million of interest expense on capital asset related debt for each of the years ended June 30, 2018 and 2017.

Capital Assets

At June 30, 2018, the Hospital had $209.5 million invested in capital assets, net of accumulated depreciation of $390.6 million. Depreciation charges for fiscal year 2018 totaled $31.1 million compared to $32.1 million and $32.0 million in 2017 and 2016, respectively.

	June 30		
	2018	**2017**	**2016**
Land, building, and improvements	$ 193,542,542	191,757,431	188,642,900
Building service equipment	166,617,393	165,151,782	163,535,895
Fixed equipment	18,226,848	16,740,924	16,613,021
Major moveable equipment	215,720,067	215,896,198	237,144,047
Construction in progress	6,067,198	4,285,665	4,827,786
	600,174,048	593,832,000	610,763,649
Less accumulated depreciation	(390,649,557)	(378,380,513)	(387,215,639)
Net property and equipment	$ 209,524,491	215,451,487	223,548,010

During 2018, the largest capital increases were within major moveable equipment ($16.8 million) and land, building and improvements ($2.5 million). These increases were offset by retirements and the removal of old, fully depreciated assets with original cost less than $5 thousand. Information Technology (IT) systems are included within the major moveable equipment category. 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 2018, including upgraded lighting systems for the operating rooms and renovations at the main hospital and multiple off-site clinics. These projects were part of the construction in progress balance at June 30, 2018.

During 2017, total capital assets decreased $8.1 million primarily as a result of a change in policy related to the capitalization of operating instruments and other small operating room equipment. The Hospital did a review of these items and noted that the actual useful lives were less than three years as a result of high volumes in the operating room and, as a result, increased wear and tear on these items. These items are now being expensed when purchased. During 2017, the largest capital additions were within major moveable equipment ($17.7 million) and land, building and improvements ($6.7 million). IT systems are included within the major moveable equipment category. The larger major moveable equipment purchases included a Skyra Magnetom MRI scanner, a nurse call system, and a Da Vinci surgical robot. The Skyra MRI is designed to improve productivity and improve patient centered care by offering a full range of applications for clinical and research uses. The Da Vinci surgical robot offers patients a minimally invasive surgical option by using a 3D high-definition vision system and small instruments that bend and rotate better than the human hand. The

larger building improvement projects that were capitalized included renovation of the orthopedic rehabilitation clinic, renovations in the main hospital for installation of the Skyra MRI equipment, and plumbing replacements for the older sections of the hospital needed due to aging of the facility. Several new projects were initiated during fiscal year 2017 including roofing replacements at the main hospital and renovations to multiple offsite clinics. These projects were part of the construction in progress balance at June 30, 2017.

Debt Activity

The Hospital's bonds payable totaled $97.8 million and $103.4 million at June 30, 2018 and 2017, 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 $5.7 million and $5.6 million at June 30, 2018 and 2017, 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, 2018 and 2017 Single Audit.

Change in Net Position

The Hospital's total change in net position showed net increases for 2018 and 2017. 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 $26.7 million in fiscal year 2018. The increase in net position is due to net nonoperating revenue of $82.2 million, offset by $55.4 million in net operating loss. Net position increased approximately $17.4 million in fiscal year 2017. The increase in net position is due to net nonoperating revenue of $76.5 million, offset by $59.0 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 decrease as a result of reduced property values and slowdowns in the building construction industry. The voters approved the renewal of the mill levy in the November 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

Memorandum of Understanding (MOU), the Hospital is required to allocate 15% of the mill levy proceeds to the 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.

On August 2, 2018, CMS released the fiscal year 2019 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates will increase by a market basket increase of 2.9%, less a 0.8% productivity reduction and a 0.75% market basket reduction mandated by the ACA, plus a 0.5% documentation and coding increase mandated by the American Taxpayer Relief Act of 2012. The net impact of the market basket increase and adjustments on the Hospital's reimbursement is estimated at $1.5 million increase.

The 2019 IPPS Final Rule implements the 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. The Hospital's HAC score is in the highest quartile; therefore, the Hospital continues to be subject to the 1% decrease. The Hospital's payment rates are expected to have a 0.05% negative impact under the Hospital Readmission Reduction Program required by ACA. The impact of these quality pay-for-performance programs is estimated at $1.3 million for federal fiscal year 2019, which is consistent with the payment reductions experienced in 2018.

Beginning in fiscal year 2014, ACA required changes to Medicare Disproportionate Share Hospital (DSH) payments. The Hospital receives 25% of the DSH payment previously received using the traditional formula as part of the "base" DRG payments for each Medicare inpatient discharge. The remaining 75% flows into a separate funding pool and is distributed based on each DSH-eligible hospital's ratio of uncompensated care relative to the total for all DSH-eligible hospitals. Beginning in federal fiscal year 2018, CMS incorporated Cost Report Worksheet S-10 uncompensated care cost as one of three factors averaged to determine a hospital's allocation of DSH Uncompensated Care payments. In 2019, CMS will incorporate one more year of the S-10 into the uncompensated care calculation for the Hospital. The other two factors, Medicaid days and Supplemental Security Income Ratios, will be phased out beginning with federal fiscal year 2020. The Hospital's estimated impact associated with the federal fiscal year 2019 Medicare DSH will be an increase of $0.8 million.

On July 25, 2018, CMS issued the proposed calendar year 2019 Outpatient Prospective Payment (OPPS) rule. CMS proposed to raise the base OPPS Payment rate by a market basket increase of 2.8%, less a productivity adjustment of 0.8% and 0.75% for reductions required under ACA Section 603 of the Bipartisan Budget Act of 2015 required that services furnished in off-campus provider-based departments that began billing under OPPS on or after November 2, 2015 (nonexcepted clinics) will no longer be paid under OPPS. Under this site-neutral payment policy, those services will be paid under the Medicare Physician Fee Schedule (MPFS), set at 40% of the amount paid under OPPS. For calendar year 2019, CMS is proposing to expand the MPFS payment methodology to excepted off-campus provider-based departments for HCPCS code G0463 (Hospital outpatient clinic visit). This would expand the applicability of the site-neutral reduction to all UNM Hospital clinic visits. The impact of the proposed OPPS rule on the Hospital's reimbursement is estimated at reduction of $2.6 million.

Effective January 1, 2019, the New Mexico Human Services Department will implement changes to the New Mexico Medicaid Program, also known as Centennial Care 2.0. With this program, the State conducted an RFP for managed care organizations (MCOs) to administer this program. The awardee MCOs are Blue Cross and Blue Shield (BCBS NM), Presbyterian Health Plan, and Western Sky. The Hospital will no longer be contracted with Molina Healthcare for the Medicaid program, effective January 1, 2019. The Hospital is currently in negotiations with Western Sky to develop a provider contract for the Centennial Care program. The Hospital continues to be contracted with Presbyterian Health Plan. In March 2018, BCBS NM provided notice to the Hospital that it would be terminating its Medicaid Managed Care Amendment effective July 1, 2018. The letter identified the Hospital as a provider with rates higher than the State of New Mexico Medicaid Plan fee schedule. The termination was provided without cause. The Hospital has agreed to an extension of the Medicaid amendment at a reduced reimbursement through December 31, 2018. If the Hospital cannot reach mutual agreement with BCBS, the Medicaid amendment will be terminated as of January 1, 2019. The Hospital would be allowed to continue to furnish covered services to BCBS Medicaid members at 95% of the State's established Medicaid rates. Payments to the Hospital under the BCBS NM Medicaid amendment are estimated at $107 million annually.

