



Report of Independent Auditors
and Financial Statements
with Supplementary Information

University of New Mexico Hospital

June 30, 2024 and 2023

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University of New Mexico Hospital
Official Roster
Year Ended June 30, 2024

UNM Hospital Board of Trustees

Tamra Mason	Chair (Term expires 6/30/25, Regent appointed)
Monica Zamora	Vice-Chair (Term expires 6/30/24, Regent appointed)
Trey Hammond	Secretary (Term expires 6/30/26, County appointed)
Adelmo "Del" Archuleta	Member (Term expires 6/30/25, Regent appointed)
Kenneth "Ken" Lucero	Member (Term expires 6/30/25, All Pueblo Council of Governors, Regent appointed)
Henry Monroy	Member (Term expires 6/30/25, Regent appointed)
Kurt Riley	Member (Term expires 6/30/26, All Pueblo Council of Governors, Regent appointed)
Anjali Taneja	Member (Term expires 6/30/25, County appointed)
Nathan Boyd	Member (Term expires 6/30/25, Regent appointed)

Administrative Officers

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

Report of Independent Auditors

The University of New Mexico Health Sciences Center
Board of Trustees,
The University of New Mexico Hospital Board of Trustees,
and Mr. Joseph M. Maestas, PE, CFE
New Mexico State Auditor

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of New Mexico Hospital (the Hospital), a division of the University of New Mexico, which comprise the statements of net position as of June 30, 2024 and 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2024 and 2023, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, effective January 1, 2024, the Hospital acquired all assets and assumed all liabilities of UNM Sandoval Regional Medical Center, Inc. under a zero dollar purchase agreement. Effective the date of the acquisition, UNM Sandoval Regional Medical Center, Inc. ceased to be a separate legal entity and became known as UNM Sandoval Regional Medical Center, a Campus of UNM Hospital (Sandoval Campus) and is operated as a site of the Hospital. The accompanying financial statements for the year ended June 30, 2024 include the results of the operations of the Sandoval Campus for the full year ending June 30, 2024. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 6 through 18 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying comparison of budgeted and actual revenues and expenses (Schedule 1), pledged collateral by banks (Schedule 2), and schedule of individual deposit and investment accounts (Schedule 3) (collectively Schedules 1-3) for the year ended June 30, 2024, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1-3 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2024, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Albuquerque, New Mexico
October 3, 2024

Management Discussion and Analysis

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2024 and 2023

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, 2024 and 2023. 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 and Sandoval Counties (the Counties) mill levy received by the Hospital. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2024 and 2023

Overview of entity – 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. 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. Effective January 1, 2024, the Hospital acquired UNM Sandoval Regional Medical Center, Inc. under a zero dollar purchase agreement. Under the purchase agreement, the Hospital acquired all of the assets and liabilities of the Sandoval Campus. With the effective date of the acquisition, the Sandoval Campus ceased to be a separate legal entity and became known as UNM Sandoval Regional Medical Center, a Campus of UNM Hospital (Sandoval Campus) and is operated as a site of the Hospital. This transaction is classified as a government merger and, in accordance with GASB 69, *Government Combinations and Disposals of Government Operations*, the accompanying financial statements include the results of operations for the full year ended June 30, 2024 of the Sandoval Campus.

Three-year comparison of financial results

Condensed Summary of Net Position			
	June 30,		
	2024	2023	2022
Assets			
Current assets	\$ 756,604,252	\$ 559,213,526	\$ 577,382,198
Capital assets	887,539,104	673,611,906	428,527,134
Right to use and SBITA assets	33,432,450	38,159,089	46,712,156
Other noncurrent assets	128,962,178	139,656,722	310,699,359
Total assets	\$ 1,806,537,984	\$ 1,410,641,243	\$ 1,363,320,847
Deferred outflows			
Total deferred outflows of resources	\$ 1,877,582	\$ 138,988	\$ 911,385
Liabilities			
Current liabilities	\$ 446,484,726	\$ 329,622,509	\$ 357,826,823
Noncurrent liabilities	435,807,669	259,258,706	166,837,082
Total liabilities	\$ 882,292,395	\$ 588,881,215	\$ 524,663,905
Deferred inflows			
Total deferred inflows of resources	\$ 348,292	\$ 464,028	\$ 2,087,724
Net position			
Net investment in capital assets	\$ 460,962,795	\$ 438,442,255	\$ 302,286,867
Restricted net position, expendable	57,958,026	39,429,517	37,665,522
Unrestricted net position	406,854,058	343,563,216	497,528,214
Total net position	\$ 925,774,879	\$ 821,434,988	\$ 837,480,603

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2024 and 2023

Current assets include assets that are deemed to be consumed or convertible to cash within one year and include unrestricted cash, marketable securities and accounts receivable. The Hospital's most significant current asset is unrestricted cash and cash equivalents. The unrestricted cash balance was \$290.2 million, \$183.1 million and \$229.1 million as of June 30, 2024, 2023 and 2022, respectively. The \$107.1 million increase in unrestricted cash balances from June 30, 2023 to June 30, 2024 is primarily due to a increase in net patient service revenue of \$255.8 million. The \$46.0 million decrease in unrestricted cash balances from June 30, 2022 to June 30, 2023, was primarily due to a decrease in operating revenue of \$35.3 million.

The unrestricted days cash on hand for the Hospital was 70, 45 and 57 as of June 30, 2024, 2023 and 2022, respectively. As part of cash management practices, the Hospital centrally manages all cash receipts and disbursements for all its affiliates. These affiliates include 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 \$182.8 million, \$154.9 million and \$148.0 million as of June 30, 2024, 2023 and 2022, respectively. The increase in net patient receivables of \$27.9 as of June 30, 2024 as compared to June 30, 2023 is due to \$15.2 million of acquired receivables for Sandoval Campus and an increase in net patient service revenue. The increase in net patient receivables of \$6.9 million as of June 30, 2023 as compared to June 30, 2022 is primarily due to an increase in days in accounts receivable.

At June 30, 2024, 2023 and 2022, the Hospital's current assets of \$756.6 million, \$559.2 million and \$577.4 million, respectively, were sufficient to cover current liabilities of \$446.5 million (current ratio of 1.7), \$329.6 million (current ratio of 1.7) and \$357.8 million (current ratio of 1.6), respectively.

Noncurrent assets include assets designated by management for capital replacement, donated funds, assets designated by the UNM Hospital Board of Trustees and assets held by a trustee for the mortgage reserve funds. The restricted cash balance was \$59.6 million, \$37.4 million and \$159.3 million as of June 30, 2024, 2023 and 2022, respectively. The restricted cash includes cash designated by management for capital replacement and cash restricted by donors. The increase of \$22.1 million at June 30, 2024 compared to June 30, 2023 is primarily due to \$37.5 million restricted by management for the funding of capital projects. The \$121.8 million decrease in unrestricted cash as of June 30, 2023 compared to June 30, 2022 is due to cash payments for the new medical tower and parking structure expended during the year.

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

The most significant current liability is estimated third-party payor settlements payable of \$222.0 million, \$141.4 million and \$125.8 million as of June 30, 2024, 2023 and 2022, respectively. The increase of \$80.6 million in estimated third-party payor settlements at June 30, 2024 as compared to June 30, 2023 and the \$15.6 million increase at June 30, 2023 as compared to June 30, 2022 are primarily due to increases in intergovernmental transfers (IGT) due to NM Department of Health for an intergovernmental transfer and the timing of IGT payments.

University of New Mexico Hospital
Management Discussion and Analysis
June 30, 2024 and 2023

The next most significant current liability is the accounts payable balance of \$76.9 million, \$62.1 million and \$76.5 million as of June 30, 2024, 2023 and 2022, respectively. The balances in accounts payable were primarily related to medical services, contract labor, medical supplies, including pharmaceuticals and biologics as well as capital projects at June 30, 2024 and 2023.

Total net position as of June 30, 2024, increased by \$104.3 million to \$925.8 million. The increase is due to an operating loss of \$85.1 million offset by net non-operating income of \$170.1 million as well as the acquisition of \$19.4 million in Sandoval Campus net assets. Total net position as of June 30, 2023, decreased by \$16.0 million to \$821.4 million. The decrease is due to an operating loss of \$130.0 million primarily driven by a decrease in operating revenues of \$35.3 million. Total net position as of June 30, 2022, increased by \$2.1 million to \$837.5 million. The increase is due to an operating loss of \$107.1 million offset by net non-operating revenue of \$109.3 million.

Condensed Summary of Revenues, Expenses, and Changes in Net Position			
	Years Ended June 30,		
	2024	2023	2022
Total operating revenues	\$ 1,590,541,200	\$ 1,301,443,587	\$ 1,336,736,964
Total operating expenses	<u>(1,675,613,192)</u>	<u>(1,431,431,798)</u>	<u>(1,443,868,078)</u>
Operating loss	(85,071,992)	(129,988,211)	(107,131,114)
Nonoperating revenues and expenses	<u>170,059,581</u>	<u>113,942,596</u>	<u>109,278,888</u>
Total increase (decrease) in net position	84,987,589	(16,045,615)	2,147,774
Net position, beginning of year	821,434,988	837,480,603	835,332,829
Sandoval net assets acquired	<u>19,352,302</u>	<u>-</u>	<u>-</u>
Net position, end of year	<u><u>\$ 925,774,879</u></u>	<u><u>\$ 821,434,988</u></u>	<u><u>\$ 837,480,603</u></u>

Operating revenues – The sources of operating revenues for the Hospital are net patient services, state and local contracts and grants, and other operating revenues, with the most significant source being net patient service revenues. Operating revenues were \$1.591 billion, \$1.301 billion and \$1.337 billion for the years ended 2024, 2023 and 2022, respectively.

Net patient service revenues are comprised of gross patient revenues net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Also included in net patient service revenues are payments received for Indirect Medical Education (IME), Graduate Medical Education (GME), Directed Upper Payment Limit (UPL) and IGT expense. Net patient service revenues were \$1.520 billion, \$1.264 billion and \$1.285 billion for the years ended 2024, 2023 and 2022, respectively.

Net patient service revenues for the year ended June 30, 2024, increased \$255.8 million from \$1.264 billion, or 20%, in year ended June 30, 2023. This increase is primarily due to an increase in net Directed Payment of \$102.0 million and \$109.0 million of net patient service revenues at Sandoval Campus.

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2024 and 2023

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

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

	Years Ended June 30,		
	2024	2023	2022
Total licensed beds	597	537	537
Percent of occupancy (staffed beds)	96.4 %	97.2 %	103.4 %
Discharges	30,618	26,518	26,893
Patient days	195,867	177,449	189,851
Observation days	14,792	13,497	13,362
Average length of stay	6.4	7.0	7.4
Outpatient visits	591,101	549,832	561,356
Emergency visits	97,880	75,036	78,023
Urgent care visits	22,513	22,638	20,333
Surgeries	24,765	21,064	20,357

Overall patient and observation days for the year ended June 30, 2024, increased by 19,713 from the year ended June 30, 2023, which represents a 10% increase. The Hospital was operating at full or above full capacity after taking into account both the inpatient days and observation volumes during the years ended June 30, 2024 and 2023. However, the expiration of the public health emergency and the decline in COVID-19 patient volumes resulted in an occupancy lower than 100% for the year ended June 30, 2024. Patient discharges increased by 4,100 compared to the year ended June 30, 2023, which represents a 15% increase. Surgical volumes increased for the year ended June 30, 2024, by 3,701 cases.

Overall patient and observation days for the year ended June 30, 2023, decreased by 12,267 from the year ended June 30, 2022, which represents a 6% decrease. The Hospital was operating at full or above full capacity after taking into account both the inpatient days and observation volumes during the years ended June 30, 2023 and 2022. However, the expiration of the public health emergency and the decline in COVID-19 patient volumes resulted in an occupancy lower than 100% for the year ended June 30, 2023. Patient discharges decreased 375 compared to the year ended June 30, 2022, which represents a 1% decrease. Surgical volumes increased for the year ended June 30, 2023, by 3%.

The Hospital offers a financial assistance program called UNM Care to which all eligible patients are encouraged to apply. This program assigns patients to primary care providers and enables them to receive care throughout the Hospital and at all clinic locations. This program is available to Bernalillo and Sandoval 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.

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2024 and 2023

As of June 30, 2024, 2023 and 2022, there were approximately 5,300, 4,800 and 4,300 active enrollees in UNM Care, respectively. The income threshold for UNM Care is 300% of the Federal Poverty Level (FPL), and patients may apply for this program at various locations throughout the Hospital. The Hospital does not pursue collection of amounts determined to qualify as charity care. The cost of charity care provided under this program for the years ended June 30, 2024, 2023 and 2022 was approximately \$63.7 million, \$53.7 million and \$46.8 million, respectively.

The Hospital provides care to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for the years ended June 30, 2024, 2023 and 2022 was \$54.8 million, \$35.0 million and \$48.4 million, respectively.

