UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Financial Statements and
Supplementary Information

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Fiscal Year 2008 Official Roster

Clinical Operations Board

Louise Campbell-Tolber Albuquerque, New Mexico	Chairperson (Term expires 06/30/10, Regent appointed)
Maria Griego-Raby Albuquerque, New Mexico	Vice Chairperson (Term expires 06/30/08, Regent appointed)
Jerry Geist Albuquerque, New Mexico	Secretary (Term expires 03/31/09, Regent appointed)
Steve Anaya Albuquerque, New Mexico	Member (Term expires 06/30/08, Regent appointed)
Maria Goldstein, M.D. Albuquerque, New Mexico	Member (Term expires 04/01/11, Regent appointed)
Maralyn Budke Santa Fe, New Mexico	Member (Term expires 06/30/09, Regent appointed)
Michelle Melendez Albuquerque, New Mexico	Member (Term expires 03/01/11, Regent appointed)
Fred Hashimoto, M.D. Albuquerque, New Mexico	Member (Term expires 09/30/08, Regent appointed)
Raymond Loretto, DVM Jemez Pueblo	Member (Term expires 06/30/10, All Indian Pueblo Council, Regent appointed)

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Fiscal Year 2008 Official Roster

Administrative Officers

David J. Schmidly, PhD Albuquerque, New Mexico	President University of New Mexico
Paul Roth, M.D. Albuquerque, New Mexico	Executive Vice President UNM Health Sciences Center
	Dean, School of Medicine University of New Mexico
Ava J. Lovell Albuquerque, New Mexico	Vice President for HSC, UNM Finance, and University Controller University of New Mexico
Steve McKernan Albuquerque, New Mexico	Chief Executive Officer UNM Hospitals
	Vice President of Hospital Operations UNM Health Sciences Center
Robert Katz, M.D. Albuquerque, New Mexico	Vice President Clinical Affairs UNM Health Sciences Center
Ella Watt Albuquerque, New Mexico	Chief Financial Officer UNM Hospitals

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

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KPMG
KPMG LLP
Suite 700
Two Park Square
6565 Americas Parkway NE
PO Box 3990
Albuquerque, NM 87190

Independent Auditors' Report

The University of New Mexico Health Sciences Center
Clinical Operations Board and
Mr. Hector Balderas, New Mexico State Auditor:

We have audited the accompanying statements of net assets of the UNM Children's Psychiatric Center (the Center), a division of the University of New Mexico operated by the University of New Mexico Health Sciences Center Clinical Operations, as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. We have also audited the budget comparison presented as supplemental information for the year ended June 30, 2008. These financial statements and supplemental information are the responsibility of the Center's management. Our responsibility is to express opinions on these financial statements and the supplemental information based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Center, a division of the University of New Mexico, State of New Mexico, are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the University of New Mexico that is attributable to the transactions of the Center, a division of the University of New Mexico. They do not purport to, and do not, present fairly the financial position of the University of New Mexico as of June 30, 2008, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective budgetary comparison for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated January 5, 2009 on our consideration of the Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 3 through 9 and the postemployment benefits other than pension schedule of funding progress (schedule 2) are not a required part of the financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

January 5, 2009

This section of the UNM Children's Psychiatric Center (the Center) annual financial report presents management's discussion and analysis of the financial performance of the Center during the fiscal years ended June 30, 2008 and 2007. 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 Center'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 assets, statements of revenues, expenses, and changes in net assets, 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 product or service, regardless of when cash is exchanged.

The statement of net assets includes all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the Center'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 private-sector institutions.

The statement of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public hospital's dependency on state 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 received by the Center. 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.

(Continued)

The statement of cash flows presents information related to cash inflows and outflows summarized by operating, capital, and noncapital financing activities.

Condensed Summary of Net Assets

		Year ended June 30		
		2008	**2007**	**2006**
Assets:				
Current assets	$	7,064,822	6,245,865	6,160,509
Capital assets		2,172,093	2,297,892	2,493,803
Total assets	$	9,236,915	8,543,757	8,654,312
Liabilities:				
Current liabilities	$	2,413,471	2,387,517	2,469,885
Total liabilities	$	2,413,471	2,387,517	2,469,885
Net assets:				
Invested in capital assets	$	2,172,093	2,297,892	2,493,803
Restricted		560	14,570	4,811
Unrestricted		4,650,791	3,843,778	3,685,813
Total net assets	$	6,823,444	6,156,240	6,184,427

At June 30, 2008, the Center's total assets were $9.2 million, compared to $8.5 million in 2007. The Center's largest asset, excluding the related-party receivable, due from affiliate in the amount of $3.5 million at June 30, 2008 and $4.2 million at June 30, 2007, is the investment in capital assets of $2.2 million at June 30, 2008, compared to $2.3 million in 2007. At June 30, 2007, the Center's total assets were $8.5 million, compared to $8.7 million in 2006. The Center's largest asset, excluding the related party receivable, due from affiliate in the amount of $4.2 million, is the investment in physical plant of $2.3 million at June 30, 2007, compared to $2.5 million in 2006. The University of New Mexico Hospital (the Hospital) manages all cash receipts and disbursements on behalf of the Center. The related-party receivable reflects all intercompany cash transactions.

In fiscal year 2007, the allowance for doubtful accounts and contractual allowance decreased 48% ($3.6 million) from $7.5 million in 2006 as billing procedures under the new contract were fully implemented. In 2008, the allowance for doubtful accounts and contractual adjustments increased 17% ($642.8 thousand) due to increases in the chargemaster with no associated increase in contracted reimbursement.

For the three years presented, the Center's current assets have been sufficient to cover current liabilities. The current ratio for 2008, 2007, and 2006 was 2.93, 2.62, and 2.49, respectively.

The Center's liabilities stayed consistent at $2.4 million from June 30, 2008 to 2007. Accrued compensation and benefits of $1.1 million is the largest liability at June 30, 2008. The Center's liabilities totaled $2.4 million at June 30, 2007, compared to $2.5 million in 2006. Accrued compensation and benefits of $1.2 million is the largest liability at June 30, 2007.

