KPMG

UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Financial Statements and
Supplementary Information

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Fiscal Year 2009 Official Roster

Board of Trustees

(Continued)

UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Fiscal Year 2009 Official Roster

Administrative officers

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

UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Table of Contents

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
Board of Trustees and
Mr. Hector Balderas, New Mexico State Auditor:

We have audited the accompanying statements of net assets of the UNM 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, 2009 and 2008, 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, 2009. 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 supplemental information based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller 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 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, 2009 and 2008, the changes in its financial position, or, where applicable, its cash flows for the years 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, 2009 and 2008, and the respective 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 (schedule 1) 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 November 13, 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.

Management's discussion and analysis on pages 3 through 11 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

November 13, 2009

This section of the UNM 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, 2009, and 2008. 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 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 Bernalillo County mill levy 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.

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

 (Continued)

Condensed Summary of Net Assets

		Year ended June 30		
		2009	2008	2007
Assets:				
Current assets	$	16,529,439	14,135,275	12,926,066
Capital assets		2,125,461	2,036,253	2,209,900
	$	18,654,900	16,171,528	15,135,966
Liabilities:				
Current liabilities	$	2,707,382	2,423,996	2,624,400
Non current liabilities		79,180	33,000	—
	$	2,786,562	2,456,996	2,624,400
Net assets:				
Invested in capital assets	$	2,125,461	2,036,253	2,209,900
Restricted for expendable grants, bequests, and contributions		18,824	18,982	5,950
Unrestricted		13,724,053	11,659,297	10,295,716
	$	15,868,338	13,714,532	12,511,566

At June 30, 2009, the Center's total assets were $18.6 million compared to $16.1 million at June 30, 2008. The Center's largest asset was the related-party receivable, due from affiliates of $12.9 million at June 30, 2009, as compared to $9.9 million at June 30, 2008.

At June 30, 2008, the Center's total assets were $16.1 million compared to $15.1 million at June 30, 2007. The Center's largest asset was the related-party receivable, due from affiliates of $9.9 million at June 30, 2008, as compared to $8.3 million at June 30, 2007.

For the three years presented, the Center's current assets have been sufficient to cover current liabilities. The current ratios for fiscal years 2009, 2008, and 2007 were 5.99, 5.82, and 4.93, respectively.

The UNM Hospital (the Hospital) manages all cash receipts and disbursements on behalf of the Center. The related-party receivable reflects all intercompany cash transactions.

The Center's liabilities totaled $2.8 million at June 30, 2009 compared to $2.4 million in 2008 and $2.6 million in 2007. Accrued compensation and benefits of $1.9 million and $1.6 million was the largest liability at June 30, 2009 and 2008, respectively.

Total net assets increased by $2.2 million to $15.9 million at June 30, 2009, which reflects an operating loss of $8.4 million, offset by the Bernalillo County mill levy of $10.5 million. Unrestricted net assets totaled $13.7 million at June 30, 2009.

Total net assets increased by $1.2 million to $13.7 million at June 30, 2008, which reflects an operating loss of $8.9 million, offset by the Bernalillo County mill levy of $10.1 million. Unrestricted net assets totaled $11.7 million at June 30, 2008.

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

		Year ended June 30		
		2009	**2008**	**2007**
Total operating revenues	$	23,423,994	20,743,861	21,684,640
Total operating expenses		31,827,226	29,623,912	29,789,949
Operating loss		(8,403,232)	(8,880,051)	(8,105,309)
Nonoperating revenues		10,557,038	10,083,017	9,099,451
Total increase in net assets		2,153,806	1,202,966	994,142
Net assets, beginning of year		13,714,532	12,511,566	11,517,424
Net assets, end of year	$	15,868,338	13,714,532	12,511,566

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 $23.4 million, $20.7 million, and $21.7 million for fiscal years 2009, 2008, and 2007, 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 $17.2 million, $14.5 million, and $12.9 million for fiscal years 2009, 2008, and 2007, respectively.

The Center encourages all patients to apply for financial assistance. The Center offers a financial assistance program called UNM care. This program assigns patients primary care providers and allows them to receive care throughout the Center and at all clinic locations. This program is available to Bernalillo County residents whose income is below 235% of the Federal Poverty Level. Patients may apply for this program at various locations throughout the HSC and various community locations. As of June 30, 2009, 2008 and 2007, there were 24,697, 20,464 and 21,524 active enrollees, respectively. The Center does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments.

(Continued)

The Center provides care to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance. The Center encourages patients to meet with a financial counselor to develop payment arrangements. Although the Center pursues collection of these accounts usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, liens are not placed on property or assets and judgments are not filed against the patients. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2009, 2008 and 2007 was $352,000 $704,000, and $1.8 million, respectively.