The Hospital recognized IGTs to the State of New Mexico in the amounts of \$122.0 million, \$65.0 million and \$60.4 million, respectively, for the years ended June 30, 2024, 2023 and 2022. Due to the economic conditions in the State of New Mexico and nationally, the State has been unable in prior years to fund a portion of the nonfederal share to obtain federal matching funds (the State's Portion) for certain aspects of Directed Payments, IME, GME, and enhanced capitation payments, thereby jeopardizing the viability of the Directed Payments, Enhanced Payments, IME and GME programs. As a result, the Hospital may, in the next year, enter into Memoranda of Understanding (MOUs) with the State of New Mexico under which the Hospital would agree to make IGTs to fund the nonfederal share of the Medicaid payment pursuant to federal Medicaid regulations at 42 CFR 433.51 (Eligible Operating Funds). The IGTs are recorded as a reduction of net patient service revenues in the accompanying statements of revenues, expenses and changes in net position.

State and local contracts and grants – The Hospital contracts with various state and local agencies to provide specific community programs. During the year ended June 30, 2024, the Hospital began providing medical services to inmates of the Bernalillo County Detention Center under an agreement with Bernalillo County. This contract is the most significant source of contract revenue during the year ended June 30, 2024 and is the driver of the \$26.4 million increase in state and local contracts and grants as compared to the year ended June 30, 2023.

Other operating revenue – In order to expand its outpatient pharmacy capacity, the Hospital has entered into contract pharmacy service arrangements. These contracted pharmacies are located throughout Albuquerque and the State and are able to fill and refill prescriptions written by physicians credentialed at the Hospital for patients of the Hospital. The contracted pharmacy bills the patient's underlying insurance and remits the payments to the Hospital on a monthly basis, net of a dispensing fee. The Hospital has recorded \$35.3 million, \$29.6 million and \$44.1 million for pharmacy services in other operating revenue for the years ended June 30, 2024, 2023 and 2022, respectively. The increase in contract pharmacy revenue from the years ended June 30, 2023 to June 30, 2024, is primarily due to drugs used to treat cystic fibrosis. The decrease in contract pharmacy revenue from the year ended June 30, 2022 to June 30, 2023 is due to manufactures limiting the Hospital's use of 340b drugs at contract pharmacies.

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2024 and 2023

Operating expenses – Operating expenses for the Hospital include items such as employee compensation and benefits, medical services, medical supplies, purchased services, depreciation and equipment. For the year ended June 30, 2024, operating expenses totaled \$1.676 billion, an increase from the year ended June 30, 2023, of \$244.2 million or 17% as compared to the year ended June 30, 2023. For the year ended June 30, 2023, operating expenses totaled \$1.43 billion, a decrease from the year ended June 30, 2022 of \$12.4 million or 1%. The most significant expenditures were for employee compensation and benefits.

Compensation and benefits combined were \$770.0 million, \$689.8 million and \$720.1 million for the years ended June 30, 2024, 2023 and 2022, respectively. For the years ended June 30, 2024, 2023 and 2022, the percentage of compensation and benefits combined to total operating expenses was 46%, 48% and 50%, respectively. Compensation and benefits increased \$80.2 million, or 10%, during the year ended June 30, 2024, primarily due to the acquisition of the Sandoval Campus which accounted for \$60.5 million of the increase. Additionally, the Hospital provided a 3% wage increase in January 2024 which accounted for \$8.3 million of the increase. Compensation and benefits decreased \$30.3 million, or 4%, during the year ended June 30, 2023 primarily due to a decrease in other contract labor offset by an increase of regular wages, overtime wages and training and orientation wages for new employees. The decrease in contract labor expense is primarily related to improved market rates for contract clinical labor.

After compensation and benefits the most significant change in operating expense is an increase in medical supplies of \$55.0 (22%) during the year ended June 30, 2024, as a result of medical supplies at Sandoval Campus of \$22.4 million and increases in pharmaceutical supplies of \$26.9 million.

Medical services increased \$16.2 million (6.5%) as result of increased lab expense and physician support during the year ended June 30, 2023.

Operating expense mix for the years ended June 30, 2024, 2023, and 2022, is detailed below:

	2024	2023	2022
Employee compensation	39 %	41 %	43 %
Benefits	7	7	7
Medical supplies	18	18	17
Medical services	18	17	16
Purchased services	6	5	5
Equipment	4	4	4
Depreciation	2	2	2
Gross receipts tax	2	2	2
Occupancy	2	2	2
Other supplies	1	1	1
Other	1	1	1

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2024 and 2023

Nonoperating revenues and expenses – The sources of nonoperating revenues for the Hospital are Bernalillo County mill levy, FEMA funding, State appropriation, bequests and contributions, State of New Mexico Land and Permanent fund, investment revenues and other nonoperating revenues. The sources of nonoperating expenses for the Hospital are interest on capital asset related debt and other nonoperating expenses. Net nonoperating revenues were \$170.1 million, \$113.9 million and \$109.2 million for the years ended June 30, 2024, 2023 and 2022, respectively.

The Hospital recognized \$52.5 million in FEMA funding during the year ended June 30, 2024. These amounts relate to reimbursed costs that were incurred by the Hospital during the height of the COVID-19 pandemic. The majority of the funding is a reimbursement of contract labor expense that was incurred during the year ended June 30, 2021 to care for COVID-19 positive patients.

The Bernalillo County mill levy tax subsidy is the most significant nonoperating revenue, totaling \$108.4 million, \$102.6 million and \$97.6 million for the years ended June 30, 2024, 2023 and 2022, respectively. The Bernalillo County 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 Sandoval County mill levy subsidy is provided for Trauma and Behavioral Health services provided at the Sandoval Campus. The Sandoval County mill levy tax totaled \$8.8 million for the year ended June 30, 2024.

The Hospital received State appropriation funding of \$8.8 million, \$7.4 million and \$6.3 million in 2024, 2023 and 2022, respectively. Included in this amount was \$8.3 million, \$7.0 million and \$5.9 million for the Carrie Tingley Hospital (CTH) in 2024, 2023 and 2022, respectively, and \$473 thousand in 2024 and \$451 thousand for the Young Children's Health Center (YCHC) in 2023 and 2022, respectively. State land revenue and oil and gas royalties for CTH for 2024, 2023, and 2022 were \$967 thousand, \$1.2 million and \$1.1 million, respectively.

Contribution revenue was \$4.3 million, \$5.1 million and \$3.7 million for the years ended June 30, 2024, 2023 and 2022, respectively. The primary source for contributions is the annual Children's Miracle Network fundraising drive. In addition, there were donations restricted as to use for the children's radiothon, Roots & Wings prenatal and Carrie Tingley Hospital. All donations are received by the UNM Foundation and are drawn upon by the Hospital.

Included in nonoperating expense was \$11.6 million, \$6.0 million and \$3.6 million of interest expense on capital asset related debt for each of the years ended June 30, 2024, 2023 and 2022, respectively. Included in the current year interest expense is \$2.0 million for the Sandoval Campus as well as increased amounts for the interest related to the Critical Care Tower currently under construction.

Capital assets – At June 30, 2024, the Hospital had \$887.5 million invested in capital assets, net of accumulated depreciation of \$583.6 million. Depreciation charges for the year ended June 30, 2024, totaled \$41.0 million compared to \$33.8 million and \$33.5 million for the years ended June 30, 2023 and 2022, respectively.

University of New Mexico Hospital
Management Discussion and Analysis
June 30, 2024 and 2023

	2024	2023	2022
Land, building, and improvements	\$ 383,650,782	\$ 264,563,411	\$ 264,142,548
Building service equipment	247,051,057	224,510,559	203,046,994
Major moveable equipment	239,567,540	189,103,502	183,210,861
Computer software	51,582,864	49,732,507	49,412,954
Computer equipment	29,587,976	27,260,444	22,973,849
Fixed equipment	22,839,772	18,016,443	17,494,085
Construction in progress	496,830,968	381,615,258	142,673,424
Artwork	12,333	-	-
	1,471,123,292	1,154,802,124	882,954,715
Less accumulated depreciation	(583,584,188)	(481,190,218)	(454,427,581)
Net property and equipment	<u>\$ 887,539,104</u>	<u>\$ 673,611,906</u>	<u>\$ 428,527,134</u>

During the year ended June 30, 2024, the Hospital acquired \$90.2 million in capital assets net of depreciation from the Sandoval Campus acquisition. During the year ended June 30, 2024, the largest capital increases were land, building, and improvements, building service equipment and major moveable equipment, (\$192.1 million) and construction in progress (\$255.7 million in additions offset by \$140.5 million of completed projects). These increases were offset by retirements of assets in the amount of \$6.2 million. Included in these increases are the acquired assets of the Sandoval Campus, which was \$156.4 million.

During the year ended June 30, 2023, the largest capital increases were building service equipment, major moveable equipment and computer equipment (\$31.6 million) and construction in progress (\$261.7 million in additions offset by \$22.7 million of completed projects), these increases were offset by retirements of assets in the amount of \$7.2 million.

Several new renovation projects were initiated during the year ended June 30, 2020, including a new patient parking structure, a new medical building and renovations at the main hospital and multiple off-site clinics. These projects continued in the years ended June 30, 2022, 2023, and 2024. The new critical care tower building is the most significant project in the construction in progress balance and is a multiyear project expected to be completed by June 30, 2025.

Capital commitments – As discussed further in the Debt Activity section, during the year ended June 30, 2022, the Hospital began construction on an extensive addition project with plans to occupy the new building in the year ending June 30, 2025. The Hospital is funding the expansion through a mixture of debt issuance, cash reserved for Capital Initiatives and operating cash.

Debt activity – The Hospital's bonds payable totaled \$61.5 million, \$68.0 million and \$74.3 million at June 30, 2024, 2023 and 2022, respectively. The bonds are Federal Housing Administration (FHA) insured Hospital Mortgage Revenue Bonds and were issued pursuant to a trust indenture, dated May 1, 2015. The bonds carry interest rates that range from 0.484% to 3.532%.

The current portion of this debt is \$6.7 million, \$6.5 million and \$6.3 million at June 30, 2024, 2023 and 2022, respectively.

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2024 and 2023

On September 9, 2021, the Hospital closed on a mortgage loan to partially finance the construction of a new patient tower. The debt was issued under the HUD Section 242 loan guarantee program and is backed by GNMA securities. The mortgage will be drawn down as needed to fund the construction project, not to exceed \$320 million, and carries an interest rate of 3.275%. The terms of the loan require interest only payments through construction. Principal and interest payments will begin on October 1, 2024, with loan maturity occurring on September 1, 2049. During the years ended June 30, 2024, 2023 and 2022 the Hospital drew down \$110.4 million, \$114.8 million and \$51.7 million and incurred interest of \$7.3 million, \$3.5 million and \$881 thousand, respectively.

As part of the acquisition of the Sandoval Campus, the Hospital assumed the liability associated with Sandoval Campus debt. In July 2020, the Sandoval Campus entered into an agreement to refinance a previous mortgage collateralized by the Sandoval Campus building. The debt was issued under the HUD Section 242 loan guarantee program and is backed by GNMA securities. The mortgage carries an interest rate of 1.98%. The current and long-term portion of this debt is \$6.1 million and \$82.9 million, respectively, at June 30, 2024.

The loan guarantee associated with all three debt issuances 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, 2024 Single Audit.

Change in net position – The Hospital's total change in net position was a net increase for the year ended June 30, 2024. 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 \$104.3 million in the year ended June 30, 2024. The increase in net position is due to increases in operating revenue of \$289.1 million and nonoperating revenue of \$56.1 million as well as the acquisition of Sandoval Campus. Net position decreased approximately \$16.0 million in the year ended June 30, 2023. The decrease in net position is due to net nonoperating revenue of \$113.9 million offset by an operating loss of \$130.0 million.

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2024 and 2023

Factors impacting future periods – The Bernalillo County mill levy that the Hospital receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially increase as a result of increased property values. The voters approved the renewal of the mill levy in the November 2016 election. The mill levy is subject to approval by the Bernalillo County voters every eight years and it will be up for renewal in the November 2024 election. The Hospital's facilities are leased from the County by UNM under the 1999 lease agreement, as described under note 1 to the financial statements. Term of this agreement provides for either party to the lease to reopen the terms and conditions by giving notices in the first three months of 2014, 2022, 2030 and 2038. Neither party requested to reopen the terms and conditions of the lease in 2022. On March 25, 2014, the County Commission approved Administrative Resolution AR 2014-21 to open negotiations with UNM on the lease agreement and to establish a taskforce to provide healthcare expertise to the County in support of the negotiations. The agreement was finalized in February 2018. Under the MOU, the Hospital is required to allocate 15% of the mill levy proceeds to the UNM Psychiatric Center, fund one or more navigational services and a transition planning and case management service (Re-entry Resource Center) at \$2.06 million adjusted annually for inflation, and to comply with certain reporting and collaboration efforts as described in the MOU. In June 2018, the Hospital and County entered into a program MOU for the Bernalillo County Re-entry Resource Center, under which UNM Hospitals would establish within its budget at least \$800 thousand for this program.