(Continued)

Total net assets increased by $667,000 to $6.8 million at June 30, 2008, due to the excess of expenses over revenue of $667,000, which included an operating loss of $6.6 million in 2008 offset by the state appropriation of $7.3 million. Unrestricted net assets totaled $4.7 million at June 30, 2008.

Total net assets decreased by $28,000 to $6.2 million at June 30, 2007, due to the excess of expenses over revenue of $28,000, which included an operating loss of $6.5 million in 2007 offset by the state appropriation of $6.4 million. Unrestricted net assets totaled $3.8 million at June 30, 2007.

Condensed Summary of Revenues, Expenses, and Changes in Net Assets

		Year ended June 30		
		2008	**2007**	**2006**
Total operating revenues	$	11,754,721	11,113,211	9,816,720
Total operating expenses		18,357,217	17,602,369	15,713,212
Operating loss		(6,602,496)	(6,489,158)	(5,896,492)
Nonoperating revenues and expenses		7,269,700	6,460,971	5,724,400
Total increase (decrease) in net assets		667,204	(28,187)	(172,092)
Net assets, beginning of year		6,156,240	6,184,427	6,356,519
Net assets, end of year	$	6,823,444	6,156,240	6,184,427

Operating Revenues

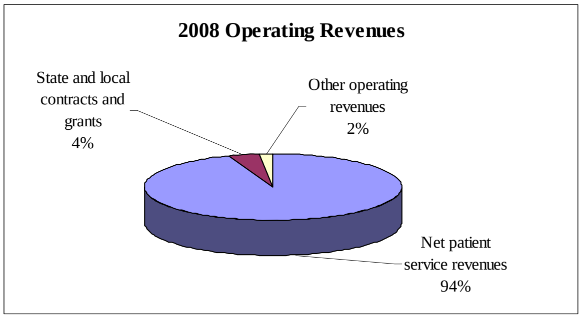
The sources of operating revenues for the Center are net patient service, contracts and grants, and other operating (ancillary services) revenue, with the most significant source being net patient service revenues. Operating revenues were $11.8 million, $11.1 million, and $9.8 million, for 2008, 2007, and 2006, respectively.

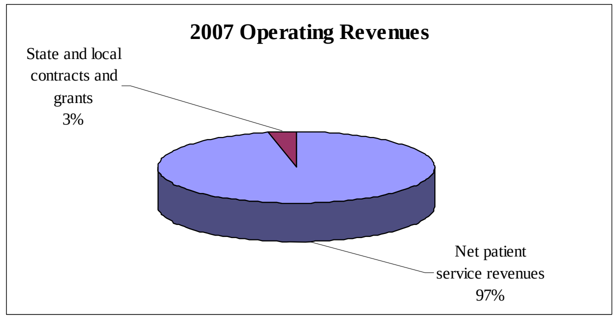
Net patient service revenue is comprised of gross patient service revenue, net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were $11.1 million, $10.7 million, and $9.7 million, for 2008, 2007, and 2006, respectively.

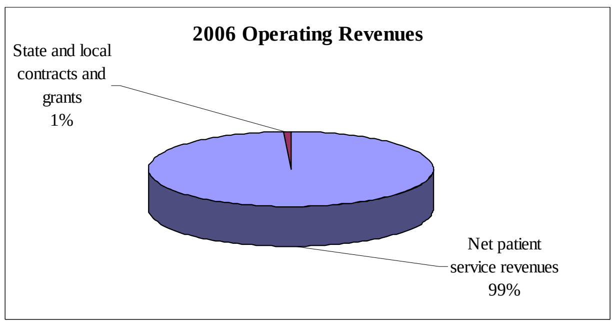
Net patient service revenues for 2008 increased $346,000 from $10.7 million in 2007. Contracts and grants revenues for 2008 increased $115,000 from $355,000 in 2007, which represents a 32.4% increase. The increase is primarily attributed to autism services being billed to the Albuquerque Public School system.

Net patient service revenues for 2007 increased $1.0 million from $9.7 million in 2006. Contracts and grants revenues for 2007 increased $283,000 from $72,000 in 2006, which represents a 393.1% increase. The increase is primarily attributed to additional services being billed to the Children, Youth and Families Department.

The following pie charts depict the operating revenue mix for the years ended June 30, 2008, 2007, and 2006:

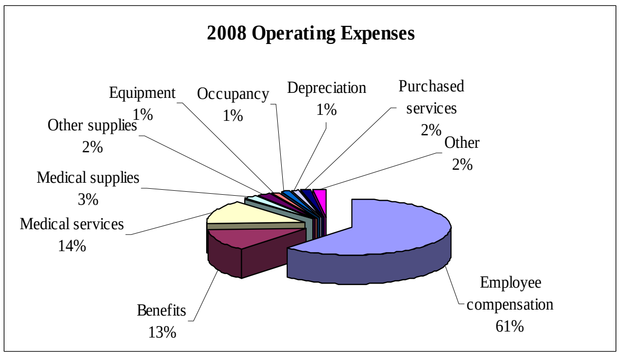


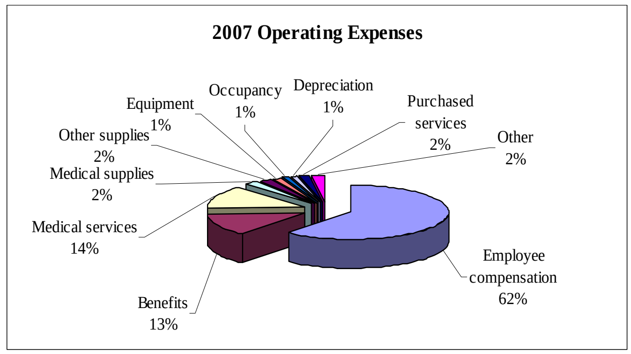


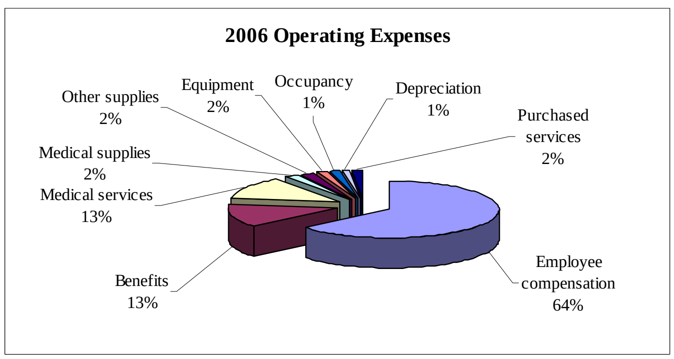


Operating Expenses

The following pie charts depict the distribution of the operating expenses for the Center for the years ended June 30, 2008, 2007, and 2006.