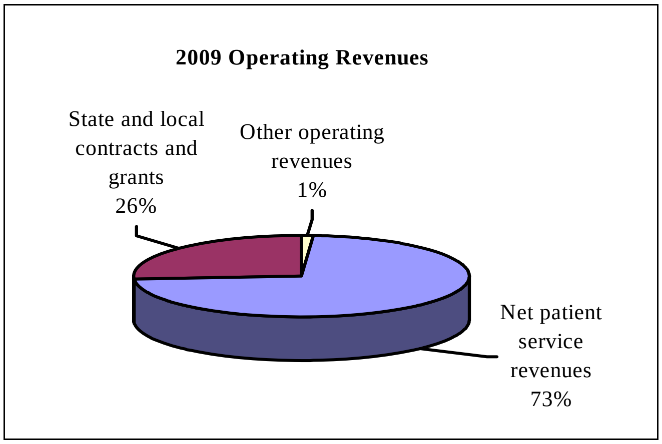
Net patient service revenues for 2009 increased $2.7 million or 18.3% from $14.5 million in 2008. During 2009, cost reports for 2002, 2003, and 2004 Medicaid programs as well as cost reports for 2006 and 2007 Medicare programs were final settled during 2009. In aggregate, $2.0 million in adjustments were recorded as a decrease to contractual allowances for third-party payor settlements. The increase from 2007 to 2008 was $1.6 million, which represented a 12.4% increase. The increase is primarily attributed to the State Coverage Insurance (SCI) Program. This program is part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico Human Services Department (HSD). The goal of the program is to address New Mexico's high rate of uninsured and low rate of employer sponsored healthcare. Funding is modeled after a capitated payment program. Funds are remitted to the Hospital on a per-member per-month basis for all State approved members. The Center receives a portion of the capitated payment remitted to the Hospital, with rate of reimbursement to Center determined by internally developed methodology based on percentage of total UNM Hospitals services provided to members specifically by the Center. In addition, state and local contracts and grants revenues for 2009 increased by 2.2% ($131,000) from $6.0 million in 2008 due primarily to an increase in cash receipts for NM Corrections Department activity, which is reimbursed under the Value Option's contract. In comparison, state and local contracts and grants revenues decreased 31.0% ($2.7 million) from $8.7 million in 2007 due primarily to the termination of a contract with the City of Albuquerque to staff the Albuquerque Metropolitan Central Intake and the contract for the City of Albuquerque Crisis Stabilization program.

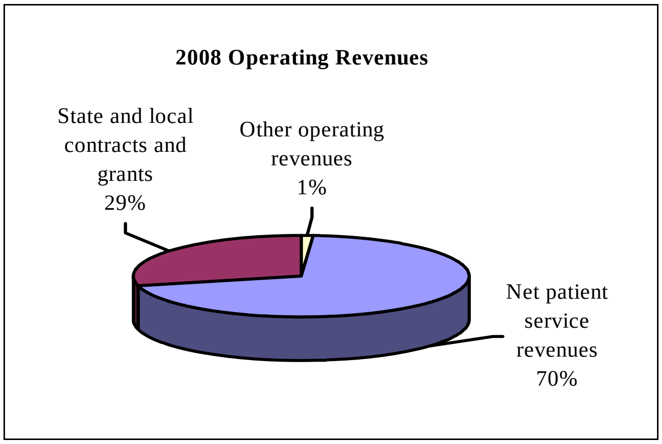
UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

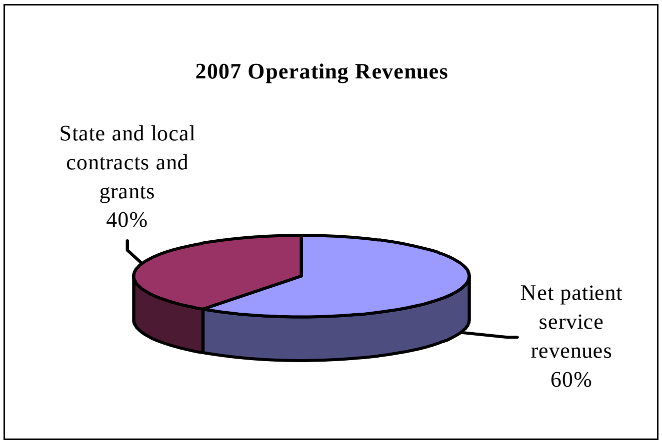
Management's Discussion and Analysis

June 30, 2009 and 2008

The following pie charts depict the operating revenue mix for the years ended June 30, 2009, 2008, and 2007:

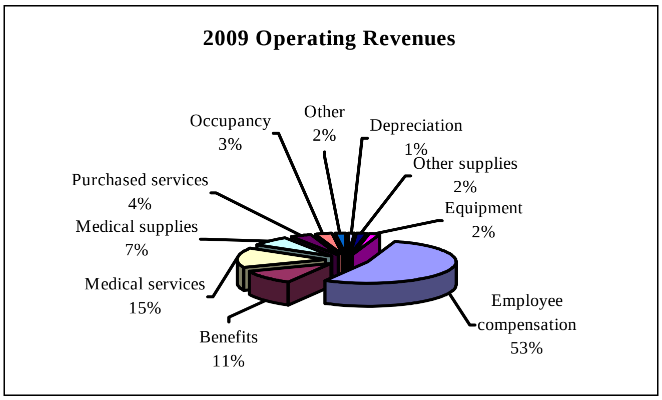


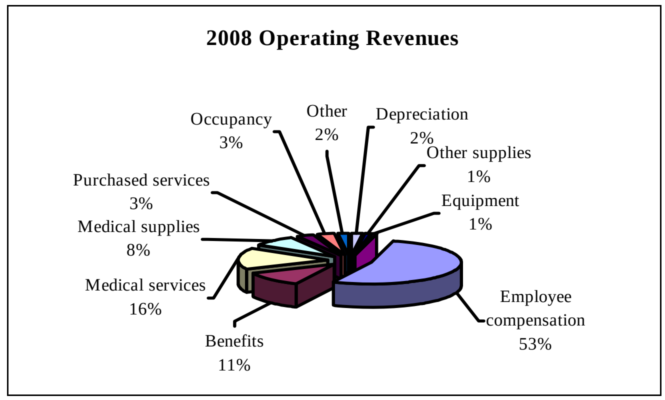


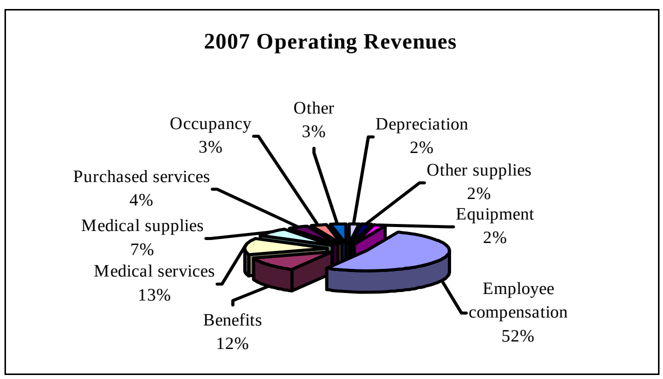


Operating Expenses

The following pie charts depict the distribution of operating expenses for the Center for years ended June 30, 2009, 2008, and 2007:







Operating expenses, including depreciation of $228,000, totaled $31.8 million in 2009. Overall expenses increased by 7.4% ($2.2 million) over 2008. The notable decrease in depreciation expense of $295,000 in 2009 as compared to 2008 was attributed to depreciation recorded on leasehold improvements for lease ending June 30, 2008. Employee compensation and benefits expense increased by 10.1% ($1.9 million). The overall increase was attributed to the increase in employee compensation and benefits as a result of wage increases and the addition of 11 positions. Medical supplies decreased by 6.5% ($160,000) over the prior year resulting from a decrease in laboratory costs of $319,000 primarily due to a change in methodology of internal allocation of laboratory costs, which was partially offset by increases in drug and other supply costs. The Hospital provides the Center's laboratory services with reimbursement to the Hospital and expense to the Center recorded at cost. Medical services increased by 4.8% ($218,000) over the prior year due primarily to increased costs for professional medical and mental health services provided by the UNM School of Medicine. Occupancy expenses increase by 28.5% ($214,000) over the prior year due to increased repairs and materials required to maintain aging facility. Purchased services increased by 18.8% ($185,000) over the prior year due to increased volume for other medical services provided by the Hospital such as radiology and recovery room services. There were no other significant or unexpected changes in operating expenses in 2009.

(Continued)

Operating expenses, including depreciation of $623,000, totaled $29.6 million in 2008. Overall expenses decreased by 0.6% ($166,000) over 2007. Employee compensation and benefits expense decreased by 1.7% ($331,000) due to the loss of the contracts with the city. Medical supplies increased by 11.7% ($257,000) over the prior year due to increasing costs for patient medications. Medical services increased by 12.7% ($516,000) over the prior year due primarily to increased costs 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 in 2008.