The Sandoval County mill levy that the Sandoval Campus receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially increase as a result of increased property values. On November 6, 2018, voters approved a new eight-year tax levy at 1.9 mills on property owned within Sandoval County. The mill levy funds expansion of outpatient behavioral health services and an increase in staffing to achieve a level III trauma center designation at the Medical Center. The mill levy contract with Sandoval County was effective July 1, 2019.

The Hospital continues to operate at physical capacity for adult patients. The new Critical Care Tower is scheduled to open in the year ending June 30, 2025. The tower will contain 9 floors, of which 2 of the floors will be completed at a later date. It will contain an additional 96 Intensive Care Unit beds, 18 new operating rooms and additional radiology modalities to include cardiac catheterization lab, MRI, CT and interventional radiology. The adult emergency room will also move to the new tower.

On August 1, 2024, the Centers for Medicare and Medicaid Services (CMS) released the Federal Fiscal Year (FFY) 2025 Inpatient Prospective Payment System (IPPS) Final Rule. The final rule included a total update factor of 2.9% comprised of a market basket increase (MBI) of 3.4% and a productivity decrease of 0.5%. The Hospital will receive a 1.67% increase to the national labor and non labor components of the DRG rate and a 2.08% increase in the hospitals wage index as the Metropolitan Statistical Area's average hourly wage for Bernalillo County increased. The total aggregate impact to the Hospital's reimbursement after taking into account the year-to-year change in Medicare fee-for-service discharges is an estimated 3.92% or \$3.3 million increase not including the changing in UC DSH noted below.

The Hospital continues to qualify for a geographical wage reclassification to Santa Fe County through FFY 2025. If eligible, the Hospital plans to apply again for the 3-year Medicare Geographic Wage Index Reclassification to Santa Fe County in September 2024 for the period FFY2026 through FFY2028.

University of New Mexico Hospital

Management Discussion and Analysis

June 30, 2024 and 2023

The Hospital's Uncompensated Care (UC) disproportionate share hospital (DSH) payments are estimated to decrease \$1.3 million or 19.21%. This is primarily due to the 3.9% drop in the National UC funding Pool that was \$232 million less compared to FFY2024. The final DSH UC pool is also impacted by the change in the national uninsured rate estimated by the National Expenditure Health Accounts (NEHA) data.

In the FFY2025 IPPS Final Rule CMS finalized the Graduate Medical Education policy for additional distribution of GME residency slots under section 4122 of the Consolidated Appropriations Act (CAA), 2023. Section 4122 requires the distribution of an additional 200 Medicare-funded residency positions (or "slots") to train physicians nationally. This provision dedicates at least one-half of the total number of positions to psychiatry or psychiatry subspecialty residencies. This policy will focus on health professional shortage areas such as Bernalillo County to help bolster the health care workforce in rural and underserved areas to the extent slots are available. CMS estimates that this additional funding will total approximately \$74 million in support for teaching hospitals from FY 2026 through FY 2036. The Hospital intends to submit an application for additional resident slots in January 2025.

In the FFY2025 Final Rule CMS finalized provides resources for treating patients with inadequate housing. CMS finalized the proposal to change the severity designation of the seven ICD-10-CM diagnosis codes that describe inadequate housing and housing instability from non-complication or comorbidity (NonCC) to complication or comorbidity (CC), based on the higher average resource costs of cases with these diagnosis codes compared to similar cases without these codes. This builds on the CMS policy from last year for diagnosis codes describing homelessness (e.g., unspecified, sheltered, and unsheltered). This final policy recognizes the influence of social factors on health and resources, including efforts of the U.S. Interagency Council on Homelessness, which recognizes housing stability as essential to the health and well-being of individuals and families. The finalized policy will more accurately reflect the resource costs associated with each health care encounter when hospitals take care of people who have inadequate housing, or have housing instability, and will also improve the reliability and validity of the coded data including in support of efforts to advance health equity.

On July 10, 2024, CMS released the Calendar Years 2025 Outpatient Prospective Payment System (OPPS) Proposed Rule. CMS has proposed updates to the APC conversion factor utilizing a hospital MBI increase of 3.0% less productivity adjustment of -0.4% for a net 2.6% increase to CY2025 OPPS rates nationally. To set OPPS Relative Weights for CY2025, CMS has proposed to use most current CY2023 HCRIS extract data. As proposed, the Hospital's increase is estimated to be 2.88% or \$1,732,370, including SRMC increase of \$396,080.

CY2025 OPPS proposed rule would maintain full Medicare Part B drug payment to hospitals in the 340B Drug Pricing Program at Average Sale Price (ASP) plus 6%. Novitas-Solutions, the Hospital's Medicare Administrative Contractor began paying the Hospital at this rate in June 2023. Budget neutrality adjustment of 0.5% decrease to the conversion factor starting in CY2026. Inflationary Reduction Act through the PFS Proposed Rule requires drug manufacturers to provide inflationary drug rebates to Part B and D drugs but 340b Drugs are excluded (Part B Drugs in 2023 and Part D drugs in 2026). The rebates would be paid to the Medicare Supplementary Medical Insurance (SMI) Trust Fund. For Part D 340B drugs, there will be a new proposal to use an estimation method (total 340B drug units for a specific national drug code divided by total drug units sold for the same national drug code) to remove Part D drugs from the rebate or utilize a Third-Party Clearinghouse to identify 340b drugs.

University of New Mexico Hospital
Management Discussion and Analysis
June 30, 2024 and 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.

Financial Statements

University of New Mexico Hospital
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 290,211,664	\$ 183,105,669
Marketable securities	37,794,162	36,246,218
Restricted assets by trustee for debt service	529,698	335,623
Receivables		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately \$227,621,000 in 2024 and \$199,626,000 in 2023)	182,834,572	154,914,547
Due from University of New Mexico entities	11,802,883	22,543,589
Estimated third-party payor settlements	174,641,997	127,239,593
Bernalillo and Sandoval County Treasurers	2,437,884	1,729,825
Other	22,778,671	5,924,943
Total net receivables	394,496,007	312,352,497
Prepaid expenses	6,898,444	4,990,567
Inventories	26,674,277	22,182,952
Total current assets	756,604,252	559,213,526
NONCURRENT ASSETS		
Restricted and designated assets		
Assets held by trustee		
Restricted for mortgage reserve fund	35,433,100	18,508,578
Assets restricted by donors	22,087,786	20,585,316
Assets designated by UNM Hospital	37,500,000	63,274,712
Assets designated by UNM Hospital Board of Trustees	33,052,916	37,030,599
Total restricted and designated assets	128,073,802	139,399,205
Capital assets, net	887,539,104	673,611,906
Right to use and SBITA assets, net	33,432,450	38,159,089
Due from affiliates	888,376	257,517
Total noncurrent assets	1,049,933,732	851,427,717
TOTAL ASSETS	\$ 1,806,537,984	\$ 1,410,641,243
DEFERRED OUTFLOWS		
Related to pensions	\$ 53,624	\$ 138,988
Related to loss on bond defeasance	1,823,958	-
Total deferred outflows	\$ 1,877,582	\$ 138,988

See accompanying notes.

University of New Mexico Hospital
Statements of Net Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 76,945,551	\$ 62,062,942
Accrued payroll	27,510,101	18,803,335
Due to University of New Mexico entities	54,301,785	56,932,877
Bonds payable – current	6,690,000	6,480,000
Mortgages payable – current	12,338,548	-
Lease and SBITA liability – current	7,534,390	8,125,628
Accrued compensated absences	33,553,970	31,082,102
Estimated third-party payor settlements	221,987,921	141,396,980
Other accrued liabilities	5,622,460	4,738,645
	<u>446,484,726</u>	<u>329,622,509</u>
NONCURRENT LIABILITIES		
Bonds payable	54,795,000	61,485,000
Mortgages payable	353,454,658	166,499,968
Lease and SBITA liability	27,020,115	30,738,143
Net pension liability	537,896	535,595
	<u>435,807,669</u>	<u>259,258,706</u>
Total liabilities	<u><u>\$ 882,292,395</u></u>	<u><u>\$ 588,881,215</u></u>
DEFERRED INFLOWS		
Total deferred inflows related to pensions	<u><u>\$ 348,292</u></u>	<u><u>\$ 464,028</u></u>
NET POSITION		
Net investment in capital assets	\$ 460,962,795	\$ 438,442,255
Restricted, expendable		
For grants, bequests, and contributions	21,995,229	20,585,316
In accordance with the trust indenture and debt agreement	35,962,797	18,844,201
Unrestricted	406,854,058	343,563,216
TOTAL NET POSITION	<u><u>\$ 925,774,879</u></u>	<u><u>\$ 821,434,988</u></u>

See accompanying notes.

University of New Mexico Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024 and 2023

	2024	2023
OPERATING REVENUES		
Net patient service	\$ 1,519,684,951	\$ 1,263,891,258
State and local contracts and grants	28,218,429	1,809,284
Other operating	42,637,820	35,743,045
Total operating revenues	<u>1,590,541,200</u>	<u>1,301,443,587</u>
OPERATING EXPENSES		
Employee compensation	646,313,960	583,049,786
Benefits	123,662,478	106,748,957
Medical supplies	306,893,615	251,933,258
Medical services	295,954,055	248,016,873
Purchased services	101,063,666	75,498,283
Equipment	65,550,415	54,064,660
Depreciation	40,969,541	33,758,665
Gross Receipts Tax	30,602,372	25,574,623
Occupancy	27,682,055	21,360,877
Other supplies	13,853,918	11,596,228
Other	23,067,117	19,829,588
Total operating expenses	<u>1,675,613,192</u>	<u>1,431,431,798</u>
Operating loss	<u>(85,071,992)</u>	<u>(129,988,211)</u>
NONOPERATING REVENUES (EXPENSE)		
Bernalillo County mill levy	108,441,567	102,552,193
Sandoval County mill levy	8,795,040	-
State appropriation	8,786,500	7,408,800
Bequests and contributions	4,274,225	5,110,819
Equity loss of TriCore and TriCore Lab Svc Corp.	(3,977,684)	(40,847)
State of New Mexico Land and Permanent Fund proceeds	966,829	1,172,592
FEMA funding	52,514,007	-
Investment income	6,118,475	2,636,914
Interest on capital asset-related debt	(11,553,119)	(5,988,872)
Other nonoperating revenue	183,995	6,531,363
Other nonoperating expense	(4,490,254)	(5,440,366)
Net nonoperating revenue (expense)	<u>170,059,581</u>	<u>113,942,596</u>
Increase (decrease) in net position	84,987,589	(16,045,615)
NET POSITION		
Beginning of year	821,434,988	837,480,603
Sandoval Campus net assets acquired	19,352,302	-
End of year	<u>\$ 925,774,879</u>	<u>\$ 821,434,988</u>

See accompanying notes.

University of New Mexico Hospital
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from Medicaid and Medicare	\$ 1,092,621,471	\$ 870,210,514
Cash received from insurance and patients	484,396,226	413,945,400
Cash received from contracts and grants	29,712,031	1,874,324
Cash payments to employees	(522,041,628)	(475,820,969)
Cash payments for contract labor	(111,745,343)	(106,270,144)
Cash payments to suppliers	(690,526,988)	(585,670,549)
Cash payments to University of New Mexico entities	(254,316,338)	(240,134,728)
Cash payments to State of New Mexico for intergovernmental transfer	(43,571,091)	(40,354,685)
Cash payments to the State of NM for Gross Receipts Tax	(30,602,372)	(25,574,623)
Cash payments to affiliates	(630,859)	(7,528,546)
Other receipts	24,397,430	33,611,959
Net cash from operating activities	<u>(22,307,461)</u>	<u>(161,712,047)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from Bernalillo County mill levy	107,764,632	102,608,517
Cash received from Sandoval County mill levy	8,763,916	-
Cash received from Sandoval acquisition	14,347,917	-
Cash received from state general fund and other state fund appropriations	8,578,300	7,206,900
Cash received from State of New Mexico Land and Permanent Fund	966,829	1,172,592
Cash received from other than capital or operating purposes	-	187,381
Cash received from contributions for other-than-capital purposes	4,447,345	5,110,819
Cash received from FEMA	49,914,007	15,749,176
Net cash from noncapital financing activities	<u>194,782,946</u>	<u>132,035,385</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Principal payments of bonds	(6,480,000)	(6,285,000)
Principal payments of mortgage	(5,938,858)	-
Interest payments on capital assets-related to debt	(11,401,122)	(5,988,872)
Purchases of capital assets	(164,653,083)	(279,006,457)
Cash payments on lease and SBITA liabilities	(9,798,181)	(10,798,517)
Cash received from draws on construction loan	110,377,410	114,810,679
Cash received from UNM Capital Initiatives	46,000,000	50,000,000
Cash payments for debt-related activities	(4,197,072)	(2,589,311)
Net cash from capital financing activities	<u>(46,090,906)</u>	<u>(139,857,478)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	26,550,496	27,205,800
Purchase of investments	(26,801,130)	(27,445,342)
Interest and dividends on investments	3,112,723	1,946,391
Net cash from investing activities	<u>2,862,089</u>	<u>1,706,849</u>
Net increase (decrease) in cash and cash equivalents	129,246,668	(167,827,291)
CASH AND CASH EQUIVALENTS, beginning of year	<u>220,552,782</u>	<u>388,380,073</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 349,799,450</u></u>	<u><u>\$ 220,552,782</u></u>

See accompanying notes.