Operating expenses for 2008, including depreciation of $203,000, totaled $18.4 million. Overall expenses increased 4.3% ($755,000) over the prior year. Employee compensation and benefits expenses increased 3.5% ($457,000) over the prior year primarily due to wage increases. Medical services expenses increased 5.0% ($122,000) over the prior year due primarily to increased cost for professional medical and mental health services provided by the UNM School of Medicine. There were no other significant or unexpected changes in operating expenses.

Operating expenses for 2007, including depreciation of $206,000, totaled $17.6 million. Overall expenses increased 12.0% ($1.9 million) over the prior year. Employee compensation and benefits expenses increased 8.2% ($988,000) over the prior year due to wage increases and increasing health insurance expense. Medical services expenses increased 21.0% ($424,000) over the prior year due primarily to increased cost for professional medical and mental health services provided by the UNM School of Medicine. There were no other significant or unexpected changes in operating expenses.

Nonoperating Revenues

The state appropriation was the most significant nonoperating revenue source totaling $7.3 million in 2008, $6.4 million in 2007, and $5.7 million in 2006. The state appropriation is provided to the Center to fulfill its mission to the State of New Mexico. In 1975, the Center was created by state statute under the authority of the State of New Mexico to supply what were deemed as necessary services to improve the mental health and well-being of New Mexico's children and adolescents through inpatient services at the Center, at school sites, and at patients' homes. The Center is one of the only providers of such services in the area. The appropriation also funds the operation of the Mimbres School, a state-supported, on-site school.

There were no nonoperating expenses during fiscal years 2008, 2007, and 2006.

Capital Assets

At June 30, 2008, the Center had $5.5 million invested in capital assets, less accumulated depreciation of $3.3 million. Depreciation charges for the year totaled $203,000 compared to $207,000 and $201,000 in 2007 and 2006, respectively.

	Year ended June 30		
	2008	2007	2006
Land and improvements	$ 277,865	269,406	269,406
Building and improvements	3,987,245	3,987,245	3,987,245
Building service equipment	219,408	211,533	200,960
Equipment	931,626	931,626	931,626
Construction in progress	60,565	—	—
	5,476,709	5,399,810	5,389,237
Less accumulated depreciation	(3,304,616)	(3,101,918)	(2,895,434)
Net property and equipment	$ 2,172,093	2,297,892	2,493,803

Capital expenditures during the year ended June 30, 2008 include the purchase of an air conditioning unit ($8,000), installation of fencing ($8,000), and upgrades to the facility ($61,000). Capital expenditures during the year ended June 30, 2007 include the purchase of two water heaters ($11,000).

Change in Net Assets

The Center's total change in net assets showed a net increase for 2008 and a net decrease for 2007. Total net assets (assets minus liabilities) are classified by the Center's ability to use these assets to meet operating needs. Net assets are restricted as to their use by sponsoring agencies, donors, or other non-hospital entities. Restricted net assets are those generated by donations and gifts. The restricted net assets are further classified in general terms as to the function for which they must be used. Unrestricted net assets may be used to meet all operating needs of the Center. Net assets increased approximately $667,000 in 2008.

(Continued)

Factors Impacting Future Periods

On May 23, 2007, the Center for Medicare and Medicaid Services published a proposed Graduate Medical Education rule to clarify that costs and payments associated with Graduate Medical Education programs are not expenditures for Medical Assistance, which are federally reimbursed under the Medicaid program. If this proposed rule is implemented, the impact to Children's Psychiatric Center's Medicaid GME reimbursement is expected to decrease approximately $170,000 annually.

In addition, on May 23, 2007 the Center for Medicare and Medicaid Services approved a final rule "Cost Limit for Providers Operated by Units of Government and Provisions to Insure Integrity of Federal-State Financial Partnership" that 1) clarifies entities involved in financing of the nonfederal share of Medicaid payments must be a unit of government; 2) clarifies the documentation required to support a certified public expenditure; 3) limits Medicaid reimbursement for healthcare providers that are operated by units of government to an amount that does not exceed the healthcare provider's cost of provider services to Medicaid individuals; 4) requires all healthcare providers to receive and retain the full amount of total computable payments for services furnished under the approved Medicaid State Plan; and 5) makes conforming changes to provisions governing the State Child Health Insurance Program (SCHIP) to make the same requirements applicable, with the exception of the cost limit on reimbursement. If this final rule is implemented, the impact to the Center's overall Medicaid reimbursement could be significant if the Center is determined to be a governmental provider under this rule.

On May 25, 2007, the President signed a congressional moratorium prohibiting the implementation of the proposed Graduate Medical Education rule as well as the final rule "Cost Limit for Providers Operated by Units of Government and Provisions to Insure Integrity of Federal-State Financial Partnership" until May 25, 2008. On June 30, 2008, the President signed House Resolution 2642 extending the moratorium until April 1, 2009.