The Hospital is the only Level I Trauma Center in the State and is at physical capacity to treat adult patients. As such, the Hospital engaged the services of a national architectural and engineering firm with experience in designing teaching hospitals to identify location, size, phasing and staging for a replacement hospital. UNMH is working with architects Fanning Bard Tatum and HDR (FBT/HDR) to further develop a revised plan concerning the location and site of potential expansion. The Hospital's leadership is also collaborating with Bernalillo County in the development of an adult behavioral health center, and FBT/HDR are considering that collaboration in their development of a revised plan. The Hospital has also issued an RFP for architecture and engineering services and expects to award by the end of calendar year 2018. The Hospital expects to occupy the newly constructed building within the year 2023.

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, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	$ 201,780,470	178,328,724
Marketable securities	34,591,416	34,741,526
Restricted assets by trustee for debt service	110,262	80,107
Receivables:		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $273,024,000 in 2018 and $308,559,000 in 2017)	118,844,463	116,099,713
Due from University of New Mexico	1,537,077	960,366
Due from University of New Mexico Health System	639,417	1,625,884
Due from University of New Mexico Medical Group	2,680,301	1,815,070
Estimated third-party payor settlements	31,274,221	47,539,674
Bernalillo County Treasurer	1,305,591	1,326,877
Other	5,544,756	2,896,040
Total net receivables	161,825,826	172,263,624
Prepaid expenses	10,037,894	6,991,653
Inventories	16,767,622	16,289,168
Total current assets	425,113,490	408,694,802
Noncurrent assets:		
Assets held by trustee:		
Restricted for mortgage reserve fund	18,118,306	17,978,206
Assets designated by UNM Hospital Board of Trustees	23,884,634	22,461,992
Total restricted and designated assets	42,002,940	40,440,198
Capital assets, net	209,524,491	215,451,487
Total noncurrent assets	251,527,431	255,891,685
Total assets	$ 676,640,921	664,586,487
Deferred Outflows		
Total deferred outflows related to pensions	$ 1,402,216	214,591
Liabilities		
Current liabilities:		
Accounts payable	$ 60,471,268	76,169,522
Accrued payroll	28,255,852	26,232,793
Due to University of New Mexico	32,972,756	19,301,559
Due to University of New Mexico Medical Group	1,855,798	2,114,744
Bonds payable – current	5,700,000	5,605,000
Interest payable bonds	86,684	86,684
Accrued compensated absences	24,034,791	22,899,423
Estimated third-party payor settlements	45,665,981	57,909,788
Other accrued liabilities	297,859	250,063
Total current liabilities	$ 199,340,989	210,569,576
Noncurrent liabilities:		
Bonds payable	92,120,000	97,820,000
Due to affiliates	10,954,195	8,948,907
Net pension liability	4,208,937	2,804,867
Total noncurrent liabilities	107,283,132	109,573,774
Total liabilities	$ 306,624,121	320,143,350
Deferred Inflows		
Total deferred inflows related to pensions	$ 338,186	316,614
Net Position		
Net investment in capital assets	$ 111,704,491	112,026,487
Restricted, expendable:		
For grants, bequests, and contributions	17,538,314	16,438,622
In accordance with the trust indenture and debt agreement	18,228,568	18,058,313
Unrestricted	223,609,457	197,817,692
Total net position	$ 371,080,830	344,341,114

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2018 and 2017

	2018	2017
Operating revenues:		
Net patient service	$ 924,365,032	902,433,423
State and local contracts and grants	1,547,692	2,041,138
Other operating	31,937,797	23,169,985
Total operating revenues	957,850,521	927,644,546
Operating expenses:		
Employee compensation	383,770,842	374,337,765
Benefits	83,784,983	88,703,359
Medical services	172,413,841	168,813,185
Medical supplies	186,338,187	176,912,380
Purchased services	62,928,305	61,832,847
Equipment	48,485,413	44,588,459
Depreciation	31,139,411	32,089,633
Occupancy	18,048,977	14,617,764
Other supplies	10,697,357	10,383,452
Other	15,658,999	14,398,206
Total operating expenses	1,013,266,315	986,677,050
Operating loss	(55,415,794)	(59,032,504)
Nonoperating revenues (expenses):		
Bernalillo County mill levy	86,523,778	82,139,803
State appropriation	5,344,300	5,398,300
Bequests and contributions	2,254,259	2,310,639
Equity in income of TriCore and TriCore Lab Svc Corp.	1,422,641	1,421,552
State of New Mexico Land and Permanent Fund proceeds	1,037,729	890,198
Investment income (interest, dividends, gains, and losses)	318,257	111,248
Health System mission support	(10,696,838)	(11,814,704)
Interest on capital asset-related debt	(3,120,623)	(3,170,552)
Other nonoperating revenue	33,338	67,563
Other nonoperating expense	(961,331)	(874,099)
Net nonoperating revenue	82,155,510	76,479,948
Increase in net position	26,739,716	17,447,444
Net position, beginning of year	344,341,114	326,893,670
Net position, end of year	$ 371,080,830	344,341,114

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash received from Medicaid and Medicare	$ 602,260,120	587,663,156
Cash received from insurance and patients	370,243,399	413,862,344
Cash received from contracts and grants	1,547,692	818,510
Cash payments to employees	(379,028,807)	(363,350,103)
Cash payments to suppliers	(464,175,551)	(396,600,600)
Cash payments to University of New Mexico	(148,807,943)	(197,406,178)
Cash payments from (to) UNM Sandoval Regional Medical Center	986,467	(347,553)
Cash payments to University of New Mexico Medical Group	(4,619,841)	(2,286,135)
Cash payments to State of New Mexico for intergovernmental transfer	(46,861,591)	(74,023,917)
Cash payments from (to) affiliates	2,005,287	(1,515,725)
Other receipts	29,306,297	24,334,078
Net cash used in operating activities	(37,144,471)	(8,852,123)
Cash flows from noncapital financing activities:		
Cash received from Bernalillo County mill levy	86,545,064	82,291,663
Cash received from state general fund and other state fund appropriations	5,344,300	5,398,300
Cash received from State of New Mexico Land and Permanent Fund	1,037,729	957,935
Cash receipts for other than capital or operating purposes	—	67,563
Cash received from contributions for other-than-capital purposes	2,254,259	2,310,639
Cash paid for mission support	—	(11,814,705)
Net cash provided by noncapital financing activities	95,181,352	79,211,395
Cash flows from capital financing activities:		
Principal payments of bonds	(5,605,000)	(5,540,000)
Interest payments on capital assets-related to debt	(3,120,623)	(3,171,978)
Purchases of capital assets	(25,186,108)	(24,038,112)
Cash payments for debt-related activities	(954,301)	(829,097)
Net cash used in capital financing activities	(34,866,032)	(33,579,187)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	6,266,712	36,189,233
Purchase of investments	(6,600,859)	(36,437,983)
Interest and dividends on investments	615,044	441,391
Cash payments for 2015 bond reserve fund	—	(1,908,474)
Net cash provided by investing activities	280,897	(1,715,833)
Net increase in cash and cash equivalents	23,451,746	35,064,252
Cash and cash equivalents, beginning of year	178,328,724	143,264,472
Cash and cash equivalents, end of year	$ 201,780,470	178,328,724