University of New Mexico Hospital
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH		
FROM OPERATING ACTIVITIES		
Operating loss	\$ (85,071,992)	\$ (129,988,211)
Adjustments to reconcile operating loss to net cash		
from operating activities		
Depreciation expense	40,969,541	33,758,665
Lease and SBITA amortization	8,955,014	8,553,067
Provision for doubtful accounts	54,827,031	34,966,468
Changes in assets, deferred outflows,		
liabilities, and deferred inflows		
Patient receivables	(72,151,062)	(41,893,160)
Due from University of New Mexico entities	13,098,968	(13,198,289)
Estimated third-party payor settlements receivable	(47,083,259)	(13,211,604)
Other receivables and prepaid expenses	(16,717,750)	(2,461,975)
Inventories	(1,798,844)	(969,186)
Deferred outflows related to pensions	85,364	772,397
Medicare Advanced Payment Plan	-	(15,596,276)
Accounts payable and other accrued liabilities	6,454,584	(14,418,665)
Accrued payroll and related liabilities	7,800,703	(17,973,820)
Due to University of New Mexico entities	(9,073,069)	4,045,363
Estimated third-party payor settlements payable	78,141,604	15,644,543
Due to/from affiliates	(630,859)	(7,528,546)
Net pension liability	2,301	(589,122)
Deferred inflows of resources related to pensions	(115,736)	(1,623,696)
	<u>(115,736)</u>	<u>(1,623,696)</u>
Net cash from operating activities	<u>\$ (22,307,461)</u>	<u>\$ (161,712,047)</u>

See accompanying notes.

University of New Mexico Hospital

Notes to Financial Statements

Note 1 – Description of Business

University of New Mexico Hospital (the Hospital), operated by the University of New Mexico (UNM) Health Sciences Center (HSC), is certified as a short-term acute care provider with a full range of medical services provided primarily to the New Mexico community. UNM is a state institution of higher education created by the New Mexico Constitution. The accompanying financial statements of the Hospital are intended to present the financial position and changes in financial position and cash flows of only that portion of the business-type activities of UNM, which is attributable to the transactions of the Hospital. The Hospital is not a legally separate entity and is, therefore, reported as a division of UNM and included in the basic financial statements of UNM. The Hospital, as a division of UNM, has no component units.

Effective January 1, 2024, the Hospital acquired UNM Sandoval Regional Medical Center, Inc. under a zero dollar purchase agreement. Under the purchase agreement, the Hospital acquired all of the assets and liabilities of the Sandoval Campus. With the effective date of the acquisition, the Sandoval Campus ceased to be a separate legal entity and became known as UNM Sandoval Regional Medical Center, a Campus of UNM Hospital (Sandoval Campus) and is operated as a site of the Hospital. The acquisition of the Sandoval Campus was completed in order to provide (i) expanded teaching and training opportunities at SRMC, (ii) improved standardization, flexibility, and continuity of care for patients by streamlining access to tertiary and quaternary services available at the Hospital and through the creation of a single medical staff, and (iii) financial benefits including additional revenue generation at the Sandoval Campus. This transaction is accounted for in accordance with Governmental Accounting Standards Board (GASB) Statement No. 69, Government Combinations and Disposals of Government Operations, which requires the Hospital to recognize the acquisition as of the first day of the fiscal year in which the transaction occurred, which is July 1, 2023. Accordingly, the accompanying financial statements include the results of operations of the Sandoval Campus for the full fiscal year ended June 30, 2024. The July 1, 2023 Sandoval Campus balances acquired are as follows:

Assets	
Current assets	\$ 30,839,300
Capital assets	90,172,416
Right to use assets	4,228,375
Other noncurrent assets	15,468,034
Total assets	<u>\$ 140,708,125</u>
Deferred outflows	<u>\$ 1,975,955</u>
Liabilities	
Current liabilities	\$ 30,599,583
Noncurrent liabilities	92,732,195
Total liabilities	<u>\$ 123,331,778</u>
Deferred inflows	<u>\$ -</u>
Net position	
Net deficiency in capital assets	\$ (2,769,952)
Restricted, expendable	15,582,654
Unrestricted net position	6,539,600
Total net position	<u>\$ 19,352,302</u>

University of New Mexico Hospital

Notes to Financial Statements

One of the Hospital's facilities is leased from Bernalillo County by UNM. The lease provides for a \$1 annual rental payment, an allocation of the Bernalillo County mill levy, and medical treatment for American Indians as required by a 1952 agreement with the federal government, and is contingent on approval of the mill levy by the electorate every eight years with the last voter approval in November 2016. Effective as of November 18, 2004, the UNM Board of Regents and the Board of County Commissioners entered into a First Amendment to the Original Lease, as amended (the Lease), under which, among other things, (i) the term of the Original Lease was extended until June 30, 2055, which is after the maturity of the Department of Housing and Urban Development (HUD)-insured loan (refer to Note 10, Bonds Payable); (ii) the Hospital was authorized to obtain the HUD-insured loan; (iii) the Hospital was authorized to encumber the Lease with a leasehold mortgage; and (iv) the actions that are to be taken concerning the operations of the Hospital in the event of a default under the HUD-insured loan were described.

The UNM Board of Regents is the ultimate governing authority of the Hospital, but it has delegated certain oversight responsibilities to the UNM Hospital Board of Trustees. The Hospital is governed by the UNM Hospital Board of Trustees, which consists of nine members, including seven members appointed by the UNM Board of Regents, two of which are nominated by the All Pueblo Council of Governors (APCG). The two remaining members are appointed by the County Commission.

UNM Carrie Tingley Hospital (CTH) is a pediatric unit of the Hospital. CTH was created in 1989 by the legislature of the State of New Mexico to provide care and treatment for the physically challenged children of the State of New Mexico in need of long-term inpatient or outpatient care. A brief summary of CTH's financial results for the years ended June 30 is as follows:

	2024	2023
Total operating revenues	\$ 12,027,581	\$ 13,030,947
Total operating expenses	<u>(21,509,628)</u>	<u>(21,138,778)</u>
Operating loss	(9,482,047)	(8,107,831)
Nonoperating revenue	<u>9,153,743</u>	<u>8,250,711</u>
Total (decrease) increase in net position	(328,304)	142,880
Net position, beginning of year	<u>3,199,023</u>	<u>3,056,143</u>
Net position, end of year	<u><u>\$ 2,870,719</u></u>	<u><u>\$ 3,199,023</u></u>

University of New Mexico Hospital

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies

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

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

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

Net investment in capital assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position, expendable – Assets whose use by the Hospital is subject to externally imposed constraints that can be fulfilled by actions of the Hospital pursuant to those constraints or that expire by the passage of time.

Unrestricted net position – Assets that are not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of UNM Hospital Board of Trustees or the UNM Board of Regents or may otherwise be limited by contractual agreements with outside parties.

Recent accounting pronouncements – In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. An amendment to Statement 62, the standard clarifies practice by providing guidance for changes in the financial reporting entity, accounting principles, and estimates used to prepare financial information. The new standard also prescribes the treatment for the correction of errors in previously issued financial statements. This statement was adopted for the year ended June 30, 2024. There was no impact to the financial statements upon adoption.

University of New Mexico Hospital

Notes to Financial Statements

GASB Statement No. 101, *Compensated Absences*, was issued in June 2022 and provides guidance on the accounting and financial reporting for compensated absences for government end users. This statement is effective for fiscal years beginning after December 15, 2023, and requires recognition of a liability for compensated absences to reflect when the obligation is incurred. The Hospital is evaluating the impact this standard will have on future financial statements.

GASB Statement No. 102, *Certain Risk Disclosures*, was issued in December 2023 and requires governments to assess whether a concentration or constraint exists that would impact the issuer's ability to operate or service debt. This statement is effective for fiscal years beginning after June 15, 2024 and is expected to have minimal impact on the future financial statements of the Hospital.

GASB Statement No. 103, *Financial Reporting Model Improvements*, was issued in April 2024 and provides improvements to key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement is effective for fiscal years beginning after June 15, 2025, and requires that MD&A be limited to five specific topics with detailed discussion and analysis over changes in results of operations. This statement is expected to have minimal impact on the future financial statements of the Hospital.

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

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

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

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

These revenue and expense streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Appropriations are recognized in the year they are appropriated, regardless of when actually received. Bequests and contributions are recognized when all applicable eligibility requirements have been met. Investment income is recognized in the period in which it is earned. The mill levy is recognized in the period in which it is collected by the Counties. Interest expense incurred on the outstanding debt obligations and other expenses related to servicing debt are recognized when due.

University of New Mexico Hospital

Notes to Financial Statements

Cash and cash equivalents – The Hospital considers all highly liquid investments (excluding amounts whose use is limited) purchased with an original maturity of three months or less to be cash equivalents. For purposes of the statement of cash flows, cash and cash equivalents includes cash and cash equivalents, restricted cash for unexpended capital appropriation and cash with donor restrictions. Cash balances restricted by donors held for the Center and cash designated by UNM Hospital are included in the assets designated by UNM Hospital in the Statements of Net Position. Total cash within the statements of net position at June 30 are as follows:

	2024	2023
Current assets		
Unrestricted cash and cash equivalents	\$ 290,211,664	\$ 183,105,669
Noncurrent assets		
Cash restricted by donors, the Hospital	21,745,239	20,585,316
Cash restricted by donors, the Center	342,547	342,419
Cash designated by UNM Hospital	37,500,000	16,519,378
	<u>\$ 349,799,450</u>	<u>\$ 220,552,782</u>

Investments and investment return – Investments are recorded at fair market value. At June 30, 2024 and 2023, investments consist of obligations of the U.S. government and U.S. government agencies. Investment income includes interest and realized and unrealized gains and losses on investments and interest earned on operating cash. Investment income is reported as nonoperating revenue when earned.

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

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

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

Assets designated by management include receivables and cash designated for the partial construction and purchase of equipment for the planned patient tower and parking garage.

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

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

University of New Mexico Hospital

Notes to Financial Statements

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 2023 Edition published by the American Hospital Association. Repair and maintenance costs are charged to expense as incurred. On a quarterly basis, the Hospital assesses long-lived assets in order to determine whether or not it is necessary to retire, replace, or impair based on condition of the assets and their intended use. There were no capital assets deemed impaired at June 30, 2024 or 2023.

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

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

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

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

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

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

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

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

University of New Mexico Hospital

Notes to Financial Statements

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

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

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

Due from/to affiliates – As part of cash management practices, the Hospital centrally manages all cash receipts and disbursements for all its affiliates, the University of New Mexico Psychiatric Center and the University of New Mexico Children's Psychiatric Center, which are collectively referred to as the "Center." The Hospital receives all cash on behalf of the Center and pays all obligations. Amounts due from affiliates consist mainly of cash paid in excess of cash collected and do not bear interest. Amounts due to affiliates consist mainly of cash collected in excess of expenses paid and do not bear interest. The asset or liability is classified as noncurrent because it is not expected to be settled in the next year.

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

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

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

The Hospital receives Medicaid Indirect Medical Education (IME) payments as outlined in the New Mexico Administrative Code §8.311.3.12F(8). IME funding is provided to hospitals that have residents in an approved Graduate Medical Education (GME) program to subsidize the higher patient care costs of teaching hospitals relative to nonteaching hospitals. GME funding is provided to the Hospital to subsidize the cost of direct and indirect medical education expenses for training residents in community-based primary care residency programs.

University of New Mexico Hospital

Notes to Financial Statements

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

County taxes

Bernalillo – 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 semiannual 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.

Sandoval – On November 6, 2018, voters approved a new eight year, 1.90 mills tax levy on property owned within Sandoval County. The mill levy is intended to fund expansion of outpatient behavioral health services and an increase in staffing to provide a level III trauma center designation at the Medical Center. The mill levy contract with Sandoval County was effective July 1, 2019.

The amount of the property tax levy is assessed annually on January 1 on the valuation of property as determined by the County Assessor and is due in equal semiannual 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 Sandoval Campus by the County Treasurer and are remitted to the Sandoval Campus in the month following collection.