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
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Statements of Net Assets

June 30, 2008 and 2007

Assets		**2008**	**2007**
Current assets:			
Cash and cash equivalents	$	860	805
Receivables:			
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $4,520,000 in 2008 and $3,877,000 in 2007)		1,461,769	1,462,718
Due from affiliates		3,460,018	4,192,623
University of New Mexico		1,211,533	—
Contracts and grants		84,321	5,241
Estimated third-party payor settlements (note 4)		673,453	479,584
Other		67,119	6,821
Total net receivables		6,958,213	6,146,987
Inventories		27,913	30,089
Prepaid expenses		77,836	67,984
Total current assets		7,064,822	6,245,865
Noncurrent assets – capital assets, net (note 5):			
Nondepreciable assets:			
Construction in progress		60,565	—
Depreciable capital assets, net		2,111,528	2,297,892
Total capital assets, net		2,172,093	2,297,892
Total noncurrent assets		2,172,093	2,297,892
Total assets		9,236,915	8,543,757
Liabilities			
Current liabilities:			
Accounts payable		127,380	94,793
Due to University of New Mexico		219,235	167,408
Accrued compensation and benefits		1,142,053	1,200,513
Estimated third-party payor settlements (note 4)		924,803	924,803
Total current liabilities		2,413,471	2,387,517
Net Assets			
Invested in capital assets		2,172,093	2,297,892
Restricted for expendable grants, bequests, and contributions		560	14,570
Unrestricted		4,650,791	3,843,778
Total net assets	$	6,823,444	6,156,240

Commitments and contingencies (notes 6, 9, 10, and 11)

The notes are an integral part of these financial statements.

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
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Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2008 and 2007

		2008	**2007**
Operating revenues:			
Net patient service (notes 7 and 8)	$	11,086,502	10,740,064
State and local contracts and grants		469,277	354,648
Other operating revenues		198,942	18,499
Total operating revenues		11,754,721	11,113,211
Operating expenses:			
Employee compensation		11,245,827	10,747,772
Benefits		2,310,420	2,351,950
Medical services		2,569,977	2,448,029
Medical supplies		465,373	397,941
Other		393,845	371,626
Other supplies		320,483	328,736
Purchased services		324,082	293,419
Equipment		250,318	232,297
Occupancy		274,194	224,115
Depreciation		202,698	206,484
Total operating expenses		18,357,217	17,602,369
Operating loss		(6,602,496)	(6,489,158)
Nonoperating revenues:			
State appropriation		7,269,200	6,436,500
Bequests and contributions		500	24,471
Total nonoperating revenues		7,269,700	6,460,971
Increase (decrease) in net assets		667,204	(28,187)
Net assets, beginning of year		6,156,240	6,184,427
Net assets, end of year	$	6,823,444	6,156,240

The notes are an integral part of these financial statements.

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Cash Flows

Years ended June 30, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Cash received from Medicaid and Medicare	$	9,261,642	9,407,727
Cash received from insurance and patients		1,631,940	1,610,312
Cash received from contracts and grants		390,197	354,622
Cash payments to suppliers		(3,587,597)	(3,707,816)
Cash payments to employees		(10,590,867)	(10,032,393)
Cash payments to University of New Mexico		(3,777,574)	(3,740,476)
Cash payments from (to) affiliates		732,605	(286,780)
Other cash payments		(41,559)	(55,792)
Net cash used in operating activities		(5,981,213)	(6,450,596)
Cash flows from noncapital financing activities:			
Cash received from state appropriations		6,057,667	6,436,500
Cash received from contributions for other than capital purposes		500	24,471
Net cash provided by noncapital financing activities		6,058,167	6,460,971
Cash flows from capital activity:			
Purchases of capital assets		(76,899)	(10,573)
Net cash used in capital activity		(76,899)	(10,573)
Net increase (decrease) in cash and cash equivalents		55	(198)
Cash and cash equivalents, beginning of year		805	1,003
Cash and cash equivalents, end of year	$	860	805

(Continued)

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
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Statements of Cash Flows

Years ended June 30, 2008 and 2007

		2008	2007
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(6,602,496)	(6,489,158)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		202,698	206,484
Provision for doubtful accounts, net		(607,052)	252,280
Change in assets and liabilities:			
Patient receivables, net		608,001	(309,302)
Due from affiliates		732,605	(286,780)
Contracts and grants receivables		(79,080)	(26)
Third-party receivables		(193,869)	334,997
Other assets and prepaid expenses		(70,150)	(74,291)
Inventories		2,176	(2,432)
Due to University of New Mexico		51,827	(305,035)
Accounts payable and accrued expenses		(25,873)	222,667
Net cash used in operating activities	$	(5,981,213)	(6,450,596)

The notes are an integral part of these financial statements.

(1) Description of Business

The UNM Children's Psychiatric Center (the Center), a psychiatric center operated by the University of New Mexico (UNM) Health Sciences Center, is certified as a short-term, acute care provider. The accompanying financial statements of the Center 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 that are attributable to the transactions of the Center. UNM is a state institution of higher education created by the New Mexico Constitution. The Center 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 Center has no component units.

The Center provides intensive treatment for children and adolescents through its acute inpatient, residential, and outpatient therapy programs. The Center is the state's only comprehensive psychiatric facility dedicated solely to the treatment of seriously emotionally disturbed children and adolescents.

The UNM Board of Regents is the ultimate governing authority of the Center, but has delegated certain oversight responsibilities to the UNM Health Sciences Center Clinical Operations Board, which consists of nine members, including seven members appointed by the UNM Regents, one of whom is nominated by the All Indian Pueblo Council. The other two members are appointed by the Bernalillo County Commission.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for healthcare organizations, and are presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The Center follows the business-type activities requirements of GASB Statement No. 34. This approach requires the following components of the Center's financial statements:

- Management's discussion and analysis
- Financial statements, including a statement of net assets, statement of revenues, expenses, and changes in net assets, and a statement of cash flows using the direct method for the Center as a whole
- Notes to financial statements

GASB Statement No. 34 established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- *Invested in capital assets*: Capital assets, net of accumulated depreciation.
- *Restricted net assets – expendable*: Net assets whose use by the Center is subject to externally imposed constraints that can be fulfilled by actions of the Center pursuant to those constraints or that expire by the passage of time.
- *Unrestricted*: Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Clinical Operations Board, the UNM Board of Regents or may otherwise be limited by contractual agreements with outside parties.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(b) 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 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 in the estimation process, actual results could differ from those estimates.

(c) Contracts and Grants

Revenue from contracts and grants 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 revenues when the terms of the grant have been met. All reimbursable costs for which reimbursement has not been received are reflected in the accompanying statements of net assets as contracts and grants receivable.

(d) Operating Revenues and Expenses

The Center's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues, such as patient service revenue, result from exchange transactions associated with providing healthcare services, the Center'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.