(Continued)

UNIVERSITY OF NEW MEXICO HOSPITAL

Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(55,415,794)	(59,032,504)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		31,139,411	32,089,633
Provision for doubtful accounts		67,033,019	90,272,433
Changes in assets, deferred outflows, liabilities, and deferred inflows:			
Patient receivables		(69,777,769)	(78,620,089)
Due from University of New Mexico		(576,711)	511,693
Due from University of New Mexico Health System		986,467	(347,553)
Due from University of New Mexico Medical Group		(865,231)	61,125
Estimated third-party payor settlements receivable		16,265,453	28,040,654
Other receivables and prepaid expenses		(5,677,741)	3,752,032
Inventories		(478,454)	(1,599,297)
Deferred outflow of resources related to pensions		(1,187,625)	55,086
Accounts payable		(15,698,254)	15,269,403
Accrued expenses		3,206,223	6,745,409
Due to University of New Mexico		2,974,359	(28,136,881)
Due to University of New Mexico Medical Group		(258,946)	(1,062,835)
Estimated third-party payor settlements liabilities		(12,243,807)	(14,624,838)
Due to affiliates		2,005,287	(1,515,725)
Net pension liability		1,404,070	(119,942)
Deferred inflow of resources related to pensions		21,572	(589,927)
Net cash (used in) provided by operating activities	$	(37,144,471)	(8,852,123)

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:

		2018	2017
Total operating revenues	$	14,707,874	12,257,233
Total operating expenses		(19,709,375)	(18,439,663)
Operating loss		(5,001,501)	(6,182,430)
Nonoperating revenue, net		6,122,610	6,086,761
Total decrease in net position		1,121,109	(95,669)
Net position, beginning of year		2,518,022	2,613,691
Net position, end of year	$	3,639,131	2,518,022

(Continued)

(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*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures; and GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resource, and Net 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 April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt*, including Direct Borrowings and Direct Placements. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. The requirements of this Statement are

effective for reporting periods beginning after June 15, 2018. The Hospital is evaluating the impact the standard will have on its financial statements.

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 December 15, 2019. The Hospital is evaluating the impact the standard will have on its financial statements.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations with the establishment of criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. Statement No. 83 is effective for reporting periods beginning after June 15, 2018. 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 revenue, result from exchange transactions associated with providing healthcare services, the Hospital's principal activity. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values. Operating expenses are all expenses incurred to provide healthcare services.

(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 revenue includes activities that have the characteristics of nonexchange transactions, such as appropriations, gifts and government levies. Nonoperating revenues also include revenues earned outside the clinical operations of the hospital. These revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Appropriations are recognized in the year they are appropriated, regardless of when actually received. Bequests and contributions are recognized when all applicable eligibility requirements have been met. Investment income is recognized in the period in which it is earned. The mill levy is recognized in the period in which it is collected by the County.

(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.

(h) Investments and Investment Return

Investments are recorded at fair market value. At June 30, 2018 and 2017, investments consist of obligations of the U.S. government and U.S. government agencies. Investment income includes interest and realized and unrealized gains and losses on investments. Investment income is reported as nonoperating revenue when earned.

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

(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

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.

A portion of restricted and designated assets are classified in the accompanying statements of net position as current assets as these assets are restricted by the Federal Housing Administration (FHA) to cover the current portion of long-term debt and are subject to approval by the respective parties.

(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 2013 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 $448,000 of impairment of capital assets for the year ended June 30, 2018

(l) 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.

(m) 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.

(n) 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.

(o) Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without expectation of payment or at amounts less than established rates. The Hospital does not pursue collection of amounts determined to qualify as charity care with the exception of copayments. Charity care is treated as a deduction from gross revenue.

(p) 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 $697,000 and $626,000 in aggregate, authorized by Bernalillo County, the City of Albuquerque, and the NM Hospital Equipment Loan Council, during the years ended June 30, 2018 and 2017 respectively, as a result of the exemptions and abatements granted.

(q) 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 2018 include $5,344,300 in the General Fund. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Subsection J, Higher Education.

(r) 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, 2018 and 2017, there was no income generated from unrelated activities.

(s) 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 Memorandums of Understanding between the State of New Mexico and the Hospital. The Hospital recorded $40.6 million and $45.4 million in IGT obligations for fiscal years ended June 30, 2018 and 2017, respectively. Due to the nature of the MOU 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 and premium revenues.

(t) Capital Appropriation

There were no capital appropriations made by the State Legislature for the Hospital during the fiscal years ended June 30, 2018 and 2017.

(u) 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, 2018 and 2017.

(v) 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 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, 2018 and 2017, the estimated amount of the Hospital's IBNR and accrued claims was approximately $6.1 million and $7.9 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 $523,000 and $673,000 at June 30, 2018 and 2017, 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 2018 and 2017 resulted from the following:

	Beginning of fiscal year	Current year claims and changes in estimates	Claim payments	Balance at fiscal year-end
2017–2018	$ 7,880,437	43,879,878	(45,635,842)	6,124,473
2016–2017	3,320,117	39,373,456	(34,813,136)	7,880,437

(w) Classification

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. Approximately $23 million of 2017 estimated third-party payor settlement net liabilities were reclassified to receivables for comparable 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, 2018 and 2017 are $201,780,470 and $178,328,724, respectively.

Bank balances are collateralized as follows:

	June 30	
	2018	**2017**
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 1,000,000	1,000,000
Amount collateralized with securities held in the Hospital's name	209,026,852	183,274,521
	$ 210,026,852	184,274,521

(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, 2018 and 2017, 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.

(Continued)

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

	June 30, 2018		
	Fair value	**Less than 1 year**	**1–5 years**
Items subject to interest rate risk:			
Money market funds	$ 40,234	40,234	—
U.S. Treasury notes	17,804,434	5,007,207	12,797,227
U.S. government agency or government-sponsored entity obligations:			
FHLB	3,822,333	—	3,822,333
FHLMC	6,015,474	1,342,481	4,672,993
FNMA	6,908,941	4,586,330	2,322,611
Total items subject to interest rate risk	34,591,416	10,976,252	23,615,164
Total marketable securities	$ 34,591,416	10,976,252	23,615,164

	June 30, 2017		
	Fair value	**Less than 1 year**	**1–5 years**
Items subject to interest rate risk:			
Money market funds	$ 138,761	138,761	—
U.S. Treasury notes	17,837,709	4,289,033	13,548,676
U.S. government agency obligations:			
FHLB	3,955,137	—	3,955,137
FHLMC	5,842,866	—	5,842,866
FNMA	6,967,053	—	6,967,053
Total items subject to interest rate risk	34,741,526	4,427,794	30,313,732
Total marketable securities	$ 34,741,526	4,427,794	30,313,732

(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 $34,551,182 and $34,602,765 at 2018 and 2017, 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, 2018 and 2017 and their exposure to credit risk is as follows:

	2018		2017	
	Rating	**Fair value**	**Rating**	**Fair value**
Items not subject to credit risk:				
U.S. Treasury securities:				
Treasury notes	N/A	$ 17,804,434	N/A	$ 17,837,709
Items subject to credit risk:				
Money market funds	Not Rated	40,234	Not rated	138,761
U.S. government agency obligations:				
FHLB	Moody's-AAA	3,822,333	Moody's-AAA	3,955,137
FHLMC	Moody's-AAA	6,015,474	Moody's-AAA	5,842,866
FNMA	Moody's-AAA	6,908,941	Moody's-AAA	6,967,053
Total items subject to credit risk		16,786,982		16,903,817
Total marketable securities		$ 34,591,416		$ 34,741,526

(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 as follows: $3,822,333 which is invested in Federal Home Loan Bank (FHLB) securities and equates to 11.0% of marketable securities held at June 30, 2018. An additional $6,908,941 is invested in Federal National Mortgage Association (FNMA) securities, which equates to 19.9% of marketable securities held as of June 30, 2018. $6,015,474 is invested in Federal Home Loan Mortgage Corporation (FHLMC) securities, which equates to 17.4% of marketable securities held as of June 30, 2018.

(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, 2018	
	Fair value	Less than 1 year
Items not subject to interest rate risk:		
Investments in nonpublic entities*	$ 23,884,634	—
Items subject to interest rate risk:		
Money market fund	18,118,306	18,118,306
Items subject to interest rate risk	18,118,306	18,118,306
Total long-term investments	$ 42,002,940	18,118,306

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

	June 30, 2017	
	Fair value	Less than 1 year
Items not subject to interest rate risk:		
Investments in nonpublic entities*	$ 22,461,992	—
Items subject to interest rate risk:		
Money market fund	17,978,206	17,978,206
Items subject to interest rate risk	17,978,206	17,978,206
Total long-term investments	$ 40,440,198	17,978,206

* Cost and equity method investments noted are investments in 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, 2018 and 2017, 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, 2018 and 2017 and their exposure to credit risk is as follows:

	2018		2017	
	Rating	**Fair value**	**Rating**	**Fair value**
Items not subject to credit risk:				
Investments in nonpublic entities*	N/A	$ 23,884,634	N/A	$ 22,461,992
Items subject to credit risk:				
Money market funds	Not rated	18,118,306	Not rated	17,978,206
Total items subject to credit risk		18,118,306		17,978,206
Total long-term investments		$ 42,002,940		$ 40,440,198

* 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, 2018		
	Level 1	Level 2	Level 3
Fixed income	$ 17,804,434	16,746,748	—
Investment in TriWest	—	—	5,000,000
Total	$ 17,804,434	16,746,748	5,000,000

	Assets at fair value as of June 30, 2017		
	Level 1	Level 2	Level 3
Fixed income	$ 17,837,709	16,765,056	—
Investment in TriWest	—	—	5,000,000
Total	$ 17,837,709	16,765,056	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:

	2018		2017	
Medicaid	$ 131,124,123	33 %	$ 162,561,649	38 %
Medicare	88,616,656	24	111,624,131	27
Other third-party payors	77,913,607	20	80,687,119	19
Others	94,213,609	23	69,786,192	16
Total patient accounts receivable	391,867,995	100 %	424,659,091	100 %
Less allowance for uncollectible accounts and contractual adjustments	(273,023,532)		(308,559,378)	
Patient accounts receivable, net	$ 118,844,463		$ 116,099,713	

(6) Restricted and Designated Assets

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

	2018	2017
Current:		
Restricted for debt service	$ 110,262	80,107
Noncurrent:		
Restricted for mortgage reserve fund	18,118,306	17,978,206
Designated by UNM Hospital Board of Trustees	23,884,634	22,461,992
	$ 42,113,202	40,520,305

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, 2018 and 2017.

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 $13,176,000 and $12,535,000 at June 30, 2018 and 2017, respectively, which is being accounted for using the equity method.

The Hospital contributed $3,999,965 in cash and equipment during 1998 related to the affiliation agreement, titled TriCore. During 2004, TriCore reorganized its business activities into two entities: TriCore whose business consists of laboratory testing services for nonmembers; and TLSC, which organized solely to perform laboratory services, on a centralized basis, for its members, the Hospital, and Presbyterian Healthcare Services. TLSC is a tax-exempt, cooperative hospital service organization under Section 501(e) of the Internal Revenue Code of 1986.

The Hospital has a 50% interest in TLSC. The investment carrying amounts are approximately $5,708,000 and $4,927,000 at June 30, 2018 and 2017, respectively. The investment is accounted for using the equity method. The Hospital recorded laboratory expenses of approximately $33,248,000 in 2018 and $32,327,000 in 2017.

(7) Capital Assets

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

	Year ended June 30, 2018				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Hospital capital assets not being depreciated:					
Land	$ 1,747,245	—	—	—	1,747,245
Construction in progress	4,285,665	6,972,394	(5,190,861)	—	6,067,198
	$ 6,032,910	6,972,394	(5,190,861)	—	7,814,443
Hospital depreciable capital assets:					
Land and land improvements	$ 11,921,537	25,118	—	(93,574)	11,853,081
Building and building improvements	178,088,649	—	2,543,958	(690,391)	179,942,216
Building service equipment	165,151,782	—	1,872,587	(406,976)	166,617,393
Major moveable equipment	215,896,198	16,352,285	465,162	(16,993,578)	215,720,067
Fixed equipment	16,740,924	1,836,311	295,877	(646,264)	18,226,848
Total depreciable capital assets	587,799,090	18,213,714	5,177,584	(18,830,783)	592,359,605
Less accumulated depreciation for:					
Land improvements	(9,008,527)	(421,565)	—	90,070	(9,340,022)
Building and building improvements	(94,450,794)	(4,675,950)	—	679,554	(98,447,190)
Building service equipment	(99,288,246)	(7,997,379)	—	387,468	(106,898,157)
Major moveable equipment	(162,598,671)	(16,968,921)	13,277	17,058,031	(162,496,284)
Fixed equipment	(13,034,275)	(1,075,596)	—	641,967	(13,467,904)
Total accumulated depreciation	(378,380,513)	(31,139,411)	13,277	18,857,090	(390,649,557)
Hospital depreciable capital assets, net	$ 209,418,577	(12,925,697)	5,190,861	26,307	201,710,048
Capital asset summary:					
Hospital capital assets not being depreciated	$ 6,032,910	6,972,394	(5,190,861)	—	7,814,443
Hospital depreciable capital assets, at cost	587,799,090	18,213,714	5,177,584	(18,830,783)	592,359,605
Hospital total cost of capital assets	593,832,000	25,186,108	(13,277)	(18,830,783)	600,174,048
Less accumulated depreciation	(378,380,513)	(31,139,411)	13,277	18,857,090	(390,649,557)
Hospital capital assets, net	$ 215,451,487	(5,953,303)	—	26,307	209,524,491

Transfers represent the movement of capital between the University Health System family of companies.