Both Bernalillo and Sandoval Counties may utilize property tax exemptions and abatements to stimulate economic development and investment in the community. Agencies enter into abatement agreements under the authority of NMSA 7-37-6 and NMSA 7-38. The Bernalillo County proceeds of the levy were reduced by \$1.1 million and \$1.2 million in aggregate, authorized by Bernalillo County, the City of Albuquerque, and the New Mexico Hospital Equipment Loan Council, during the years ended June 30, 2024 and 2023, respectively, as a result of the exemptions and abatements granted. The Sandoval County proceeds of the levy were reduced by \$62 thousand and \$65 thousand during the years ended June 30, 2024 and 2023 respectively authorized by the City of Rio Rancho.

State appropriation – The funding for the state appropriation is included in the General Appropriation Act, which is approved by the House and Senate of the State Legislature and signed by the governor before going into effect. Total funds appropriated for the years ended 2024 and 2023 include \$8.8 million and \$7.4 million, respectively, in the General Fund. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Subsection J, Higher Education.

University of New Mexico Hospital

Notes to Financial Statements

FEMA funding – The Federal Government declared the COVID-19 pandemic a federal emergency. This allowed the Federal Emergency Management Agency (FEMA) to issue monetary assistance for COVID-19 expenses incurred during the federal emergency period (March 2020 to May 2023). FEMA funding is for specific projects submitted for reimbursement and is recognized in revenues once fully obligated. The Hospital recognized \$52.5 million in FEMA funding during the year ended June 30, 2024. These amounts relate to reimbursed costs that were incurred by the Hospital during the height of the COVID-19 pandemic. The majority of the funding is a reimbursement of contract labor expense that was incurred during the year ended June 30, 2021 to care for COVID-19 positive patients.

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, 2024 and 2023, there was no income generated from unrelated activities.

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

Intergovernmental transfers – Intergovernmental transfers (IGTs) are recognized in the period in which the Hospital incurs an obligation to make payments to other governmental entities as evidenced by executed Memoranda of Understanding (MOUs) between the State of New Mexico and the Hospital. The Hospital recorded \$122.0 million and \$65.0 million in IGT obligations for the years ended June 30, 2024 and 2023, respectively. Due to the nature of the MOUs to fund a portion of the nonfederal share to obtain federal matching funds for the Medicaid "Centennial Care," and since the Medicaid "Centennial Care" program is for the provision of patient care, IGTs are recorded as a reduction of net patient service revenue.

Net investment in capital assets – Net investment in capital assets represents the Hospital's total investment in capital assets, net of outstanding debt related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. There were no unspent bond proceeds at June 30, 2024 and 2023.

Risk management – The Hospital sponsors a self-insured health plan in which the Center also participates, as all employees are under the centralized umbrella of the Hospital. Blue Cross and Blue Shield of New Mexico and HMO New Mexico (BCBSNM) provide administrative claim payment services for the Hospital's plan. Liabilities are based on an estimate of claims that have been incurred but not reported (IBNR) and claims received but not yet paid. The estimated amount of the Hospital's IBNR and accrued claims was approximately \$4.9 million and \$5.0 million at June 30, 2024 and 2023, 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 \$430 thousand and \$477 thousand at June 30, 2024 and 2023, respectively. The liability for IBNR was based on actuarial analysis calculated using information provided by BCBSNM.

University of New Mexico Hospital

Notes to Financial Statements

Changes in the reported Hospital liability during the years 2024 and 2023 resulted from the following:

	Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2023-2024	\$ 5,028,250	\$ 52,566,101	\$ (52,719,174)	\$ 4,875,177
2022-2023	\$ 5,045,664	\$ 49,234,018	\$ (49,251,432)	\$ 5,028,250

Reclassification – Certain 2023 amounts have been reclassified to conform to the 2024 presentation.

Note 3 – Cash, Cash Equivalents, and Investments

Cash and cash equivalents

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

The bank balances of the Hospital's deposits with financial institutions at June 30, 2024 and 2023, are \$374,743,630 and \$232,810,159, respectively.

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

	2024	2023
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	\$ 500,000	\$ 250,000
Amount collateralized with securities held in the Hospital's name	440,188,243	277,657,595
	<u>\$ 440,688,243</u>	<u>\$ 277,907,595</u>

Custodial credit risk – deposits – Custodial credit risk is the risk that, in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital has a custodial risk policy for deposits that requires collateral in an amount greater than or equal to 50% of the deposit not insured by the FDIC. A greater amount of collateral is required when the Hospital determines it is prudent. As of June 30, 2024 and 2023, the Hospital's bank deposits were not exposed to custodial credit risk.

Marketable securities

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

University of New Mexico Hospital

Notes to Financial Statements

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

	June 30, 2024		
	Fair Value	Less Than 1 Year	1–5 Years
Items subject to interest rate risk			
Money market funds	\$ 24,476	\$ 24,476	\$ -
U.S. Treasury notes	37,769,686	7,694,434	30,075,252
Total items subject to interest rate risk	37,794,162	7,718,910	30,075,252
Total marketable securities	<u>\$ 37,794,162</u>	<u>\$ 7,718,910</u>	<u>\$ 30,075,252</u>

	June 30, 2023		
	Fair Value	Less Than 1 Year	1–5 Years
Items subject to interest rate risk			
Money market funds	\$ 478,843	\$ 478,843	\$ -
U.S. Treasury notes	35,767,375	8,843,758	26,923,617
Total items subject to interest rate risk	36,246,218	9,322,601	26,923,617
Total marketable securities	<u>\$ 36,246,218</u>	<u>\$ 9,322,601</u>	<u>\$ 26,923,617</u>

Custodial credit risk – debt investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral that is in the possession of an outside party. Marketable securities of \$37.8 million and \$36.2 million at 2024 and 2023, respectively, are insured, registered, and held by the counterparty's agent in the Hospital's name.

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

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

University of New Mexico Hospital

Notes to Financial Statements

A summary of the marketable securities at June 30, 2024 and 2023, and their exposure to credit risk is as follows:

	2024		2023	
	Rating	Fair Value	Rating	Fair Value
Items not subject to credit risk				
U.S. Treasury securities				
Treasury notes	N/A	\$ 37,769,686	N/A	\$ 35,767,375
Items subject to credit risk				
Money market funds	Not rated	<u>24,476</u>	Not rated	<u>478,843</u>
 Total marketable securities		<u><u>\$ 37,794,162</u></u>		<u><u>\$ 36,246,218</u></u>

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

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

The Hospital has no exposure to concentrated credit risk as of June 30, 2024.

Long-term investments

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

University of New Mexico Hospital

Notes to Financial Statements

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

	June 30, 2024	
	Fair Value	Less Than 1 Year
Items subject to interest rate risk		
Money market fund	\$ 35,433,100	\$ 19,438,565
Items not subject to interest rate risk		
Investments in nonpublic entities*	33,052,916	-
Total long term investments	<u>\$ 68,486,016</u>	<u>\$ 19,438,565</u>

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

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

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

Custodial credit risk – debt investments – As of June 30, 2024 and 2023, the Hospital held no U.S. government obligations for long-term investment purposes.

The Hospital's custodial risk policy for the bond proceeds conforms to the trust indenture, and the trustee holds the investments in safekeeping.

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

University of New Mexico Hospital

Notes to Financial Statements

A summary of long-term investments at June 30, 2024 and 2023, and their exposure to credit risk is as follows:

	2024		2023	
	Rating	Fair Value	Rating	Fair Value
Items subject to credit risk				
Money market funds	Not rated	\$ 35,433,100	Not rated	\$ 18,508,578
Items not subject to credit risk				
Investments in nonpublic entities*	N/A	33,052,916	N/A	37,030,599
Total long term investments		<u>\$ 68,486,016</u>		<u>\$ 55,539,177</u>

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

Note 4 – Fair Value Measurement

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

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

Level 2 – inputs to the valuation methodology include the following:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- 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.

University of New Mexico Hospital

Notes to Financial Statements

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

Fixed Income – 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).

Investment in TriWest – 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, 2024			
	Level 1	Level 2	Level 3
Fixed income	\$ 37,769,686	\$ -	\$ -
Investment in TriWest	-	-	5,000,000
Total	<u>\$ 37,769,686</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>

Assets at Fair Value as of June 30, 2023			
	Level 1	Level 2	Level 3
Fixed income	\$ 35,767,375	\$ -	\$ -
Investment in TriWest	-	-	5,000,000
Total	<u>\$ 35,767,375</u>	<u>\$ -</u>	<u>\$ 5,000,000</u>

University of New Mexico Hospital

Notes to Financial Statements

Note 5 – Concentration of Risk

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

	2024		2023	
Medicaid	\$ 105,070,613	26%	\$ 113,270,659	32 %
Medicare	103,818,854	25%	82,783,467	23
Other third-party payors	138,047,774	34%	103,455,770	29
Others	63,518,762	15%	55,030,152	16
Total patient accounts receivable	410,456,003	100 %	354,540,048	100 %
Less allowance for uncollectible accounts and contractual adjustments	(227,621,431)		(199,625,501)	
Patient accounts receivable, net	\$ 182,834,572		\$ 154,914,547	

Note 6 – Restricted and Designated Assets

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

	2024	2023
Cash designated by management for capital replacement	\$ 37,500,000	\$ 16,519,378
Cash with donor restrictions, the Hospital	21,745,239	20,585,316
Cash with donor restrictions, the Center	342,547	342,419
Capital initiatives receivable from UNM	-	46,412,915
Restricted for mortgage reserve funds	35,433,100	18,508,578
Designated by UNM Hospital Board of Trustees	33,052,916	37,030,599
	\$ 128,073,802	\$ 139,399,205

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

The Hospital has established mortgage reserve funds in accordance with the requirements and conditions of the FHA Regulatory Agreement. Notwithstanding any other provision in the Regulatory Agreement, the Mortgage Reserve Funds 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 schedules.

University of New Mexico Hospital

Notes to Financial Statements

Assets designated by UNM Hospital Board of Trustees – The Hospital owns 289.7 shares of tracking stock in TriWest, an organization formed to administer healthcare benefits to military retirees and dependents of active duty personnel in the CHAMPUS/TriCare Central Region. The investment in TriWest is accounted for at fair value, which approximates cost. For years ending June 30, 2024 and 2023, fair value cost was \$5.0 million. The Hospital recognized no return on investment during the years ended June 30, 2024 and 2023.

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 \$21.3 million and \$25.3 million at June 30, 2024 and 2023, respectively.

The Hospital has a 50% interest in TriCore Laboratory Services Corporation (TLSC), which was organized to provide laboratory services, on a centralized basis for its members, the Hospital and Presbyterian Healthcare Services. The investment carrying amounts are approximately \$6.7 million at June 30, 2024 and 2023. The investment is accounted for using the equity method. The Hospital recorded laboratory expenses of approximately \$46.0 million in 2024 and \$43.0 million in 2023.