(Continued)

(e) Nonoperating Revenue

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as appropriations, gifts, investment income, and government levies. These revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Appropriations are recognized in the year they are appropriated, regardless of when actually received. Grants and gifts are recognized when all applicable eligibility requirements have been met. Investment income is recognized in the period when it is earned.

(f) Capital Assets

Capital assets are stated at cost on the date of acquisition or at estimated fair value on the date of donation. The Center's capitalization policy for assets includes all items with a unit cost of more than $5,000. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives of the assets. Repairs and maintenance costs are charged to expense as incurred.

The land and the buildings are owned by UNM and are furnished for use to the Center. This property has been recorded on the Center's financial statements. Equipment includes items that have been purchased with funds received in accordance with certain contracts and grants, and title to this equipment is vested with the Center.

(g) Due from Affiliates

UNM Hospital receives all cash on behalf of the Center, and UNM Hospital pays all obligations. Accounts payable and accrued expenses are considered paid, and no longer an obligation of the Center, when vouchered for payment by UNM Hospital. Amounts due from affiliates consist mainly of operating revenue collected in excess of expenses paid and do not bear interest.

(h) Net Patient Service Revenues

Net patient service revenues are recorded at the estimated net realizable amount from patients, third-party payors, and others for services rendered, and a provision for doubtful accounts. 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 Medicaid, are recorded as deductions from patient revenues. Accounts, when determined to be uncollectible, are charged against the allowance for doubtful accounts.

(i) Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are deducted from gross revenue.

(j) 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.

(k) Income Taxes

As part of a state institution of higher education, the income of the Center 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 Center's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B).

(l) Financial Reporting by Employers for Postemployment Benefits Other than Pensions

The UNM Hospital and the Other Clinical Operation centers (OCOs) provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment medical and dental healthcare provided separately from a benefit or pension plan. GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement generally provides for prospective implementation—that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. This Statement is effective for periods beginning after December 15, 2006, for phase 1 governments (those with total annual revenues of $100 million or more), and therefore applicable for the UNM Hospital and OCOs 2008 fiscal year.

The OPEB assumptions were calculated in aggregate for all entities (UNM Hospital and the OCOs) of which the liabilities and expenses were allocated to each reporting entity based on the applicable full-time equivalent (FTE).

(m) Classification

Certain 2007 amounts have been reclassified to conform to the 2008 presentation.

(Continued)

(3) Concentration of Risk

The Center receives payment for services rendered to patients under payment arrangements with payors, which include: (i) Medicaid, (ii) other third-party payors including commercial carriers, and (iii) others. The following table summarizes the percent of gross accounts receivable from all payors as of June 30:

	2008	**2007**
Medicaid	49%	58%
Other third-party payors	49	39
Others	2	3
	100%	100%

(4) Estimated Third-Party Payor Settlements

Effective July 1, 2005, acute inpatient services provided under the Medicaid Managed Care program are paid at negotiated rates and are not subject to retroactive settlement. Residential Treatment Center services are paid at a predetermined rate by Medicaid and are not subject to retroactive settlement.

Through June 30, 2005, services rendered to the Medicaid beneficiaries that are covered under the Medicaid fee-for-service (FFS) program are paid under a cost reimbursement methodology subject to a cost-per-discharge limitation. The Center is reimbursed at tentative rates throughout the year with final settlement determined after submission of the annual cost report and audit thereof by the Medicaid audit agent. Medicaid cost reports have been final settled for all years through 2000. 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 for service periods through June 30, 2005.

(5) Capital Assets

The major classes of capital assets at June 30 are as follows:

		Year ended June 30, 2008		
	Beginning balance	Additions	Retirements	Ending balance
Center capital assets not being depreciated:				
Construction in progress	$ —	60,595	—	60,595
	$ —	60,595	—	60,595
Center depreciable capital assets:				
Land and improvements	$ 269,406	8,459	—	277,865
Buildings and building improvements	3,987,245	—	—	3,987,245
Building service equipment	211,533	7,875	—	219,408
Equipment	931,626			931,626
Total depreciable capital assets	5,399,810	16,334	—	5,416,144
Less accumulated depreciation for:				
Land and improvements	(73,443)	(13,023)	—	(86,466)
Buildings and building improvements	(2,188,756)	(149,971)	—	(2,338,727)
Building service equipment	(39,857)	(14,416)	—	(54,273)
Equipment	(799,862)	(25,288)	—	(825,150)
Total accumulated depreciation	(3,101,918)	(202,698)	—	(3,304,616)
Center depreciable capital assets, net	$ 2,297,892	(186,364)	—	2,111,528
Capital asset summary:				
Center capital assets not being depreciated	$ —	60,565	—	60,565
Center depreciable capital assets at cost	5,399,810	16,334	—	5,416,144
Center total cost of capital assets	5,399,810	76,899	—	5,476,709
Less accumulated depreciation	(3,101,918)	(202,698)	—	(3,304,616)
Center capital assets, net	$ 2,297,892	(125,799)	—	2,172,093

	Year ended June 30, 2007			
	Beginning balance	**Additions**	**Retirements**	**Ending balance**
Center depreciable capital assets:				
Land and improvements	$ 269,406	—	—	269,406
Buildings and building improvements	3,987,245	—	—	3,987,245
Building service equipment	200,960	10,573	—	211,533
Equipment	931,626	—	—	931,626
Total depreciable capital assets	5,389,237	10,573	—	5,399,810
Less accumulated depreciation for:				
Land and improvements	(60,596)	(12,847)	—	(73,443)
Buildings and building improvements	(2,038,785)	(149,971)	—	(2,188,756)
Building service equipment	(27,150)	(12,707)	—	(39,857)
Equipment	(768,903)	(30,959)	—	(799,862)
Total accumulated depreciation	(2,895,434)	(206,484)	—	(3,101,918)
Center depreciable capital assets, net	$ 2,493,803	(195,911)	—	2,297,892
Capital asset summary:				
Center depreciable capital assets at cost	$ 5,389,237	10,573	—	5,399,810
Center total cost of capital assets	5,389,237	10,573	—	5,399,810
Less accumulated depreciation	(2,895,434)	(206,484)	—	(3,101,918)
Center capital assets, net	$ 2,493,803	(195,911)	—	2,297,892

(6) Compensated Absences

Qualified Center employees are entitled to accrue sick leave and annual leave based on their full-time equivalent (FTE) status.