Nonoperating Revenues

Revenue from the Bernalillo County mill levy was the most significant source of nonoperating revenue, totaling $10.5 million in 2009, $10.0 million in 2008, and $9.1 million in 2007. These funds are provided for the general operations of the Center. The Center received the mill levy funds by voter endorsement for the general operations of the Center. The mill levy is subject to approval by the Bernalillo County voters every eight years, and was approved in the November 2008 election.

There were no nonoperating expenses during fiscal years 2009, 2008, and 2007.

Capital Assets

At June 30, 2009, the Center had $9.2 million invested in capital assets, less accumulated depreciation of $7.1 million. Depreciation charges for the year totaled $228,000 compared to $623,000 and $652,000 in 2008 and 2007, respectively. In 2008, the Center recorded depreciation on leasehold improvements, with a lease end date of June 30, 2008.

	Year ended June 30		
	2009	**2008**	**2007**
Land and improvements	$ 163,236	163,236	163,236
Building and improvements	7,550,031	7,151,554	7,099,691
Equipment	1,247,302	1,387,036	1,372,405
Construction in progress	230,718	382,879	—
	9,191,287	9,084,705	8,635,332
Less accumulated depreciation	(7,065,826)	(7,048,452)	(6,425,432)
Net property and equipment	$ 2,125,461	2,036,253	2,209,900

Capital expenditures during the year ended June 30, 2009 include safety upgrades for the overall facility plus the purchase of three vehicles and a van.

Capital expenditures during the year ended June 30, 2008 include expenditures for the following: behavioral health facility analysis, upgrades to the facility, a remodel of the Psychiatric Emergency Services nursing station, replacement of bathroom fixtures, and laminate flooring replacement at Milagro.

Change in Net Assets

The Center's total change in net assets showed a net increase for 2009 and 2008. 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 nonhospital 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 $2.2 million in 2009.

Factors Impacting Future Periods

National Health Reform could impact all healthcare providers once final legislation is signed by President Obama and CMS finalizes regulations to implement the new national healthcare system. Although the national plan is currently being designed, what is known is that safety-net hospitals could incur reductions to their Disproportionate Share (DSH) reimbursement in the amount of $23 billion for Medicare DSH and $25 billion for Medicaid DSH, if Senate Finance Committee version goes forward. For low-DSH states like New Mexico, the federal allotment will not be reduced to less than 66% of the 2012 allotments. How much reduction will depend on the state's reduction in uninsured citizens.

The national reform will also impact market basket increase to the diagnosis-related group (DRG) rates that hospitals receive. Congress has estimated this reduction to be $103.6 billion over the next 10 years.

The Medical Assistance Division of the State of New Mexico has identified a budget shortfall and has suggested that they will be making specific final cost containment decisions in four to five weeks after the completion of New Mexico HSD listening sessions that are scheduled to be completed September 30, 2009. One example provided during those sessions was to reimburse Medicaid outpatient fee for service utilizing rates equal to the Medicare Outpatient Prospective Payment System (OPPS) payment rates. An action that has been taken by HSD prior to identifying the specific cost containment decisions described above is that effective September 12, 2008, the HSD suspended enrollment into the SCI program. The SCI Program is under consideration for possible elimination from the Medical Assistance Division Budget for fiscal year 2011 and subsequent years.

On October 1, 2008, Centers for Medicare & Medicaid Services (CMS) implemented payment reductions for specific hospital acquired conditions – conditions acquired by a patient while hospitalized. Specifically, CMS will no longer pay for complications caused by these conditions. CMS has discussed implementing a similar program for hospital outpatient services, but has not finalized an outpatient rule to date.

Medicare has put a program in place to review healthcare claims in order to identify and recover inappropriate payments made to providers for fee-for-service Medicare. This program is called the Recovery Audit Contract (RAC) program and was created through the Medicare Modernization Act of 2003 (MMA). The three-year demonstration program identified over $1 billion in over payments. In 2006, Congress mandated expansion of the RAC program to all 50 states. The RAC program encompassing New Mexico became effective in March 2009. Connolly Consulting Associates, Inc. is the contractor for this region. Medical Record requests for audits are expected in late calendar 2009. The RAC contractor can request up to 200 records every 45 days. RACs can review claims from October 2007 and forward.

(Continued)

The Deficit Reduction Act of 2005 established the Medicaid Integrity Program (MIP) to identify, collect and prevent overpayments made under fee-for-service Medicaid. The two operational functions of MIP are 1) to review the actions of those providing Medicaid services and 2) provide support and assistance to the States to combat Medicaid fraud, waste, and abuse. The MIP in New Mexico has been initiated; however, no contractor has been selected to date.