University of New Mexico Hospital

Notes to Financial Statements

Note 7 – Capital Assets

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

	Year Ended June 30, 2024					
	Beginning Balance	Sandoval Campus Acquisition	Additions	Transfers	Retirements	Ending Balance
Hospital capital assets not being depreciated						
Land	\$ 2,739,087	\$ -	\$ 1,483,932	\$ -	\$ -	\$ 4,223,019
Construction in progress	381,615,258	1,505,480	138,611,850	(24,901,620)	-	496,830,968
Artwork	-	12,333	-	-	-	12,333
	<u>\$ 384,354,345</u>	<u>\$ 1,517,813</u>	<u>\$ 140,095,782</u>	<u>\$ (24,901,620)</u>	<u>\$ -</u>	<u>\$ 501,066,320</u>
Hospital depreciable capital assets						
Land and land improvements	\$ 20,200,773	\$ -	\$ 167,841	\$ 17,247,726	\$ -	\$ 37,616,340
Building and building improvements	241,623,551	106,376,549	53,753	(6,242,430)	-	341,811,423
Building service equipment	224,510,559	6,481,505	4,395,491	11,667,855	(4,353)	247,051,057
Major moveable equipment	189,103,502	39,152,318	16,953,626	-	(5,641,906)	239,567,540
Fixed equipment	18,016,443	4,369,347	17,655	448,744	(12,417)	22,839,772
Computer equipment	27,260,444	-	2,334,858	-	(7,326)	29,587,976
Computer software	49,732,507	-	634,077	1,779,725	(563,445)	51,582,864
	<u>770,447,779</u>	<u>156,379,719</u>	<u>24,557,301</u>	<u>24,901,620</u>	<u>(6,229,447)</u>	<u>970,056,972</u>
Total depreciable capital assets						
	<u>770,447,779</u>	<u>156,379,719</u>	<u>24,557,301</u>	<u>24,901,620</u>	<u>(6,229,447)</u>	<u>970,056,972</u>
Less accumulated depreciation for						
Land improvements	(11,184,505)	-	(1,617,088)	-	-	(12,801,593)
Building and building improvements	(110,426,618)	(29,443,527)	(8,235,517)	-	-	(148,105,662)
Building service equipment	(140,409,133)	(3,432,433)	(10,126,632)	-	1,290	(153,966,908)
Major moveable equipment	(138,480,866)	(31,758,528)	(16,574,970)	-	5,720,639	(181,093,725)
Fixed equipment	(13,314,182)	(3,090,628)	(1,094,804)	-	7,987	(17,491,627)
Computer equipment	(18,818,124)	-	(1,891,183)	-	7,326	(20,701,981)
Computer software	(48,556,790)	-	(1,429,347)	-	563,445	(49,422,692)
	<u>(481,190,218)</u>	<u>(67,725,116)</u>	<u>(40,969,541)</u>	<u>-</u>	<u>6,300,687</u>	<u>(583,584,188)</u>
Total accumulated depreciation						
	<u>(481,190,218)</u>	<u>(67,725,116)</u>	<u>(40,969,541)</u>	<u>-</u>	<u>6,300,687</u>	<u>(583,584,188)</u>
Hospital depreciable capital assets, net	<u>\$ 289,257,561</u>	<u>\$ 88,654,603</u>	<u>\$ (16,412,240)</u>	<u>\$ 24,901,620</u>	<u>\$ 71,240</u>	<u>\$ 386,472,784</u>
Capital asset summary						
Hospital capital assets not being depreciated	\$ 384,354,345	\$ 1,517,813	\$ 140,095,782	\$ (24,901,620)	\$ -	\$ 501,066,320
Hospital depreciable capital assets at cost	<u>770,447,779</u>	<u>156,379,719</u>	<u>24,557,301</u>	<u>24,901,620</u>	<u>(6,229,447)</u>	<u>970,056,972</u>
Hospital total cost of capital assets	1,154,802,124	157,897,532	164,653,083	-	(6,229,447)	1,471,123,292
Less accumulated depreciation	<u>(481,190,218)</u>	<u>(67,725,116)</u>	<u>(40,969,541)</u>	<u>-</u>	<u>6,300,687</u>	<u>(583,584,188)</u>
Hospital capital assets, net	<u>\$ 673,611,906</u>	<u>\$ 90,172,416</u>	<u>\$ 123,683,542</u>	<u>\$ -</u>	<u>\$ 71,240</u>	<u>\$ 887,539,104</u>

University of New Mexico Hospital

Notes to Financial Statements

Year Ended June 30, 2023					
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Hospital capital assets not being depreciated					
Land	\$ 2,739,087	\$ -	\$ -	\$ -	\$ 2,739,087
Construction in progress	142,673,424	261,680,493	(22,738,659)	-	381,615,258
	<u>\$ 145,412,511</u>	<u>\$ 261,680,493</u>	<u>\$ (22,738,659)</u>	<u>\$ -</u>	<u>\$ 384,354,345</u>
Hospital depreciable capital assets					
Building and building improvements	\$ 248,680,976	\$ -	\$ (7,057,425)	\$ -	\$ 241,623,551
Building service equipment	203,046,994	70,813	21,537,822	(145,070)	224,510,559
Major moveable equipment	183,210,861	12,541,569	244,256	(6,893,184)	189,103,502
Computer software	49,412,954	319,553	-	-	49,732,507
Computer equipment	22,973,849	4,341,855	-	(55,260)	27,260,444
Land and land improvements	12,722,485	-	7,478,288	-	20,200,773
Fixed equipment	17,494,085	52,174	535,718	(65,534)	18,016,443
Total depreciable capital assets	<u>737,542,204</u>	<u>17,325,964</u>	<u>22,738,659</u>	<u>(7,159,048)</u>	<u>770,447,779</u>
Less accumulated depreciation for					
Building and building improvements	(103,429,633)	(6,996,985)	-	-	(110,426,618)
Building service equipment	(133,692,174)	(6,812,853)	-	95,894	(140,409,133)
Major moveable equipment	(129,458,252)	(15,801,949)	-	6,779,335	(138,480,866)
Computer software	(47,591,599)	(965,191)	-	-	(48,556,790)
Computer equipment	(17,126,625)	(1,746,759)	-	55,260	(18,818,124)
Land and land improvements	(10,767,359)	(417,146)	-	-	(11,184,505)
Fixed equipment	(12,361,939)	(1,017,782)	-	65,539	(13,314,182)
Total accumulated depreciation	<u>(454,427,581)</u>	<u>(33,758,665)</u>	<u>-</u>	<u>6,996,028</u>	<u>(481,190,218)</u>
Hospital depreciable capital assets, net	<u>\$ 283,114,623</u>	<u>\$ (16,432,701)</u>	<u>\$ 22,738,659</u>	<u>\$ (163,020)</u>	<u>\$ 289,257,561</u>
Capital asset summary					
Hospital capital assets not being depreciated	\$ 145,412,511	\$ 261,680,493	\$ (22,738,659)	\$ -	\$ 384,354,345
Hospital depreciable capital assets at cost	<u>737,542,204</u>	<u>17,325,964</u>	<u>22,738,659</u>	<u>(7,159,048)</u>	<u>770,447,779</u>
Hospital total cost of capital assets	882,954,715	279,006,457	-	(7,159,048)	1,154,802,124
Less accumulated depreciation	<u>(454,427,581)</u>	<u>(33,758,665)</u>	<u>-</u>	<u>6,996,028</u>	<u>(481,190,218)</u>
Hospital capital assets, net	<u>\$ 428,527,134</u>	<u>\$ 245,247,792</u>	<u>\$ -</u>	<u>\$ (163,020)</u>	<u>\$ 673,611,906</u>

University of New Mexico Hospital

Notes to Financial Statements

Note 8 – Leases and Subscription-Based Information Technology Agreements

Leases – A summary of the lease asset activity during the years ended June 30, 2024 and 2023, is as follows:

	Balance at June 30, 2023	Sandoval Campus Acquisition	Additions	Deductions	Balance at June 30, 2024
Lease assets					
Buildings	\$ 12,496,041	\$ 5,038,779	\$ -	\$ -	\$ 17,534,820
Equipment	1,536,545	-	-	-	1,536,545
Total lease assets	14,032,586	5,038,779	-	-	19,071,365
Less accumulated amortization					
Buildings	(4,430,056)	(810,404)	(1,934,583)	-	(7,175,043)
Equipment	(1,150,151)	-	(356,671)	-	(1,506,822)
Total accumulated amortization	(5,580,207)	(810,404)	(2,291,254)	-	(8,681,865)
Total lease assets, net	\$ 8,452,379	\$ 4,228,375	\$ (2,291,254)	\$ -	\$ 10,389,500

	Balance at June 30, 2022	Additions	Deductions	Balance at June 30, 2023
Lease assets				
Buildings	\$ 12,496,041	\$ -	\$ -	\$ 12,496,041
Equipment	1,536,545	-	-	1,536,545
Total lease assets	14,032,586	-	-	14,032,586
Less accumulated amortization				
Buildings	(2,972,703)	(1,457,353)	-	(4,430,056)
Equipment	(769,910)	(380,241)	-	(1,150,151)
Total accumulated amortization	(3,742,613)	(1,837,594)	-	(5,580,207)
Total lease assets, net	\$ 10,289,973	\$ (1,837,594)	\$ -	\$ 8,452,379

Changes in long-term lease liabilities for the years ended June 30, 2024 and 2023, are summaries below:

Balance at June 30, 2023	Sandoval Campus Acquisition	Additions	Deductions	Balance at June 30, 2024	Amounts Due Within One Year
\$ 8,839,124	\$ 4,292,012	\$ -	\$ (2,232,269)	\$ 10,898,867	\$ 1,793,454

Balance at June 30, 2022	Additions	Deductions	Balance at June 30, 2023	Amounts Due Within One Year
\$ 10,590,951	\$ -	\$ (1,751,827)	\$ 8,839,124	\$ 1,756,624

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Notes to Financial Statements

Future annual lease payments are as follows:

Years Ending June 30,	Principal Amount	Interest Amount	Total
2025	\$ 1,793,454	\$ 284,884	\$ 2,078,338
2026	819,459	250,175	1,069,634
2027	837,300	229,664	1,066,964
2028	834,621	208,791	1,043,412
2029	835,467	188,432	1,023,899
2030-2034	2,939,473	643,193	3,582,666
2035-2039	1,477,618	347,413	1,825,031
2040-2044	1,361,475	96,858	1,458,333
Total	<u>\$ 10,898,867</u>	<u>\$ 2,249,410</u>	<u>\$ 13,148,277</u>

A summary of the SBITA asset activity during the years ended June 30, 2024 and 2023, is as follows:

	Balance at June 30, 2023	Additions	Deductions	Balance at June 30, 2024
SBITA assets				
Software	\$ 43,137,658	\$ -	\$ -	\$ 43,137,658
Total SBITA assets	43,137,658	-	-	43,137,658
Less accumulated amortization				
Software	(13,430,948)	(6,663,760)	-	(20,094,708)
Total accumulated amortization	(13,430,948)	(6,663,760)	-	(20,094,708)
Total SBITA assets, net	<u>\$ 29,706,710</u>	<u>\$ (6,663,760)</u>	<u>\$ -</u>	<u>\$ 23,042,950</u>
	Balance at June 30, 2022	Additions	Deductions	Balance at June 30, 2023
SBITA assets				
Software	\$ 43,137,658	\$ -	\$ -	\$ 43,137,658
Total SBITA assets	43,137,658	-	-	43,137,658
Less accumulated amortization				
Software	(6,715,475)	(6,715,473)	-	(13,430,948)
Total accumulated amortization	(6,715,475)	(6,715,473)	-	(13,430,948)
Total SBITA assets, net	<u>\$ 36,422,183</u>	<u>\$ (6,715,473)</u>	<u>\$ -</u>	<u>\$ 29,706,710</u>

University of New Mexico Hospital

Notes to Financial Statements

Changes in SBITA liabilities for the years ended June 30, 2024 and 2023, are summarized below:

Balance at June 30, 2023	Additions	Deductions	Balance at June 30, 2024	Amounts Due Within One Year
\$ 30,024,647	\$ -	\$ (6,369,009)	\$ 23,655,638	\$ 5,740,936
Balance at June 30, 2022	Additions	Deductions	Balance at June 30, 2023	Amounts Due Within One Year
\$ 36,422,184	\$ -	\$ (6,397,537)	\$ 30,024,647	\$ 6,369,004

A schedule of future minimum SBITA payments for the University as of June 30, 2024, is as follows:

Years Ending June 30,	Principal Amount	Interest Amount	Total
2025	\$ 5,740,936	\$ 671,234	\$ 6,412,170
2026	5,440,622	485,176	5,925,798
2027	4,947,319	320,912	5,268,231
2028	1,239,501	224,617	1,464,118
2029	1,280,596	183,298	1,463,894
2030-2034	5,006,664	297,959	5,304,623
Total	\$ 23,655,638	\$ 2,183,196	\$ 25,838,834

Note 9 – Compensated Absences

Qualified hospital employees are entitled to accrue sick leave and annual leave based on their FTE status. Accrued sick leave and annual leave balances are carried as a liability within compensated absences on the Statement of Net Position.

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, 2024 and 2023, of approximately \$5.2 million and \$4.6 million, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

University of New Mexico Hospital

Notes to Financial Statements

Annual leave – Full-time employees accrue annual leave based on their length of employment up to a maximum of 480 hours. Part-time employees who are at least 0.5 FTE earn annual leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange for cash up to 80 annual leave hours accumulated in excess of 240 hours. At termination, employees are eligible for payment of unused accumulated hours, not to exceed 480 hours. Accrued annual leave as of June 30, 2024 and 2023, of approximately \$27.7 and \$25.8 million, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

Additionally, compensatory time and holiday, totaling approximately \$663,000 and \$667,000 as of June 30, 2024 and 2023, 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, 2024 and 2023, the following changes occurred in accrued compensated absences:

Balance July 1, 2023	Sandoval Campus Acquisition	Increase	Decrease	Balance June 30, 2024
\$ 31,082,102	\$ 2,248,389	\$ 42,543,870	\$ (42,320,391)	\$ 33,553,970

Balance July 1, 2022	Increase	Decrease	Balance June 30, 2023
\$ 31,520,720	\$ 37,463,544	\$ (37,902,162)	\$ 31,082,102

Note 10 – Bonds Payable and Mortgages Payable

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

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Notes to Financial Statements

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

The 2015 Series bonds were issued as special limited obligations of the Hospital and are secured primarily by fully modified mortgage-backed securities in the aggregate principal amount of \$62,490,000 (the GNMA securities), issued by Prudential Huntoon Paige Associates, Ltd. (the Lender), guaranteed as to principal and interest by the GNMA, with respect to the mortgage note.