(a) Sick Leave

Full-time employees accrue four hours of sick leave each two-week pay period (13 days per annum) up to a maximum of 1,040 hours to be used for major and minor sick leave. Seven of these days are accumulated into a Minor Sick Leave Bank. Part-time employees who are at least 0.5 FTE earn sick leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange for annual leave or major sick leave or cash all hours accumulated in excess of 24 hours of minor sick leave and 1,040 hours of major sick leave on an hour-for-hour basis. At termination, only employees who retire from the Center and qualify under Center 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 earned under the Center's plan. Accrued sick leave as of June 30, 2008 and 2007 of approximately $67,000 and $60,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued. The increase in sick leave from $60,000 to $67,000 was primarily attributed to wage increases.

Major and minor sick leave balances earned by the consolidated employees (personnel employed by UNM prior to July 2000, employed by UNM Hospitals thereafter) under the UNM plan were transferred to the Center. Under the UNM plan, only employees hired prior to July 1, 1984 were eligible to accrue major sick leave. Eligible employees who were paid for a full pay-period accrued sick leave each pay period at an hourly rate, which was based on their date of hire and employment status.

The excess for minor sick leave hours carried over from UNM was converted to cash in December 2001, at a rate equal to 50% of the employee's hourly wage, multiplied by the number of hours converted. Upon retirement, all minor sick leave hours in excess of 600 are paid at a rate equal to 50% of the employee's hourly wage multiplied by the number of hours in excess of 600 unused sick leave hours based on FTE status, not to exceed 440 hours of such sick leave.

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

(b) Annual Leave

Full-time employees accrue annual leave based on their length of employment up to a maximum of 480 hours. Part-time employees who are at least 0.5 FTE earn annual leave on a prorata 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, 2008 and 2007 of $477,000 and $464,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued. The increase in annual leave from $464,000 to $477,000 was primarily attributed to wage increases.

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

During the years ended June 30, 2008 and 2007, the following changes occurred in accrued compensated absences:

	Balance July 1, 2007	Increase	Decrease	Balance June 30, 2008
$	537,237	970,089	(950,631)	556,695

	Balance July 1, 2006	Increase	Decrease	Balance June 30, 2007
$	482,922	906,157	(851,842)	537,237

The balances above include annual leave and sick leave, disclosed above, in addition to compensatory time (accrued time) and holiday, totaling approximately $13,200 and $12,700 in fiscal years 2008 and 2007, respectively. The portion of accrued compensated absences due after one year is not material, and therefore, is not presented separately.

(7) Net Patient Service Revenues

The majority of the Center's revenue is generated through agreements with third-party payors that provide for reimbursement to the Center at amounts different from its established rates. Approximately 73% and 72%, respectively, of the Center's gross patient revenues in 2008 and 2007 were derived from the Medicaid program, the continuation of which is dependent upon governmental policies. Laws and regulations governing the Medicaid program 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 Center's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from major third-party payors follows:

Medicaid – The Center has reimbursement agreements with certain healthcare contractors that have contracted to provide services to Medicaid beneficiaries enrolled under the state of New Mexico (managed care) program. The basis for reimbursement under these agreements is a per diem that includes both acute inpatient and partial hospital. For outpatient services, charges are paid based on a fee schedule determined by Common Procedural Terminology codes, or a percentage of billed charges.

Other – The Center 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 service revenues for the years ended June 30:

		2008	2007
Charges at established rates	$	24,708,410	22,506,077
Charity care		(320,966)	(194,886)
Contractual adjustments		(12,693,890)	(11,318,847)
Provision for doubtful accounts, net		(607,052)	(252,280)
Net patient service revenues	$	11,086,502	10,740,064

Contractual adjustments for the year ended June 30, 2007 were increased by third-party payor settlements to the Center of $75,618. There was no increase in 2008.

(8) Charity Care

The Center 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. Charges foregone, based on established rates, under the Center's charity policy amounted to approximately $321,000 in 2008 and $195,000 in 2007.

(9) Malpractice Insurance

As a part of the University of New Mexico, the Center enjoys sovereign immunity from suit for tort liability except as waived by the New Mexico legislature. In this connection, under the New Mexico Tort Claims Act, the New Mexico Legislature waived the State's and the Center's sovereign immunity for claims arising out of negligence out of the operation of the Center, the treatment of the Center's patients, and the healthcare services provided by Center employees. In addition, the New Mexico Tort Claims Act 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 or professional liability claims.

The New Mexico Tort Claims Act provides that total liability for all claims that arise out of a single occurrence shall not exceed $750,000.00 set forth as follows: (a) $200,000.00 for real property; (b) up to $300,000 for past and future medical and medically related expenses; and (c) up to $400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. The language of the New Mexico Tort Claims Act does not provide for claims of loss of consortium, however, New Mexico appellate court decisions have allowed claimants to seek consortium. State RMD and UNM contend that these damages are contained within the $750,000 cap. The New Mexico Tort Claims Act prohibits the award of punitive or exemplary damages against the Hospital. The New Mexico Tort Claims

Act requires the Risk Management Division of the State of New Mexico General Services Department (State RMD) to provide coverage to the Center for those torts where the Legislature has waived the State's sovereign immunity up to the damages limits of the New Mexico Tort Claims Act 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 Center. As a result of the foregoing, the Center is fully covered for claims and/or lawsuits relating medical malpractice or professional liability.

(10) Related-Party Transactions

UNM provides certain administrative and medical support services for the Center, and the Center provides the use of its facilities and administrative services to UNM's teaching personnel. The Center's expenses for services rendered by UNM during the years ended June 30, 2008 and 2007 amounted to approximately $3,829,000 and $3,435,000, respectively.

(11) Benefit Plans

A small portion (approximately 34) of the Center's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members (certified teachers, and other employees of state public school districts, colleges, and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's website at www.nmerb.org.