(Continued)

	Year ended June 30, 2017				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Hospital capital assets not being depreciated:					
Land	$ 1,747,245	—	—	—	1,747,245
Construction in progress	4,827,786	6,589,975	(7,132,096)	—	4,285,665
	$ 6,575,031	6,589,975	(7,132,096)	—	6,032,910
Hospital depreciable capital assets:					
Land and land improvements	$ 11,834,179	—	87,358	—	11,921,537
Building and building improvements	175,061,476	79,721	2,956,957	(9,505)	178,088,649
Building service equipment	163,535,895	59,758	3,488,264	(1,932,135)	165,151,782
Major moveable equipment	237,144,047	17,569,699	118,198	(38,935,746)	215,896,198
Fixed equipment	16,613,021	47,774	171,726	(91,597)	16,740,924
Total depreciable capital assets	604,188,618	17,756,952	6,822,503	(40,968,983)	587,799,090
Less accumulated depreciation for:					
Land improvements	(8,534,541)	(473,986)	—	—	(9,008,527)
Building and building improvements	(89,435,001)	(5,025,297)	—	9,504	(94,450,794)
Building service equipment	(92,058,506)	(9,137,458)	—	1,907,718	(99,288,246)
Major moveable equipment	(184,709,145)	(16,805,466)	778	38,915,162	(162,598,671)
Fixed equipment	(12,478,446)	(647,426)	—	91,597	(13,034,275)
Total accumulated depreciation	(387,215,639)	(32,089,633)	778	40,923,981	(378,380,513)
Hospital depreciable capital assets, net	$ 216,972,979	(14,332,681)	6,823,281	(45,002)	209,418,577
Capital asset summary:					
Hospital capital assets not being depreciated	$ 6,575,031	6,589,975	(7,132,096)	—	6,032,910
Hospital depreciable capital assets, at cost	604,188,618	17,756,952	6,822,503	(40,968,983)	587,799,090
Hospital total cost of capital assets	610,763,649	24,346,927	(309,593)	(40,968,983)	593,832,000
Less accumulated depreciation	(387,215,639)	(32,089,633)	778	40,923,981	(378,380,513)
Hospital capital assets, net	$ 223,548,010	(7,742,706)	(308,815)	(45,002)	215,451,487

Transfers represent the movement of capital between the University Health System family of companies.

(Continued)

(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, 2018 and 2017 of approximately $3,931,000 and $3,638,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

Major and minor sick leave balances earned by employees previously employed by UNM under the UNM plan were transferred to the Hospital. Under the UNM plan, only employees hired prior to July 1, 1984 were eligible to accrue major sick leave. Eligible employees accrued sick leave each pay period at an hourly rate, which was based on their date of hire and employment status.

The excess minor sick leave hours carried over from UNM were converted to cash in December 2000, at a rate equal to 50% of the employee's hourly wage, multiplied by the number of hours converted. Upon retirement, all minor hours in excess of 600 are paid at a rate equal to 50% of the employee's hourly wage multiplied by the number of hours in excess of 600 unused sick leave hours based on FTE status, not to exceed 440 hours of such sick leave.

Immediately upon retirement or death, a consolidated employee is entitled to receive cash payment for unused major sick leave hours in excess of 1,040 at a rate equal to 28.5% of the employee's hourly wage multiplied by the number of hours in excess of 1,040 major sick leave hours based on FTE status. Partial hours are rounded to the nearest full hour.

(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, 2018 and 2017 of approximately $19,244,000 and $18,783,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

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

Additionally, to compensatory time and holiday, totaling approximately $860,000 and $478,000 as of June 30, 2018 and 2017, 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, 2018 and 2017, the following changes occurred in accrued compensated absences:

	Balance July 1, 2017	Increase	Decrease	Balance June 30, 2018
$	22,899,423	29,435,830	(28,300,462)	24,034,791

	Balance July 1, 2016	Increase	Decrease	Balance June 30, 2017
$	22,883,491	28,151,835	(28,135,903)	22,899,423

(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 new 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.

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 $3,121,000 and $3,171,000 for the years ended June 30, 2018 and 2017, respectively. Interest income earned from the investment of the bond proceeds was approximately $170,000 and $22,000 for the years ended June 30, 2018 and 2017, respectively.

Bonds payable activity consists of the following:

	Year ended June 30, 2018				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
FHA Insured Hospital Mortgage: Revenue:					
Bond Series 2015	$ 103,425,000	—	(5,605,000)	97,820,000	5,700,000
	$ 103,425,000	—	(5,605,000)	97,820,000	5,700,000

	Year ended June 30, 2017				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
FHA Insured Hospital Mortgage: Revenue:					
Bond Series 2015	$ 108,965,000	—	(5,540,000)	103,425,000	5,605,000
	$ 108,965,000	—	(5,540,000)	103,425,000	5,605,000

(Continued)

Future debt service (including mandatory redemptions) as of June 30, 2018 for the bonds is as follows:

		Principal	Interest	Total
Years ending June 30:				
2019	$	5,700,000	3,040,023	8,740,023
2020		5,815,000	2,937,537	8,752,537
2021		5,950,000	2,818,446	8,768,446
2022		6,105,000	2,676,657	8,781,657
2023		6,285,000	2,515,913	8,800,913
2024–2028		27,385,000	7,976,360	35,361,360
2029–2032		40,580,000	4,052,264	44,632,264
	$	97,820,000	26,017,200	123,837,200

On November 15, 2004, the Hospital established a Mortgage Reserve Fund in accordance with the requirements and conditions of the 2004 FHA Regulatory Agreement. On May 14, 2015, a new Mortgage Reserve Fund was established for the 2015 series bonds.

The Mortgage Reserve Fund's final required contribution of $1,910,199 was made during fiscal year 2017, at which time the Mortgage Reserve Fund was 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 65% of the Hospital's gross patient revenue for both fiscal years ended June 30, 2018 and 2017 was derived from the Medicare and Medicaid programs, the continuation of which are dependent upon governmental policies. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. 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:

	2018	2017
Charges at established rates	$ 1,920,350,993	1,874,149,816
Charity care	(58,781,434)	(57,148,931)
Contractual adjustments	(870,171,508)	(824,295,029)
Provision for doubtful accounts	(67,033,019)	(90,272,433)
Net patient revenues	$ 924,365,032	902,433,423

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 2015 have been final settled for the Medicaid programs. Cost reports through 2012, except for 2005, have been final settled for the Medicare program. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Current year estimates, settlements of prior-year cost reports, and changes in prior-year estimates resulted in net increases to net patient service revenue of approximately $11.5 million and $20.0 million for the years ended June 30, 2018 and 2017, respectively. During the fiscal year ended June 30, 2018, a $3.2 million liability for Medicare and a $2.3 million liability for Medicaid were accrued as estimates for the fiscal year 2018 cost report. During the fiscal year ended June 30, 2017, $3.6 million liability for Medicare and $1.4 million liability for Medicaid were accrued as estimates for the fiscal year 2017 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 2018, the Hospital received a reimbursement from Tricare of $1,016,365, which is included in the totals above. During fiscal years 2018 and 2017, the Hospital received aggregate settlements of $910,928 and $780,670, 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:

	2018	2017
Charges foregone, based on established rates	$ 58,781,434	57,148,931
Estimated costs and expenses incurred to provide charity care	31,006,483	30,129,000
Equivalent percentage of charity care charges foregone to total gross revenue	3 %	3 %

(12) Malpractice Insurance

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

The NMTCA provides that total liability for all claims that arise out of a single occurrence shall not exceed $750,000 set forth as follows: (a) $200,000 for real property; (b) up to $300,000 for past and future medical and medically related expenses; and (c) up to $400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. While the language of the NMTCA does not expressly provide for third-party claims such as loss of consortium, the New Mexico appellate court decisions have allowed claimants to seek loss of consortium. As a result, if loss of consortium claims are presented, those claims cannot exceed $350,000 in the aggregate. Thus, if a claim presents both direct claims and third-party claims, the maximum exposure of the Public Liability Fund, and therefore, UNM Hospitals, cannot exceed $1,050,000. The NMTCA prohibits the award of punitive or exemplary damages against the Hospital.