The mill levy is based on property values. Given the state of the economy, it is possible that the amount of the mill levy may remain flat or potentially decrease as the result of reduced property values, and slow-downs in the building construction industry.

Contacting the Center's Financial Management

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

UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Net Assets

June 30, 2009 and 2008

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	2,519	2,669
Receivables:			
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $5,201,000 in 2009 and $5,905,000 in 2008) (note 3)		451,393	505,310
Due from affiliates		12,918,828	9,926,050
Due from University of New Mexico		18,541	55,693
Contracts and grants		548,708	607,207
Estimated third-party payor settlements (note 4)		2,198,092	2,712,321
Bernalillo County mill levy receivable		177,832	142,945
Total receivables		16,313,394	13,949,526
Inventories		72,384	69,067
Prepaid expenses		141,142	114,013
Total current assets		16,529,439	14,135,275
Noncurrent assets – capital assets, net (note 5):			
Nondepreciable assets:			
Land		111,000	111,000
Construction in progress		230,718	382,879
Depreciable capital assets, net		1,783,743	1,542,374
Total capital assets, net		2,125,461	2,036,253
Total noncurrent assets		2,125,461	2,036,253
Total assets		18,654,900	16,171,528
Liabilities			
Current liabilities:			
Accounts payable		468,557	342,848
Due to University of New Mexico		299,814	176,969
Accrued compensation and benefits		1,870,342	1,592,790
Estimated third-party liabilities (note 4)		68,669	311,389
Total current liabilities		2,707,382	2,423,996
Noncurrent liabilities:			
Net OPEB obligation (note 12)		79,180	33,000
Total noncurrent liabilities		79,180	33,000
Total liabilities		2,786,562	2,456,996
Net Assets			
Invested in capital assets		2,125,461	2,036,253
Restricted for expendable grants, bequests, and contributions		18,824	18,982
Unrestricted		13,724,053	11,659,297
Commitments and contingencies (notes 6, 9, 10, 11, 12, and 13)			
Total net assets	$	15,868,338	13,714,532

See accompanying notes to financial statements.

UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2009 and 2008

		2009	2008
Operating revenues:			
Net patient service (notes 7 and 8)	$	17,152,367	14,493,416
Contracts and grants		6,088,341	5,956,969
Other operating revenues		183,286	293,476
Total operating revenues		23,423,994	20,743,861
Operating expenses:			
Employee compensation		17,051,856	15,543,329
Benefits		3,607,651	3,208,641
Medical services		4,795,707	4,578,082
Medical supplies		2,295,666	2,455,297
Purchased services		1,170,171	984,813
Occupancy		965,640	751,325
Other		713,789	614,867
Depreciation		227,580	623,020
Other supplies		487,666	447,572
Equipment		511,500	416,966
Total operating expenses		31,827,226	29,623,912
Operating loss		(8,403,232)	(8,880,051)
Nonoperating revenues:			
Bernalillo County mill levy		10,532,307	10,058,692
Bequests and contributions		24,731	24,325
Total nonoperating revenues		10,557,038	10,083,017
Increase in net assets		2,153,806	1,202,966
Net assets, beginning of year		13,714,532	12,511,566
Net assets, end of year	$	15,868,338	13,714,532

See accompanying notes to financial statements.

UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from Medicaid and Medicare	$ 14,858,426	12,625,799
Cash received from insurance and patients	2,619,367	1,539,063
Cash received from contracts and grants	6,146,840	6,706,075
Cash payments to suppliers	(10,823,862)	(7,741,303)
Cash payments to employees	(16,728,124)	(15,661,808)
Cash payments to University of New Mexico	(3,441,539)	(5,607,449)
Cash payments to affiliates	(2,992,778)	(1,545,332)
Other receipts	156,157	60,497
Net cash used in operating activities	(10,205,513)	(9,624,458)
Cash flows from noncapital financing activities:		
Cash received from Bernalillo County mill levy	10,497,421	10,049,464
Cash received from bequests and contributions	24,731	24,325
Net cash provided by noncapital financing activities	10,522,152	10,073,789
Cash flows from capital activity:		
Purchases of capital assets	(316,789)	(449,373)
Net cash used in capital activity	(316,789)	(449,373)
Net decrease in cash and cash equivalents	(150)	(42)
Cash and cash equivalents, beginning of year	2,669	2,711
Cash and cash equivalents, end of year	$ 2,519	2,669

(Continued)

UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Cash Flows

Years ended June 30, 2009 and 2008

		2009	2008
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(8,403,232)	(8,880,051)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		227,580	623,020
Provision for doubtful accounts		351,758	704,367
Change in assets and liabilities:			
Patient receivables, net		(297,841)	(675,919)
Due from affiliates		(2,992,778)	(1,545,332)
Due from University of New Mexico		37,152	(47,839)
Contracts and grants receivable		58,499	749,106
Third-party payor receivables		514,229	(357,002)
Other assets and prepaids		(27,129)	(13,177)
Inventories		(3,317)	(6,667)
Due to University of New Mexico		122,845	(145,016)
Third-party payor liabilities		(242,720)	—
Accounts payable and accrued expenses		449,441	(29,948)
Net cash used in operating activities	$	(10,205,513)	(9,624,458)

See accompanying notes to financial statements.

(1) Description of Business

The UNM Psychiatric Center (the Center), a psychiatric center operated by the University of New Mexico Health Sciences Center, was organized under a joint powers agreement between the University of New Mexico (UNM), a state institution of higher education created by the New Mexico Constitution, and Bernalillo County (the County) for the purpose of providing mental health services and for the advancement of human knowledge and education in the mental health field. The UNM Board of Regents and the Board or County Commissioners entered into a lease agreement for operation and lease of county healthcare facilities, effective July 1, 1999 and terminating June 20, 2055. The purpose of the Original Lease is to operate and maintain the Center in accordance with the provisions of the Hospital Funding Act for the term of the agreement. This agreement continues in force until rescinded or terminated by either party. Effective November 18, 2004, the UNM Board of Regents and the Board of County Commissioners entered into a First Amendment to the Original Lease, under which, among other things, the term of the Original Lease was extended until June 30, 2055.

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, which are attributable to the transactions of the Center. 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 UNM Board of Regents is the ultimate governing authority of the Center, but has delegated certain oversight responsibilities to the UNM Health Sciences Center's Board of Trustees, 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
- Basic 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 Board of Trustees, 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 not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

(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 statements of revenues, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient services revenues, 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.

(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. The Mill Levy is recognized in the period it is levied by Bernalillo County.

(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 as indicated in the "Estimated useful lives of Depreciable Hospital Assets," Revised 2008 Edition published by the American Hospital Association. Repairs and maintenance costs are charged to expense as incurred. On a quarterly basis, the Center assesses long-lived assets in order to determine whether or not it is necessary to retire, replace, or impair on condition of the assets and their intended use.

The buildings occupied by the Center are owned by the County and are furnished to the Center in accordance with the lease agreement between the County and UNM. The land is owned by UNM and is 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

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

(h) Net Patient Service Revenues

Net patient 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 Medicare and Medicaid, are recorded as deductions from patient revenues. Accounts, when determined to be uncollectible, are charged against the allowance for doubtful accounts. With respect to State Coverage Insurance (SCI)

(Continued)

Program, funding is modeled after a capitated payment program. Funds are remitted to the Hospital on a per member per month basis for all state approved members. Therefore, contractual adjustments are recorded as deduction from patient revenue in its entirety. Capitated payments are received on a monthly basis and are recorded as an offset to contractual adjustments.

(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, with the exception of copayments.

(j) Bernalillo County Taxes

The amount of the property tax levy is assessed annually on November 1 on the valuation of property as determined by the Bernalillo 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 Center 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.

(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) Risk Management

The Hospital sponsors a self-insured health plan of which the Center's employees participate, as all employees of the Center are under the centralized umbrella of UNM Hospital. Blue Cross and Blue Shield of New Mexico and HMO New Mexico (BCBSNM and HMONM) 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 and invoices received but not yet paid. At June 30, 2009 and 2008, the estimated amount of the Center's claims and accrued invoices was $200,551 and $146,889, respectively. The liability balance for the self-insurance plan is included in accrued payroll. The incurred but not reported liability was based on an actuarial analysis calculated using information provided by BCBSNM. Changes in the reported liability were as follows:

	Beginning of fiscal year liability	Current year claims and changes in estimates	Claim payments	Balance at fiscal year-end
2008 – 2009	$ 146,889	1,259,005	(1,205,344)	200,550
2007 – 2008	133,528	975,254	(961,893)	146,889

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

The Hospital, UNM Psychiatric Center, and UNM Children's Psychiatric Center (the Centers) 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 Centers 2008 fiscal year.

In 2008, the OPEB assumption was calculated in aggregate for all entities (UNM Hospital and the Centers) of which the liabilities and expenses were allocated to each reporting entity based on the applicable full-time equivalent.

In 2009, the OPEB assumptions were calculated individually for all entities, based on each entities applicable employee data.