Under the GNMA Mortgage-Backed Securities Program, the GNMA securities are a "fully modified pass-through" mortgage-backed security issued and serviced by the Lender. The face amount of the GNMA securities is to be the same amount as the outstanding principal balance of the Mortgage Note. The Lender is required to pass through to the trustee, as the holder of the GNMA securities, by the 15th day of each month, the monthly scheduled installments of principal and interest on the mortgage note (less the GNMA guaranty fee and the Lender's servicing fee), whether or not the Lender receives such payment from the Hospital under the mortgage note, plus any unscheduled prepayments of principal of the mortgage note received by the Lender. The GNMA securities are issued solely for the benefit of the trustee on behalf of the bondholders, and any and all payments received with respect to the GNMA securities are solely for the benefit of the bondholders.

Interest expense associated with the bonds was approximately \$2.3 million and \$2.5 million for the years ended June 30, 2024 and 2023, respectively. Interest income earned from the investment of the bond proceeds was approximately \$1.1 million and \$670 thousand for the years ended June 30, 2024 and 2023, respectively.

University of New Mexico Hospital

Notes to Financial Statements

Bonds payable activity consists of the following:

Year Ended June 30, 2024					
	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
FHA Insured Hospital Mortgage Revenue Bond Series 2015	\$ 67,965,000	\$ -	\$ (6,480,000)	\$ 61,485,000	\$ 6,690,000
	<u>\$ 67,965,000</u>	<u>\$ -</u>	<u>\$ (6,480,000)</u>	<u>\$ 61,485,000</u>	<u>\$ 6,690,000</u>
Year Ended June 30, 2023					
	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
FHA Insured Hospital Mortgage Revenue Bond Series 2015	\$ 74,250,000	\$ -	\$ (6,285,000)	\$ 67,965,000	\$ 6,480,000
	<u>\$ 74,250,000</u>	<u>\$ -</u>	<u>\$ (6,285,000)</u>	<u>\$ 67,965,000</u>	<u>\$ 6,480,000</u>

Future debt service (including mandatory redemptions) as of June 30, 2024, for the bonds is as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 6,690,000	\$ 2,141,545	\$ 8,831,545
2026	6,975,000	1,874,344	8,849,344
2027	7,240,000	1,625,691	8,865,691
2028	7,520,000	1,367,502	8,887,502
2029	7,805,000	1,099,423	8,904,423
2030-2033	<u>25,255,000</u>	<u>1,585,338</u>	<u>26,840,338</u>
Total	<u>\$ 61,485,000</u>	<u>\$ 9,693,843</u>	<u>\$ 71,178,843</u>

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

The mortgage note bears interest at 3.29%. The mortgage note has a term of 205 months following the commencement of amortization and matures on June 1, 2032. Principal and interest are payable in equal monthly installments upon commencement of amortization. A mortgage servicing fee of 12 basis points and a GNMA guaranty fee of 13 basis points are also included in the monthly payment, for a total of 3.54%.

Mortgages payable – On September 9, 2021, the Lomas Campus closed on a mortgage loan to partially finance the construction of a new patient tower. The debt was issued under the HUD Section 242 loan guarantee program and is backed by GNMA securities. The mortgage will be drawn down as needed to fund the construction project, not to exceed \$320 million, and carries an interest rate of 3.275%. The terms of the loan require interest only payments through construction. Principal and interest payments will begin on October 1, 2024, with loan maturity occurring on September 1, 2049. During the years ended June 30, 2024 and 2023, the Lomas Campus drew down \$110.4 million and \$114.8 million and incurred interest of \$7.3 and \$3.5 million, respectively.

University of New Mexico Hospital

Notes to Financial Statements

In July 2020, the Sandoval Campus entered into an agreement and mortgage with KeyBank National Association to refinance the Medical Center's mortgage from an APR of 4.86% (3.33% net of BAB Subsidy) to an APR of 1.98%. In connection with the mortgage refinance, in July 2020 the outstanding principal of the Series 2010A and Series 2010B bonds, net of the original issue discount, totaling \$113.3 million, along with \$5.1 million for interest payments due in the year ended June 30, 2021 through the January 2021 bond call date, were placed in an irrevocable trust from which the remaining debt service payments for bond defeasance were paid in January 2021. The Sandoval Campus was released from all obligations related to the bonds in July 2020. A loss on defeasance of \$2.4 million was recorded as a deferred outflow at the July 2020 defeasance date. The deferred outflow is being amortized over the life of the mortgage, which is the same as the life of the defeased bonds. The Sandoval Campus completed the mortgage refinance to reduce its total debt service payments by \$17.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$13.7 million.

The mortgage note with KeyBank National Association has an original outstanding principal amount of \$111.5 million with monthly principal payments of \$0.6 million until July 2037, for a total of 204 installments. The note is insured by the United States Department of Housing and Urban Development and is collateralized by the Sandoval Campus building.

Mortgage payable activity consists of the following:

Year Ended June 30, 2024					
	Beginning Balance	Sandoval Campus Acquisition	Additions	Deductions	Ending Balance
Mortgage Payable					
Lomas Campus	\$ 166,499,968	\$ -	\$ 110,377,410	\$ -	\$ 276,877,378
Sandoval Campus	-	94,854,686	-	(5,938,858)	88,915,828
	<u>\$ 166,499,968</u>	<u>\$ 94,854,686</u>	<u>\$ 110,377,410</u>	<u>\$ (5,938,858)</u>	<u>\$ 365,793,206</u>
					<u>\$ 12,338,548</u>
Year Ended June 30, 2023					
	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due Within One Year
Mortgage Payable	\$ 51,689,289	\$ 114,810,679	\$ -	\$ 166,499,968	\$ -
	<u>\$ 51,689,289</u>	<u>\$ 114,810,679</u>	<u>\$ -</u>	<u>\$ 166,499,968</u>	<u>\$ -</u>

University of New Mexico Hospital

Notes to Financial Statements

The Lomas Campus mortgage has not been drawn down fully as of June 30, 2024. The remaining \$43,122,622 will be drawn down and principal payments will commence during the year ending June 30, 2025. The following schedule summarizes the required future principal and interest mortgage payments as of June 30, 2024 including the remaining Lomas Campus mortgage funds to be drawn down:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	\$ 12,338,548	\$ 9,497,502	\$ 21,836,050
2026	14,796,547	11,730,424	26,526,971
2027	15,206,514	11,320,459	26,526,973
2028	15,628,472	10,898,500	26,526,972
2029	16,062,789	10,464,184	26,526,973
2030–2034	87,288,327	45,346,537	132,634,864
2035–2039	84,406,860	32,701,447	117,108,307
2040–2044	72,794,903	21,023,571	93,818,474
2045–2049	85,727,434	8,091,040	93,818,474
2050	4,665,434	25,489	4,690,924
Total	<u>\$ 408,915,828</u>	<u>\$ 161,099,153</u>	<u>\$ 570,014,982</u>

Note 11 – Net Patient Service Revenues

The majority of the Hospital's revenue is generated through agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established charges. Approximately 59% of the Hospital's gross patient revenues for the years ended June 30, 2024 and 2023, were derived from the Medicare and Medicaid programs, the continuation of which are dependent upon governmental policies. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established charges for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from major third-party payors is as follows:

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

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

University of New Mexico Hospital

Notes to Financial Statements

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:

	2024	2023
Charges at established rates	\$ 2,829,688,618	\$ 2,433,257,920
Charity care	(106,515,596)	(92,452,848)
Contractual adjustments	(1,500,486,895)	(1,289,534,056)
Settlements & Other Third Party Payments	351,825,855	247,586,710
Provision for doubtful accounts	(54,827,031)	(34,966,468)
	<u>\$ 1,519,684,951</u>	<u>\$ 1,263,891,258</u>
Net patient revenues		

The Hospital is reimbursed by the Medicare and Medicaid programs on a prospective payment basis for hospital services, with certain items reimbursed at an interim rate with final settlement determined after submission of annual cost reports by the Hospital. The annual cost reports are subject to audit by the Medicare Administrative Contractor and the Medicaid audit agent. Cost reports through 2020 have been final settled for the Medicaid programs. Cost reports through 2018, except for 2005 have been final settled for the Medicare program. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Current year estimates, settlements of prior-year cost reports, and changes in prior-year estimates resulted in net increases to net patient service revenues of approximately \$17.3 million and \$22.1 million for the years ended June 30, 2024 and 2023, respectively. During the year ended June 30, 2024, a \$3.2 liability for Medicare and a \$1.4 liability for Medicaid were accrued as estimates for the year ended June, 2024 cost report. During the year ended June 30, 2023, a \$1.7 million liability for Medicare and a \$1.6 million liability for Medicaid were accrued as estimates for the year 2023 cost report. UNM Hospital's cost reports are typically filed by November 30. Management believes these estimates are appropriate. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations.

University of New Mexico Hospital

Notes to Financial Statements

Note 12 – Charity Care

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

	2024	2023
Charges foregone, based on established rates	\$ 106,515,596	\$ 92,452,848
Estimated costs and expenses incurred to provide charity care	63,694,594	53,666,372
Equivalent percentage of charity care charges foregone to total gross revenue	4%	4%

Note 13 – Malpractice Insurance

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

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

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

University of New Mexico Hospital

Notes to Financial Statements

Note 14 – Related-Party Transactions

The Hospital provides professional services, referral services, and office space to UNM and other entities associated with the UNM Health System. The UNM Health System is defined as the integrated, academic health center and healthcare delivery system. The Hospital billed the following amounts, included as expense reductions in the accompanying statements of revenues, expenses, and changes in net position, for services rendered during the years ended June 30:

	2024	2023
UNM Health Sciences Center	\$ 7,354,025	\$ 6,401,164
UNM Medical Group	5,968,478	5,624,934
UNM Sandoval Regional Medical Center	-	3,482,731
	<u>\$ 13,322,503</u>	<u>\$ 15,508,829</u>

In addition to the items above, the Hospital recorded \$692 thousand and \$680 thousand of operating expenses related to contributed services provided to the UNM Health System in the years ended June 30, 2024 and 2023, respectively. These expenses were not reimbursed by UNM Health System entities.

The Hospital reimburses UNM and other entities associated with UNM, for the cost of utilities, purchased services and the salaries of various medical and administrative personnel incurred on behalf of the Hospital. With the acquisition of the UNM Sandoval Regional Medical Center, the activity between the Sandoval Campus and the Lomas is no longer captured as related party activity as the two campuses are one entity. 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:

	2024	2023
UNM Health Sciences Center	\$ 300,561,580	\$ 264,426,799
UNM Sandoval Regional Medical Center	-	908,702
UNM Medical Group	3,230,189	1,763,764
UNM	2,215,495	2,242,178
	<u>\$ 306,007,264</u>	<u>\$ 269,341,443</u>

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

	2024	2023
Due from UNM	\$ 434,205	\$ 2,213,103
Due from UNM Medical Group	11,368,678	19,082,418
Due from UNM Sandoval Regional Medical Center	-	1,248,068
	<u>\$ 11,802,883</u>	<u>\$ 22,543,589</u>

University of New Mexico Hospital

Notes to Financial Statements

	2024	2023
Due to UNM	\$ 51,380,248	\$ 54,304,075
Due to UNM Medical Group	2,921,537	2,628,802
	<u>\$ 54,301,785</u>	<u>\$ 56,932,877</u>

The Hospital also provides administrative services, which primarily include accounting functions such as payroll and accounts payable processing as well as cash management and information technology activities for the Center. In addition, the Hospital provides medical support services and goods for the Center including laboratory, radiology and pharmaceuticals, which is reflected in the net due to/from affiliates.

Note 15 – Defined-Contribution Benefit Plans

The Hospital has a defined-contribution plan covering eligible employees, which provides retirement benefits. The name of the plan is UNM Hospital Tax Sheltered Annuity Plan, formerly known as the University of New Mexico Hospital/Bernalillo Medical Center Tax Sheltered Annuity Plan. The Hospital contributes either 6% or 8% of an employee's salary to the plan, depending on employment level. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. The plan is administered by the Hospital's Human Resources Department.

The expense for the defined-contribution plan was approximately \$21.2 million and \$18.5 million in years ended June 30, 2024 and 2023, respectively. Total employee contributions under this plan were approximately \$29.4 million and \$29.2 million in years ended June 30, 2024 and 2023, respectively. The Hospital also offers a Roth 403(b) defined-contribution plan option. Total employee contributions were approximately \$3.4 million and \$3.3 million in years ended June 30, 2024 and 2023, respectively.

The Hospital offers a deferred compensation plan, called the UNM Hospital 457(b) Deferred Compensation Plan, which provides employees with additional retirement savings plan. Employees can make voluntary contributions to this plan. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. The plan is administered by the Hospital's Human Resources Department. There was no expense for the deferred compensation plan for years ended June 30, 2024 and 2023, as the Hospital does not contribute to this plan. Total employee contributions under this plan were approximately \$4.7 million in both years ended June 30, 2024 and 2023, respectively.