The NMTCA requires the State Risk Management Division (RMD) to provide coverage to the Hospital for those torts where the Legislature has waived the State's immunity from liability up to the damages limits of the NMTCA, as described above, plus the cost incurred in defending any claims and/or lawsuits (including attorney's fees and expenses), with no deductible and with no self-insured retention by the Hospital. As a result of the foregoing, the Hospital is fully covered for claims and/or lawsuits relating to medical malpractice or professional liability occurring at the Hospital.

(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 health care 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:

	2018	2017
UNM Health Sciences Center	$ 15,482,258	16,075,449
UNM Medical Group	9,648,790	8,337,913
UNM Health Systems	3,678,193	2,491,043
	$ 28,809,241	26,904,405

In addition to the items above, the Hospital recorded $1,551,550 of operating expenses related to contributed services provided to the UNM Health System in the fiscal year ended June 30, 2018. 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:

	2018	2017
UNM Health Sciences Center	$ 192,464,483	186,093,698
UNM Sandoval Regional Medical Center	560,472	494,109
UNM Medical Group	6,657,531	6,352,657
UNM	2,460,656	2,460,656
	$ 202,143,142	195,401,120

(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

(Continued)

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 $14,587,000 and $15,227,000 in fiscal years 2018 and 2017, respectively. Total employee contributions under this plan were approximately $17,642,000 and $16,565,000 in fiscal years 2018 and 2017, respectively. The Hospital also offers a Roth 403b defined-contribution plan option. Total employee contributions were approximately $1,540,000 and $1,372,000 in fiscal years 2018 and 2017, 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 2018 or 2017 as the Hospital does not contribute to this plan. Total employee contributions under this plan were approximately $3,049,000 and $2,795,000 in 2018 and 2017, respectively.

In addition, the Hospital has a 401(a) defined-contribution plan, called the UNM Hospital 401(a) Plan, which was established for the purpose of providing retirement benefits for eligible participants and their beneficiaries. The 401(a) plan allows for tax-deferred employer contributions based on management's recommendation that is approved by the Board of Trustees on an annual basis. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. All assets of the plan are held in a trust fund, are not considered hospital assets, and are under the direction of a plan administrator. The expense for the 401(a) defined-contribution plan was $526,000 and $541,000 in fiscal years 2018 and 2017, respectively. Only the Hospital contributes to this plan.

(15) Commitments and Contingencies

(a) Lease Commitments

The Hospital is committed under various leases for building and office space and data processing equipment. Rental expenses on operating leases and other nonlease equipment amounted to approximately $10,846,000 and $10,778,000 during fiscal years ended June 30, 2018 and 2017, respectively.

The Hospital leases a medical facility referred to as the Ambulatory Care Center and the related parking structure through fiscal year 2019 from UNM. The Hospital pays semiannual installments of approximately $975,000 under this agreement.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2018, under noncancelable operating leases and memorandums of understanding, are as follows:

	Amount
Years ending June 30:	
2019	$ 2,092,893
2020	1,801,811
2021	676,684
2022	755,385
2023	753,225
2024–2028	4,472,078
2029–2033	4,482,987
2034–2038	2,307,343
	$ 17,342,406

(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 for a ninth year, to collaborate on strategic capital projects. Per the agreement, the Hospital recorded a nonoperating expense of approximately $129 million in fiscal year 2015 to provide for the development of clinical facilities pursuant to the agreement. All capital facilities are owned by UNM HSC for use by the Hospital. Capital project disbursements from capital initiatives funds held by UNM HSC in fiscal years 2018 and 2017 and the ending balances for each fiscal year are reflected in the table below.

As of June 30, 2018, the ending balance of $201,348,776 is comprised of cash. As of June 30, 2017, the ending balance of $203,605,605 comprised cash with a due from the Hospital for the remainder.

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

	July 1 Beginning balance	UNMH contributions to fund	Capital project disbursements from fund	June 30 Ending balance
Fiscal year 2018	$ 203,605,605	—	(2,256,829)	201,348,776
Fiscal year 2017	217,325,259	—	(13,719,654)	203,605,605

Schedule 1

UNIVERSITY OF NEW MEXICO HOSPITAL

Comparison of Budgeted and Actual Revenues and Expenses

Year ended June 30, 2018

	Budget (original)	Budget (final)	Actual	Budget variance
Operating revenues:				
Net patient service	$ 911,126,879	886,161,391	924,365,032	38,203,641
Other operating revenue	22,145,001	31,654,611	33,485,489	1,830,878
Total operating revenues	933,271,880	917,816,002	957,850,521	40,034,519
Operating expenses	(1,019,062,212)	(998,851,273)	(1,013,266,315)	(14,415,042)
Operating loss	(85,790,332)	(81,035,271)	(55,415,794)	25,619,477
Nonoperating revenues and other revenues, net	89,213,106	80,963,583	82,155,510	1,191,927
Increase in net assets	$ 3,422,774	(71,688)	26,739,716	26,811,404

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 HOSPITALS

Pledged Collateral by Banks

Year ended June 30, 2018

	Pledged collateral			Bank balance		
	Type of security	CUSIP	Maturity	Bank of America Albuquerque, New Mexico	Wells Fargo Bank Albuquerque, New Mexico	Total
Funds on deposit:						
Demand deposits				$ 50,340,168	159,686,684	210,026,852
FDIC insurance				(500,000)	(500,000)	(1,000,000)
Total uninsured public funds				49,840,168	159,186,684	209,026,852
50% collateral requirement per Section 6-10-17 NMSA				24,920,084	79,593,342	104,513,426
				Fair market value of securities in safekeeping		
Pledged collateral*						
	FNMS	3138EHXR8	2/1/2042	33,041,203	—	33,041,203
	FNMS	31418ANH7	11/1/2042	10,081,499	—	10,081,499
	FNMS	31419AGL5	4/1/2037	2,793,469	—	2,793,469
	FNMS	3138EGJZ8	10/1/2038	2,760,790	—	2,760,790
	FGPC	3128MAC72	11/1/2044	827,352	—	827,352
	FGPC	3132FRHL8	2/1/2042	147,061	—	147,061
	FNMS	3138WEQ77	5/1/2045	67,696	—	67,696
	FNMS	31417BZU4	5/1/2042	66,640	—	66,640
	FGPC	3128MJQ78	2/1/2042	32,848	—	32,848
	FNMS	31371K5X5	5/1/2023	15,988	—	15,988
	FNMS	31418QZL0	5/1/2034	57	—	57
	FNMS	31384WLN8	5/1/2031	3	—	3
	FGPC	3128MJZB9	12/1/2046	—	69,645,698	69,645,698
	FGPC	3128MJWQ9	7/1/2045	—	62,013,848	62,013,848
	FNMS	31417BHU4	5/1/2042	—	26,145,471	26,145,471
	FNMS	3138WFLX2	9/1/2035	—	15,661,358	15,661,358
	FNMS	3138WFQN9	9/1/2035	—	15,108,616	15,108,616
	FNMS	3138WHJ86	7/1/2031	—	13,445,807	13,445,807
	FNMS	31418CAH7	8/1/2036	—	9,112,619	9,112,619
	FNMS	3138WHRZ7	8/1/2031	—	3,941,643	3,941,643
Total pledged collateral				49,834,606	215,075,060	264,909,666
Excess of pledged collateral over the required amount				$ 24,914,522	135,481,718	160,396,240