The Center 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 Center contributes either 5.5% or 7.5% of an employee's salary to the plan, depending on employment level. The plan was established by the Clinical Operations Board and can be amended at its discretion. The plan is administered by UNM Hospitals Human Resources Department.

In addition, the Center has a deferred compensation plan, called the UNM Hospitals 457(b) Deferred Compensation Plan, which provides employees with additional retirement savings plan. The Center does not contribute to this plan. Employees can make voluntary contributions to this plan. The plan was established by the Clinical Operations Board and can be amended at its discretion. The plan is administered by UNM Hospitals Human Resources Department.

Funding Policy

Plan members of the public employee retirement system are required to contribute 7.42% of their gross salary. The Hospital is required to contribute 10.9% of the gross covered salary. Effective July 1, 2008, plan members are required to contribute 7.9% of their gross salary. The employer contribution will increase 0.75% each year until July 1, 2011 when the employer contribution will be 13.9%. The contribution requirements of plan members and the Hospital are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Center's contributions to ERB for the fiscal years ending June 30, 2008, 2007, and 2006 were $193,000, $224,000, and $199,000, respectively, which equal the amount of the required contributions for each fiscal year.

The expense for the defined contribution plan was $331,000, $313,000 and $265,000 in fiscal years 2008, 2007, and 2006, respectively. Total employee contributions under this plan were $300,000, $257,000, and $202,000 in 2008, 2007, and 2006, respectively.

There was no expense for the deferred compensation plan in fiscal years 2008, 2007, and 2006, respectively, as the Center does not contribute to this plan. Total employee contributions under this plan were $36,000, $25,000, and $11,000 in 2008, 2007, and 2006, respectively.

(12) Other Postemployment Benefit Plan

The UNM Hospital, UNM Psychiatric Center and UNM Children's Psychiatric Center (Other Clinical Operations (OCOs)), employees and retirees participate under the same benefit plan and the descriptions and assumptions in this note apply to all three reporting entities. Amounts were allocated and recorded by each reporting entity based on the applicable full time equivalents (FTE) of the entity. Therefore, for the purpose of this note, "the Hospital," refers to all three reporting entities.

Plan Description: The Hospital administers a single employer defined-benefit postemployment benefit plan that offers postemployment healthcare coverage to eligible retirees and their dependents. Eligible retired employees are offered combined medical/prescription drug benefits through the Hospital's self-insured health plan administered by Blue Cross and Blue Shield of New Mexico. Eligible retired employees are also offered dental insurance through the Hospital's self-insured dental plan insurance. The authority to establish and amend benefit provisions to the benefit policy is recommended by the Human Resource Administrator and approved by the Chief Executive Officer.

Employees are eligible to retire from the Hospital and receive these postemployment benefits when:

- The employee reaches the minimum age of fifty (50);
- The employee has at least five years of continuous employment; and
- The employee has a combined age plus year of service sum of at least seventy (70).

At the date of valuation July 1, 2007, there were a total of 37 retirees receiving benefits, 322 active employees fully eligible to receive benefits, and 3,544 active employees currently not fully eligible to receive benefits.

Funding Policy: The contribution requirements of the plan members and the Hospital are established, and may be amended by recommendation of the Human Resource Administrator and approval by the Chief Executive Officer. The retired employees that elect to participate in the postemployment benefit plan are required to make contributions in the form of monthly premiums based on current rates established under the health and dental plans. For the medical and dental plans, there are both implicit and explicit subsidies provided by the Hospital. The explicit subsidy is for employees that retire with sick and annual leave (compensated absence) accruals. The Hospital subsidizes for the retiree only, the current "employee only" premium amount for the health and dental plans for the period of the length of leave (compensated absence) accrual. The implicit subsidy arises because the retiree pays a contribution that is based on a combined active and retiree claim experience. If the retiree were to pay based solely on retiree claim experience, they would be paying a higher amount as typically retirees incur higher claims. This "discount" is called the implicit subsidy.

The current monthly retiree contribution rates are provided in the tables below:

		Retiree (coverage extension/ compensated absence accrual period)				Retiree (after coverage extension)		
Rate Tier		**Standard Network**	**Extended Network**	**Delta Dental**		**Standard Network**	**Extended Network**	**Delta Dental**
Retiree only	$	—	195.32	—	$	364.84	560.16	28.62
Retiree + 1		369.14	762.10	32.66		733.98	11,126.94	61.28
Retiree + family		408.18	822.02	62.42		773.02	1,186.86	91.04

The Hospital does not use a trust fund to administer the financing and payment of benefits. Instead, the Hospital funds the plan on a pay-as-you-go basis. The pay-as-you-go expense is the net expected cost of providing retiree benefits. This expense includes all expected claims and related expenses and is offset by the retiree contribution. Expected monthly claim costs were developed from a combination of historical claim experience and manual claim cost developed using a representative database. Nonclaim expenses are based on the current amounts charged to employees. The pay-as-you-go expense for the period of July 1, 2007 to June 30, 2008 is $98,000. The pay-as-you-go expense includes the medical and dental claims, administration expenses, and implicit subsidy and is net of any retiree contributions.

Actuarial Methods and Assumptions: Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The actuarial method used is the Unit Credit method as the Unit Credit method provides a logical correlation between accruing and expensing of retirees benefits.

A 5% annual discount rate was used assuming the Hospital will fund the postemployment benefit on a pay-as-you go basis. For an unfunded plan, the investment return assumption is based on the expected return on employer assets, which generally consist of short-term liquid investments.

The July 1, 2007 actuarial valuation considers an annual healthcare cost trend on a select and ultimate basis: medical benefits at select (11%) and ultimate (6%), dental benefits at select (6%) and ultimate (6%). Select rates are reduced 0.5% each year until reaching the ultimate rate. The unfunded actuarial accrued liability is amortized over the maximum acceptable period of 30 years. It is calculated assuming a level percentage of projected payroll, with a 4% per annum salary increase.