The Hospital has a 401(a) defined-contribution plan, called the UNM Hospital 401(a) Plan, which was established for the purpose of providing retirement benefits for eligible participants and their beneficiaries. The 401(a) plan allows for tax-deferred employer contributions based on management's recommendation that is approved by UNM Hospital Board of Trustees on an annual basis. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. All assets of the plan are held in a trust fund, are not considered hospital assets, and are under the direction of a plan administrator. The expense for the 401(a) defined-contribution plan was \$785 thousand and \$759 thousand in years ended June 30, 2023 and 2022, respectively. Only the Hospital contributes to this plan.

University of New Mexico Hospital

Notes to Financial Statements

Certain employees participate in the Education Employee Retirement Plan, a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for eligible employees. The Hospital has accrued a net pension liability at June 30, 2024 and 2023, of approximately \$538.0 thousand and \$536.0 thousand, respectively.

Note 16 – Commitments and Contingencies

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

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

The Hospital began construction of a new critical care patient tower during the year ended June 30, 2022. The total budgeted construction related cost is \$537.4 million. As of June 30, 2024, the Hospital has incurred construction cost of \$465.1 million with an estimated \$72.3 million committed budget remaining.

University of New Mexico Hospital

Notes to Financial Statements

Note 17 – Consolidating Schedule of Statements of Revenues, Expenses and Changes in Net Position

As discussed in note 1, the Hospital acquired the assets and assumed the liabilities of the Sandoval Campus on January 1, 2024. The revenues, expenses and changes in net position for the year ended June 30, 2024 include the operations of the Sandoval Campus. Following is a table illustrating the results of operations for both the Lomas and Sandoval Campus for the year ended June 30, 2024:

	Lomas Campus	Sandoval Campus	Consolidated
OPERATING REVENUES			
Net patient service	\$ 1,410,206,861	\$ 109,478,090	\$ 1,519,684,951
State and local contracts and grants	27,630,459	587,970	28,218,429
Other operating	41,153,172	1,484,648	42,637,820
Total operating revenues	<u>1,478,990,492</u>	<u>111,550,708</u>	<u>1,590,541,200</u>
OPERATING EXPENSES			
Employee compensation	595,068,253	51,245,707	646,313,960
Benefits	114,387,532	9,274,946	123,662,478
Medical supplies	284,484,294	22,409,321	306,893,615
Medical services	286,229,767	9,724,288	295,954,055
Purchased services	95,174,768	5,888,898	101,063,666
Equipment	59,832,458	5,717,957	65,550,415
Depreciation	35,220,376	5,749,165	40,969,541
Gross Receipts Tax	28,686,061	1,916,311	30,602,372
Occupancy	25,011,867	2,670,188	27,682,055
Other supplies	12,582,547	1,271,371	13,853,918
Other	22,360,848	706,269	23,067,117
Total operating expenses	<u>1,559,038,771</u>	<u>116,574,421</u>	<u>1,675,613,192</u>
Operating loss	<u>(80,048,279)</u>	<u>(5,023,713)</u>	<u>(85,071,992)</u>
NONOPERATING REVENUES (EXPENSE)			
Bernalillo County mill levy	108,441,567	-	108,441,567
Sandoval County mill levy	-	8,795,040	8,795,040
State appropriation	8,786,500	-	8,786,500
Bequests and contributions	4,117,428	156,797	4,274,225
Equity loss of TriCore and TriCore Lab Svc Corp.	(3,977,684)	-	(3,977,684)
State of New Mexico Land and Permanent Fund proceeds	966,829	-	966,829
FEMA funding	49,914,007	2,600,000	52,514,007
Investment income	5,513,618	604,857	6,118,475
Interest on capital asset-related debt	(9,576,702)	(1,976,417)	(11,553,119)
Other nonoperating revenue	234,517	(50,522)	183,995
Other nonoperating expense	(3,859,304)	(630,950)	(4,490,254)
Net nonoperating revenue	<u>160,560,776</u>	<u>9,498,805</u>	<u>170,059,581</u>
Increase in net position	80,512,497	4,475,092	84,987,589
NET POSITION			
Beginning of year	<u>821,434,988</u>	<u>19,352,302</u>	<u>840,787,290</u>
End of year	<u>\$ 901,947,485</u>	<u>\$ 23,827,394</u>	<u>\$ 925,774,879</u>

University of New Mexico Hospital

Notes to Financial Statements

Note 18 – Subsequent Events

The Hospital has evaluated subsequent events from the date of the statement of net position through October 3, 2024, the date at which the financial statements were available to be issued. No matters requiring adjustment to the financial statements have been identified.

Supplementary Information

University of New Mexico Hospital
Comparison of Budgeted and Actual Revenues and Expenses – Schedule 1
Year Ended June 30, 2024

	Budget (Original)	Budget (Final)	Actual	Budget Variance
Operating revenues				
Net patient service	\$ 1,304,857,777	\$ 1,394,907,365	\$ 1,519,684,951	\$ 72,784,650
Other operating revenue	49,175,629	66,229,305	70,856,249	3,491,427
Total operating revenues	1,354,033,406	1,461,136,670	1,590,541,200	76,276,077
Operating expenses	1,457,105,933	1,562,808,709	1,675,613,192	55,570,297
Operating loss	(103,072,527)	(101,672,039)	(85,071,992)	20,705,780
Nonoperating revenues and other revenues, net	107,248,282	106,081,941	170,059,581	61,225,527
Increase in net position	<u>\$ 4,175,755</u>	<u>\$ 4,409,901</u>	<u>\$ 84,987,589</u>	<u>\$ 81,931,308</u>

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

See accompanying report of independent auditors.

University of New Mexico Hospital
Pledged Collateral by Banks – Schedule 2
Year Ended June 30, 2024

	Pledged Collateral			Wells Fargo Bank Albuquerque, New Mexico
	Type of Security	CUSIP	Maturity	
Funds on deposit				
Demand deposits				\$ 374,743,630
FDIC insurance				(500,000)
				<u>374,243,630</u>
Total uninsured public funds				
50% collateral requirement per				
Section 6-10-17 NMSA				187,121,815
Pledged collateral*				
	Surety Bond	N/A	N/A	230,000,000
	FNMA	31418CDL5	11/1/2046	149,777,867
	FNMA	31418DZV7	6/1/2051	58,378,687
	GNMA	36179WNE4	9/20/2051	75,326
	GNMA	36179XAA4	6/20/2052	39,691
	FMAC	3132DWAV5	1/1/2051	97,304
	FNMA	31418CDL5	1/1/2046	1,819,368
Total pledged collateral				<u>440,188,243</u>
Excess of pledged collateral over the required amount				<u><u>\$ 253,066,428</u></u>

* Pledged collateral is comprised of securities held in safekeeping by the Bank of New York Mellon and a surety bond in the Hospital's name.

See accompanying report of independent auditors.

University of New Mexico Hospital
Schedule of Individual Deposit Investment Accounts – Schedule 3
Year Ended June 30, 2024

Name of Bank/Broker	Account Type	Balance per Bank Statement	Reconciled Balance per Financial Statement
UNM Hospital cash			
Wells Fargo Bank			
Operating	Checking - Non-interest bearing	\$ 374,743,630	\$ 349,757,195
Petty cash	Cash on hand	-	42,255
		<u>\$ 374,743,630</u>	<u>\$ 349,799,450</u>
UNM Hospital short-term investments			
US Bank	Money market funds	\$ 24,476	\$ 24,476
US Bank	U.S. Treasury notes	37,769,686	37,769,686
Total UNM Hospital short-term investments		<u>\$ 37,794,162</u>	<u>\$ 37,794,162</u>
UNM Hospital long-term investments			
Investment in TriWest	Equity securities	\$ 5,000,000	\$ 5,000,000
Investment in TriCore Reference Lab (TRL)	Equity securities	21,334,456	21,334,456
Investment in TLSC	Equity securities	6,718,460	6,718,460
Total UNM Hospital long-term investments		<u>\$ 33,052,916</u>	<u>\$ 33,052,916</u>

See accompanying report of independent auditors.

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

The University of New Mexico Health Sciences Center
Board of Trustees,
The University of New Mexico Hospital Board of Trustees,
and Mr. Joseph M. Maestas, PE, CFE
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of New Mexico Hospital (the Hospital), a division of the University of New Mexico, which comprise the statement of net position as of June 30, 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 3, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Report on Compliance and Other Matters

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

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 2024-001.

The Hospital's Response to Finding

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the other 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Moss Adams LLP". The signature is written in a cursive, flowing style.

Albuquerque, New Mexico
October 3, 2024

University of New Mexico Hospital
Summary of Audit Results
Year Ended June 30, 2024

Type of auditor report issued: Unmodified

Fiscal year 2024 findings and responses:

Material weakness: No matters to report

Significant deficiencies: No matters to report

Material noncompliance: No matters to report

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

2024-001 User Access Review – Other Matter

Condition: In our test work related to the controls over user access reviews, we noted that for Lawson and Cerner Millennium that management performs a quarterly audit to ensure accounts for terminated employees are disabled, but roles and permissions for active users are not reviewed. The absence of a periodic user access review on the users and their roles and permissions may result in users gaining access privileges beyond those necessary to perform their assigned duties, thereby breaking down segregation of duties. Further, unauthorized access to financial data may result in the destruction of financial data or improper changes to financial data, including the recording of unauthorized or nonexistent transactions or inaccurate recording of transactions. Additionally, we noted one terminated employee did not have their Cerner Millennium account disabled in a timely manner. Absence of timely access removal may result in unauthorized access to financial data after employees' termination.

Criteria: The entity's systems process, record, and store information that is vital to the entity's daily operations, and certain systems contain protected health information of the entity's patients. It is critical that access to these systems is properly maintained to prevent inappropriate transactions from occurring, data from being lost, and protected health information from being released. Based on industry standards, a user access review should include a review over each user's roles and permissions for appropriateness and segregation of duties conflicts.

Effect: A lack of precision over the review of users' roles and permissions within a system may lead to 1) unauthorized access to data that might result in destruction of data or improper changes to data, including the recording of unauthorized or nonexistent transactions or inaccurate recording of transactions (particular risks might arise when multiple users access a common database), 2) the possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties, thereby breaking down segregation of duties, and 3) unauthorized changes to data in master files.

Cause: The user access review process is not adequately designed to include review of roles and permissions.

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Summary of Audit Results

Year Ended June 30, 2024

Recommendation: Management should design and implement a control over user access review of all users with access to systems impacting financial reporting. Best practices for user access reviews include the following:

- The review should be thoroughly documented and cover all users and their assigned permissions, the reviewer, the review date, and the overall conclusion regarding appropriateness of user access.
- Individuals performing a review should not assess their own access. Instead, another member of management with the authority and knowledge of the specific area should confirm the reviewers' assigned access.
- Actions taken to implement any noted changes must be documented. This can be achieved by confirming with the reviewer and providing evidence to support that the change was fully processed.
- Document any conflicting permissions identified from the review and identify mitigating controls that would address the segregation of duties risks or remove the conflicting permissions.
- Management should retain evidence demonstrating that the information used for these reviews is complete and accurate. This may include, where applicable, any queries, date/time stamps indicating when information was extracted from systems, and/or screenshots displaying total record counts for comparison to the extracts.
- Management should collaborate with the HR team members to ensure prompt entry of employees' termination dates, thereby ensuring timely removal of application access in accordance with the specified timelines in the security policies.

Management response: As it pertains to the Lawson system, Information Technology Management (IT Executive Director Systems & Development) will design and implement a procedure for the process of reviewing user access permissions for Lawson accounts. IT management will coordinate with the finance/supply chain administrative executive management teams to identify the appropriate population of accounts to be reviewed on an annual basis. The process and procedure will be identified and documented by March 31, 2025.

As it pertains to the Cerner Millennium system, Information Technology Management (IT Executive Director Clinical Informatics) will design and implement a procedure for the process of reviewing user access permissions for Cerner Millennium accounts. IT Executive management will coordinate with the clinical executive management teams to identify the appropriate population of accounts to be reviewed on an annual basis. The process and procedure will be identified and documented by March 31, 2025.

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Summary of Prior Audit Findings
Year Ended June 30, 2024

None

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Exit Conference

Year Ended June 30, 2024

An exit conference was conducted on September 24, 2024, with members of the Finance and Audit Committee of UNM Hospital Board of Trustees and members of the Hospital's management. During this meeting, the contents of this report were discussed.

University of New Mexico Hospital

Kate Becker, UNM Hospital Chief Executive Officer

Bonnie White, UNM Hospital Chief Financial Officer

Julie Alliman, Executive Director of Finance, UNM Hospitals

Angela Vigil, Executive Director of Compliance, UNM Hospitals

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Rebecca Napier, UNM Health and Health Sciences Vice President for Finance and Administration

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