* 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, 2018

Name of bank/broker	Account type	Balance per bank statement	Reconciled balance per financial statement
UNM Hospital cash:			
Bank of America:			
Operating	Checking	$ 50,340,168	50,341,764
Wells Fargo Bank:			
Operating	Checking	75,395,148	67,109,470
Operating	Savings	84,291,536	84,291,536
Petty cash	Cash on hand	—	37,700
Total UNM Hospital cash		$ 210,026,852	201,780,470
UNM Hospital short-term investments:			
Morgan Stanley	Money market funds	$ 40,234	40,234
Wells Fargo	Money market funds	—	—
Morgan Stanley	U.S. Treasury notes	17,804,434	17,804,434
Morgan Stanley	FNMA	6,908,941	6,908,941
	FHLMC	6,015,474	6,015,474
Morgan Stanley	FHLB	3,822,333	3,822,333
Total UNM Hospital short-term investments		$ 34,591,416	34,591,416
UNM Hospital long-term investments:			
Wells Fargo	Money market funds	$	
Investment in TriWest	Equity securities	5,000,000	5,000,000
Investment in TriCore Reference Lab (TRL)	Equity securities	13,176,321	13,176,321
Investment in TLSC	Equity securities	5,708,313	5,708,313
Total UNM Hospital long-term investments		$ 23,884,634	23,884,634

See accompanying independent auditors' report.

Schedule 4

UNIVERSITY OF NEW MEXICO HOSPITAL

Indigent Care Cost and Funding Report

	Years ended June 30		
	2018	2017	2016
			Unaudited
Funding for Indigent Care:			
State appropriations specified for indigent care – Out of County Indigent Fund	$ —	—	—
County indigent funds received	—	—	—
Out of county indigent funds received	—	13,868	9,242
Payments and copayments received from uninsured patients qualifying for indigent care	38,614	41,272	44,889
Reimbursement received for services provided to patients qualifying for coverage under EMSA	4,331,203	2,902,604	3,155,126
Charitable contributions received from donors that are designated for funding indigent care	441,611	338,834	350,081
Other sources:			
Other source	—	—	—
Total Funding for Charity Care	4,811,428	3,296,578	3,559,338
Cost of Providing Indigent Care:			
Total cost of care for providing services to:			
Uninsured patients qualifying for indigent care	11,706,829	12,175,294	13,956,651
Patients qualifying for coverage under EMSA	7,794,053	5,306,095	5,671,578
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	13,924,056	12,732,564	25,829,688
Direct costs paid to other providers on behalf of patients qualifying for indigent care	5,375,598	5,221,142	2,016,562
Total Cost of Providing Indigent Care	38,800,536	35,435,095	47,474,479
Excess (Shortfall) of Funding for Charity Care to Cost of Providing Indigent Care	$ (33,989,108)	(32,138,517)	(43,915,141)
Patients Receiving Indigent Care Services (unaudited):			
Total number of patients receiving indigent care	$ 34,696	20,813	63,460
Total number of patient encounters receiving indigent care	115,284	91,525	124,626

See accompanying independent auditors' report.

Schedule 5

UNIVERSITY OF NEW MEXICO HOSPITAL

Calculations of Cost of Providing Indigent Care

	Years ended June 30		
	2018	**2017**	**2016**
			Unaudited
Uninsured patients qualifying for indigent care:			
Charges for these patients	$ 22,220,364	23,124,965	24,069,684
Ratio of cost to charges	52.7 %	52.7 %	58.0 %
Cost for uninsured patients qualifying for indigent care	$ 11,706,829	12,175,294	13,956,651
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA):			
Charges for these patients	$ 14,793,646	10,078,053	10,201,372
Ratio of cost to charges	52.7 %	52.7 %	55.6 %
Cost for Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	$ 7,794,053	5,306,095	5,671,578
Cost of care related to patient portion of bill for insured patients qualifying for indigent care:			
Indigent/charity care adjustments for these patients	$ 26,428,812	24,183,408	47,115,613
Ratio of cost to charges	52.7 %	52.7 %	54.8 %
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	$ 13,924,056	12,732,564	25,829,688
Direct costs paid to other providers on behalf of patients qualifying for indigent care	$ 5,375,598	5,221,142	2,016,562
Payments to other providers for care of these patients	$ 5,375,598	5,221,142	2,016,562

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. Wayne Johnson, 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, 2018, 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 11, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2018-001, and 2018-002, that we consider to be significant deficiencies.

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 a certain matter that is required to be reported per Section 12-6-5 NMSA 1978, that we have described in the accompanying schedule of findings and responses as item 2018-003.

The Hospital's Response to the Finding

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 11, 2018

UNIVERSITY OF NEW MEXICO HOSPITAL

Schedule of Findings and Responses

Year ended June 30, 2018

Financial Statement Findings

2018-001 Related Party Transaction Policies and Procedures – Significant Deficiency

Condition

We did not identify adjustments to the reported financial results in our testing of related party transactions. However, the organization does not have specific written policies and procedures governing related party transactions, including associated internal controls. Although existing procurement controls are applied to related party transactions, such procurement controls are not designed to comprehensively address related party transactions. For example, third-party procurements are transacted on an arms-length basis with outside entities. However, such market checks and balances are not always present in related party transactions because the parties to the transactions are, by definition, interrelated and in many cases are dependent on one another. To compensate for this, the organization should have written policies and procedures that address the topics in the following "Criteria" section, and such policies and procedures should incorporate methods for allocating revenues and expenses among entities, expectations about documentation standards for and timeliness of related party agreements, and contributed services.

Criteria

Management should design, implement and maintain controls to:

- Identify, account for, and disclose related party relationships and transactions.
- Authorize and approve significant transactions and arrangements with related parties including appropriate segregation of duties.
- Authorize and approve any significant transactions or arrangements outside the normal course of business, should they arise.
- Ensure compliance with applicable federal and state rules and regulations, as applicable.

Effect

Related party transactions may not be consistently identified and appropriately accounted for and disclosed. Additionally, the lack of written policies and procedures may create challenges in understanding the nature and business rationale of the entity's related party relationships and transactions.

Cause

Written policies and procedures have not been developed for related party transactions.