Annual retirement probabilities and the rate of withdrawal for reasons other than death and retirement have been determined based on the New Mexico Educational Retirement Board Actuarial Valuation as of

June 30, 2006. It is assumed that 55% of all eligible retirees participate in the retiree benefit program, if they have an accumulated leave balance. Of these retirees, 40% are assumed to continue receiving benefits after exhaustion of the leave balance

Annual OPEB Cost and Net OPEB Obligation: The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a 30-year period.

The Hospital's postemployment benefit plan includes employees from UNM Psychiatric Center and UNM Children's Psychiatric Center. The OPEB cost and net OPEB obligation information presented below are for the plan in aggregate. The OPEB cost and net OPEB obligation were allocated to each reporting entity based on the applicable FTE of the entity as of June 30, 2008 as follows: UNM Hospital – 88%, the UNM Psychiatric Center – 7%, and the UNM Children's Psychiatric Center – 5%.

The Net OPEB Obligation (NOO) is the cumulative difference between the ARC and the employer's contribution to the plan. Since this is considered the transition period, the NOO is equal to $0 as of July 1, 2007. Since the plan is funded on a pay-as-you-go basis, the NOO at June 30, 2008 is the following:

	Unfunded
NOO – beginning of year:	
ARC	$ 583,000
Interest on prior year NOO	—
Adjustment to ARC	—
Annual OPEB cost	583,000
Employer contributions	98,000
Increase in NOO	485,000
NOO – end of year	$ 485,000

The portion of NOO ($485,000) recorded by the UNM Children's Psychiatric Center is approximately $25,000.

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008 are as follows:

Fiscal year ended		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
June 30, 2008	$	583,000	16.8%	$	485,000

Funding Status and Progress: As of July 1, 2007, the most recent actuarial valuation date, the plan was not funded. The plan actuarial accrued liability (AAL) (the present value of all future expected postretirement medical payments and administrative cost, which are attributable to past service) is $4,353,000 and the actuarial value of assets was $0, resulting in an unfunded actuarial liability (UAAL) of 4,353,000. The UAAL is applicable to all reporting entities based on the percentage noted above.

		Unit credit method unfunded plan June 30, 2008
AAL	$	4,353,000
Actuarial value of plan assets		—
UAAL		4,353,000
Funded ratio (actuarial value of plan assets/AAL)		—
Covered payroll (active plan members)	$	191,841,644
UAAL as a percentage of covered payroll		2.2%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, current and future retirees and their dependants, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress (schedule 2), presented as required supplementary information following the notes to the financial statement, presents information about the actuarial value of plan assets relative to the actuarial accrued liabilities for benefits.

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Comparison of Budgeted and Actual Revenues and Expenses

Year ended June 30, 2008

		Budgeted (original)	Budgeted (final)	Actual	Budget variance
Operating revenues:					
Net patient service	$	10,713,356	9,584,456	11,086,502	1,502,046
Other operating revenues		321,598	647,223	668,219	20,996
Total operating revenues		11,034,954	10,231,679	11,754,721	1,523,042
Operating expenses		18,224,585	18,421,419	18,357,217	64,202
Operating gain (loss)		(7,189,631)	(8,189,740)	(6,602,496)	1,587,244
Nonoperating revenues and expenses		7,262,800	7,269,201	7,269,700	499
Increase (decrease) in net assets	$	73,169	(920,539)	667,204	1,587,743

Note A: The Center prepares a budget for each year, using the accrual basis of accounting, which is subject to approval by the Clinical Operations Board and the UNM Regents. The amount budgeted for the 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, and such revisions are made at the total revenue and expense level. The budget is controlled at the major administrative functional area. There is no carryover of budgeted amounts from one year to the next.

See accompanying independent auditors' report.

Schedule 2

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Postemployment Benefits Other than Pensions Schedule of Funding Progress

Year ended June 30, 2008

Actuarial valuation date	**Actuarial value of assets** (a)	**Actuarial accrued liability (AAL) unit credit method** (b)	**Unfunded AAL (UAAL)** (b-a)	**Funded ratio** (a/b)	**Covered payroll** (c)	**UAAL as a percentage of covered payroll** ((b-a)/c)
July 1, 2007	$ —	4,353,000	4,353,000	—%	$ 194,841,644	2.2%

Note B: The above AAL and covered payroll balances are in aggregate for the plan for the UNM Hospital and Other Clinical Operation Centers. The balances have been allocated based on full-time equivalents (FTE) of which the UNM Hospital's portion is 88%, the UNM Psychiatric Center is 7%, and the UNM Children's Psychiatric Center is 5%.

See accompanying independent auditors' report.

KPMG LLP
Suite 700
Two Park Square
6565 Americas Parkway NE
PO Box 3990
Albuquerque, NM 87190

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

The University of New Mexico Health Sciences Center
Clinical Operations Board and
Mr. Hector Balderas, New Mexico State Auditor:

We have audited the basic financial statements of the UNM Children's Psychiatric Center (the Center) and the budgetary comparison presented as supplemental information as of and for the year ended June 30, 2008, and have issued our report thereon dated January 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Clinical Operations Board, the Resource Development Committee, management, the New Mexico State Auditor, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

January 5, 2009

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Schedule of Findings and Responses

Year ended June 30, 2008

There are no current year or prior year state compliance or operational findings to report.

UNM CHILDREN'S PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Exit Conference

Year ended June 30, 2008

The Center's management prepared the financial statements and is responsible for the content.

An exit conference was conducted on November 11, 2008 with the Resource Development Committee of the Clinical Operations Board and members of the Center's management. During this meeting, the contents of this report were discussed with the following committee members, management personnel, and KPMG representatives present:

Steve McKernan	Vice President for Hospital Operations and Chief Executive Officer, UNM Hospitals
Ella Watt	Chief Financial Officer
Jim Pendergast	Human Resources Administrator
Valri Ward	Executive Director, Finance and Controller
Sandra Long Mendoza	Finance Director
Roberta Reinhardt	Finance Director
Darlene Fernandez	Finance Director
Jerry Geist	Chairman, Resource Development Committee
Joann Woolrich	Executive Director, Compliance
Robert Fondino	Chief Finance and Budget Officer
Cynthia Reinhart	Engagement Partner, KPMG LLP
John Kennedy	Partner, KPMG LLP
Jaime Clark	Manager, KPMG LLP