(n) Classification

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

(3) Concentration of Risk

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

	2009		2008	
Patient and their insurance carriers	$ 2,232,919	40%	$ 2,305,652	36%
Medicare	2,219,126	39	2,663,894	42
Medicaid	1,200,129	21	1,440,376	22
Total patient accounts receivable	5,652,174	100%	6,409,922	100%
Less allowance for uncollectible accounts and contractual adjustments	(5,200,781)		(5,904,612)	
Patient accounts receivable, net	$ 451,393		$ 505,310	

(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.

Through June 30, 2005, services rendered to the Medicaid beneficiaries that were covered under the Medicaid fee-for-service (FFS) program were paid under a cost reimbursement methodology subject to a cost-per-discharge limitation. The Center was 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 2004. 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.

The Center is reimbursed from the Medicare programs for certain reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the Center (see note 7). The annual cost reports are subject to audit by the Medicare intermediary. Cost reports through 2007, excluding 2005 have been final settled for the Medicare program.

(5) Capital Assets

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

	Year ended June 30, 2009				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Center capital assets not being depreciated:					
Land	$ 111,000	—	—	—	111,000
Construction in progress	382,879	246,316	(398,477)	—	230,718
	$ 493,879	246,316	(398,477)	—	341,718
Center depreciable capital assets:					
Land and improvements	$ 52,236	—	—	—	52,236
Buildings and building improvements	5,747,824	—	169,528	—	5,917,352
Building service equipment	1,403,730	—	228,949	—	1,632,679
Equipment	1,387,036	70,473	—	(210,207)	1,247,302
Total depreciable capital assets	8,590,826	70,473	398,477	(210,207)	8,849,569
Less accumulated depreciation for:					
Land improvements	(22,587)	(6,304)	—	—	(28,891)
Buildings and building improvements	— (4,874,078)	— (106,963)	— —	— —	— (4,981,041)
Building service equipment	(950,062)	(55,808)	—	—	(1,005,870)
Equipment	(1,201,725)	(58,506)	—	210,207	(1,050,024)
Total accumulated depreciation	(7,048,452)	(227,581)	—	210,207	(7,065,826)
Center depreciable capital assets, net	$ 1,542,374	(157,108)	398,477	—	1,783,743
Capital asset summary:					
Center capital assets not being depreciated	$ 493,879	246,316	(398,477)	—	341,718
Center depreciable capital assets, at cost	8,590,826	70,473	398,477	(210,207)	8,849,569
Center total cost of capital assets	9,084,705	316,789	—	(210,207)	9,191,287
Less accumulated depreciation	(7,048,452)	(227,581)	—	210,207	(7,065,826)
Center capital assets, net	$ 2,036,253	89,208	—	—	2,125,461

(Continued)

	Year ended June 30, 2008			
	Beginning balance	**Additions**	**Retirements**	**Ending balance**
Center capital assets not being depreciated:				
Land	$ 111,000	—	—	111,000
Construction in progress	—	382,879	—	382,879
	$ 111,000	382,879	—	493,879
Center depreciable capital assets:				
Land and improvements	$ 52,236	—	—	52,236
Buildings and building improvements	5,718,583	29,241	—	5,747,824
Building service equipment	1,381,108	22,622	—	1,403,730
Equipment	1,372,405	14,631	—	1,387,036
Total depreciable capital assets	8,524,332	66,494	—	8,590,826
Less accumulated depreciation for:				
Land improvements	(16,284)	(6,303)	—	(22,587)
Buildings and building improvements	(4,589,830)	(284,248)	—	(4,874,078)
Building service equipment	(672,561)	(277,501)	—	(950,062)
Equipment	(1,146,757)	(54,968)	—	(1,201,725)
Total accumulated depreciation	(6,425,432)	(623,020)	—	(7,048,452)
Center depreciable capital assets, net	$ 2,098,900	(556,526)	—	1,542,374
Capital asset summary:				
Center capital assets not being depreciated	$ 111,000	382,879	—	493,879
Center depreciable capital assets, at cost	8,524,332	66,494	—	8,590,826
Center total cost of capital assets	8,635,332	449,373	—	9,084,705
Less accumulated depreciation	(6,425,432)	(623,020)	—	(7,048,452)
Center capital assets, net	$ 2,209,900	(173,647)	—	2,036,253

(Continued)

(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 UNM Hospital plan. Accrued sick leave as of June 30, 2009 and 2008 of $108,000 and $93,000, respectively, is computed by multiplying each employee’s current hourly rate by the number of hours accrued.