Recommendation

We recommend that management develop a written policy which expands on and enhances existing practices to:

- Identify, account for, and disclose related party relationships and transactions.
- Authorize and approve significant transactions and arrangements with related parties including appropriate segregation of duties.
- Authorize and approve any significant transactions or arrangements outside the normal course of business, should they arise.

- Ensure compliance with applicable federal and state rules and regulations, as applicable.

The policy should also address methods for allocating revenues and expenses among entities, expectations about documentation standards for and timeliness of related party agreements, and contributed services.

Management Response

We appreciate the comprehensive audit that was performed in regards to related party transactions. It is gratifying that no specific findings or adjustments were identified as a result of this audit.

The organization (UNMH, BHOs, SRMC, UNM MG) has entered into related party transactions as a part of our fully integrated Academic Medical Center. Full integration allows us to maximize efficiency of operations and achieve economies of scale. This is essential in a diverse community like New Mexico's where poverty and the lack of healthcare resources are contributing factors in determining health and disease.

These transactions and exchange of funds are widely used in the United States by academic health systems similar to ours. This is especially true of a School of Medicine (SOM), whose faculty are the Physicians and whose post-doctoral learners are the Residents and Fellows who provide the patient care in the hospitals and clinics.

For the consolidated financial statements of the University of New Mexico, this exchange of funds, or related party transactions, is completely eliminated and has no financial impact to the UNM system.

Although the procurement of related party goods and services currently follow our policies regarding the issuance of purchase orders and authorization based on dollar limits, including segregation of duties, our policies do not specifically address procurement from related parties. Our policies do currently require compliance with applicable federal and state rules and regulations.

Management will develop a policy to specifically address transactions between UNM entities where standalone financial statements are issued. The Chancellor for Health Sciences will be responsible for this policy, with a completion date of April 30, 2019.

UNIVERSITY OF NEW MEXICO HOSPITAL

Schedule of Findings and Responses

Year ended June 30, 2018

2018-002 Account Analysis and Review Control – Significant Deficiency

Condition

During our testwork of other third party liabilities, we noted an internal control deficiency associated with two identified audit misstatements. The audit misstatements resulted from 1) a calculation error in an analysis supporting a 340B program liability of approximately $1.5 million and 2) inadequate consideration of recent claims activity and program changes in establishing Recovery Audit Contractor (RAC) liabilities of approximately $1.7 million.

Criteria

Complex calculations supporting accounting estimates should be reviewed by someone other than the preparer, and reserve methodologies should consider historical data, as well as changes in current environment to ensure the estimated liabilities are in line with industry standards. The hospital has policy of indicating that all significant financial statement account analyses and reconciliations should be prepared and reviewed by different individuals prior to recording the transaction or an adjustment to an account.

Effect

Without a secondary review of a financial statement account analysis or reconciliation, there is an increased risk that a transactions or account balance will be recorded with an error. In addition, reserve methodologies that are not periodically revised based on changes in the industry environment, can be lead to accounts being over or understated.

Cause

The calculations supporting the 340B program was not reviewed to identify errors and the RAC liabilities reserve methodology did not consider more recent claims trends in the analysis.

Recommendation

We recommend that management inventory all significant financial statement accounts, especially those with complex analyses and calculations used to determine estimates, and ensure supporting calculations and analysis are properly evaluated to consider applicable industry changes and are reviewed by a second party prior to the account being recorded or adjusted. A departmental manager or individual responsible for the account should perform the review.

Management Response

The 340b liability calculation was reviewed by one member of management who was closely involved in the preparation of the calculation. The error was not identified because an independent member of management did not review the calculation. Management will re-evaluate the review process of all estimates to ensure independent reviews for accuracy of the underlying calculations.

The liability related to RAC was calculated using the same methodology that has been in place for several years. In order to ensure that the current industry trends are considered and methodologies do not become stale, management will re-evaluate all estimate methodologies and research current industry approaches for specialized estimates.

The Chancellor for Health Sciences will be responsible for the corrective action plan, with a completion date of April 30, 2019.

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

2018-003 User Access Review – Control Deficiency (finding that does not rise to the level of significant deficiency)

2017-001 Repeat and Modified

Condition

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

This was validated in two components of our testwork:

1 A cloud migration process performed by vendors created Lawson accounts for employees that were terminated, leaving them active. UNMH IT identified these employees and manually disabled these accounts. However, 29 terminated users had active accounts as of the date of testwork. We verified that these employees did not record any activity in Lawson subsequent to their termination.

2 For the Millennium, Soarian, and Lawson system, we noted documentation supporting various components of management's FY2018 user access review was not sufficient to evidence the control is operating effectively. For example, the documentation of the review of the complete population of users and the actions resulting from management's review (user access changes or removals) was not maintained to evidence that the control process took place such that it could be re-performed.

Criteria

The entities' 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 applicable entities have 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 review. Evidence of the performance of the review, including remedial action taken, should be maintained.

Management Response

1. Infor (Lawson) accounts that were disabled were re-created during migration from on-premise to Cloud by a third party vendor. Several hundred re-created accounts were identified and manually disabled after go-live. The manual process missed 29 accounts out of over 700. The 29 accounts identified have since been disabled. Past Infor account reviews were for elevated access, which excluded employee level access to their own information. The Infor elevated access reviews will continue with the addition of an annual 100% account review for non-elevated accounts.
2. The Soarian account review does include the complete population of users; however, it hasn't historically included a summary of changes as a result of the audit. Going forward, the Patient Financial Services department will document any access changes and removals as a result of these audits.

   Due to the volume of Millennium accounts and the many organizations that sponsor the accounts, the Millennium account review is based on a random selection of accounts that are individually audited. The current process is to maintain a summary of these audit results. Going forward, the randomly selected accounts reviewed and the subsequent actions from the review will also be maintained and documented.

   The Chancellor for Health Sciences will be responsible for the corrective action plan, with a completion date of April 30, 2019.

UNIVERSITY OF NEW MEXICO HOSPITAL

Summary of Prior Year Findings

Year ended June 30, 2017

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

2017-001 Terminated Employee Documentation Process – Control Deficiency (finding that does not rise to the level of significant deficiency)

Current Status:

Repeat and modified (see Finding 2018-003)

UNIVERSITY OF NEW MEXICO HOSPITAL

Exit Conference

Year ended June 30, 2018

An exit conference was conducted on October 10, 2018 with a member of the Finance and Audit Committee of the Board of Trustees and a member of the Hospital's management. During this meeting, the contents of this report were discussed.

University of New Mexico Hospital

Jerry McDowell, Compliance and Audit Committee Chair

Terry Horn, Compliance and Audit Committee Member

Christine Glidden, Finance and Audit Committee Member

Kate Becker, Chief Executive Officer, UNM Hospitals

Bonnie White, Interim CFO, UNM Hospitals

Julie Alliman, Executive Director/Controller, UNM Hospitals

Purvi Mody, Compliance Officer, UNM Hospitals

Rodney McNease, Executive Director of Government Affairs, UNM Hospitals

Dawn Harrington, Administrator for Information Technology, UNM Hospitals

Manu Patel, Director, UNM Internal Audit

Jennifer James, Associate University Counsel

KPMG

Mark McComb, Partner

Jaime Cavin, Senior Manager

UNMH is responsible for the contents of the financial statements. KPMG LLP assisted with the preparation of the financial statements.