Major and minor sick leave balances earned by the consolidated employees (personnel employed by UNM prior to July 2000, employed by UNM Hospital 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 that 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 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 pro-rata 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, 2009 and 2008 of $712,000 and $634,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

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

During the years ended June 30, 2009 and 2008, the following changes occurred in accrued compensated absences:

	Balance July 1, 2008	Increase	Decrease	Balance June30, 2009
$	738,739	1,519,334	(1,421,863)	836,210

	Balance July 1, 2007	Increase	Decrease	Balance June 30, 2008
$	720,967	1,404,865	(1,387,093)	738,739

The balances above include annual leave and sick leave, disclosed above, in addition to compensatory time (accrued time) and holiday, totaling approximately $16,000 and $12,000 in fiscal years 2009 and 2008, 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 59% and 64%, respectively, of the Center's gross patient revenues in 2009 and 2008 were derived from the Medicare and Medicaid programs, the continuations of which are dependent upon governmental policies. With the implementation of Medicare Part D, the Center experienced a decline in Medicare revenues with an associated increase in insurance revenues as patients elected coverage under a Medicare HMO. 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 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:

Medicare – Inpatient psychiatric care services rendered to Medicare program beneficiaries are paid on a prospectively established per-diem rate. The Centers for Medicare and Medicaid Services (CMS) reimburses the Center at a prospectively established rate using Ambulatory Payment Classifications (APCs). The basis for payment under APCs is Healthcare Common Procedure Coding System.

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 rate 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. The Hospital has also entered into a reimbursement agreement for the State Coverage Insurance (SCI) Program. This program is part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico Human Services Department (HSD). Funding is modeled after a capitated payment program. Funds are remitted to the Hospital on a per member per month basis for all state approved members. The Center receives a portion of the capitated payment remitted to the Hospital, with rate of reimbursement to Center determined by internally developed methodology based on percentage of total UNM Hospital services provided to members specifically by the Center. The Center's funding under the SCI program for the years ended June 30, 2009 and 2008 was $827,500 and $507,200, respectively.

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 follows for the years ended June 30:

		2009	2008
Charges at established rates	$	38,527,461	37,764,166
Charity care		(4,840,669)	(7,127,455)
Contractual adjustments		(16,182,667)	(15,438,928)
Provision for doubtful accounts		(351,758)	(704,367)
Net patient service revenues	$	17,152,367	14,493,416

Contractual adjustments for the years ended June 30, 2009 and 2008 were decreased by third-party payor settlements to the Center of $2,044,000 and $976,000, respectively.

(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 $4,841,000 in 2009 and $7,127,000 in 2008.

(9) Malpractice Insurance

As a part of the UNM, 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. The Risk Management Division of the State of New Mexico General Services Department (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 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 the Center's facilities and administrative services to UNM's teaching personnel. The Center's expenses for services rendered during the years ended June 30, 2009 and 2008 amounted to approximately $3,602,000 and $5,415,000, respectively. UNM Hospital also provides administrative services, which include primarily accounting functions such as payroll and accounts payable processing as well as cash management activities. In addition, UNM Hospital provides medical support services and goods for the Center including laboratory, radiology, and pharmaceuticals. This activity is reflected net in due to/from affiliates.

(11) Benefit Plans

A small portion (approximately 40) of the Center's full-time employees participates 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 Web site at www.nmerb.org.

The Center also 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 Board of Trustees 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 Board of Trustees and can be amended at its discretion. The plan is administered by UNM Hospitals Human Resources Department.

Funding Policy

Effective July 1, 2008, plan members of the public employee retirement system are required to contribute 9.40% of their gross salary. The Center is required to contribute 10.90% of the gross covered salary. The contribution requirements of plan members and the Center 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 ended June 30, 2009, 2008, and 2007, were $223,000, $219,000, and $254,000, respectively, which equal the amount of the required contributions for each fiscal year.

The expense for the defined contribution plan was $590,000, $511,000, and $524,000 in fiscal years 2009, 2008, and 2007, respectively. Total employee contributions under this plan were $682,000, $584,000, and $549,000, in fiscal years 2009, 2008, and 2007, respectively.

There was no expense for the deferred compensation plan in fiscal years 2009, 2008, and 2007, respectively, as the Center does not contribute to this plan. Total employee contributions under this plan were $111,000, $97,000, and $71,000 in fiscal years 2009, 2008, and 2007, respectively.

(12) Other Postemployment Benefit Plan

Plan Description: The Hospital, UNM Psychiatric Center, and UNM Children's Psychiatric Center (the Centers), employees and retirees participate under the same benefit plan administered by the Hospital. The Hospital administers a single employer defined-benefit plan that offers postemployment benefit plan that offers postemployment healthcare converge 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) (hire date prior to 07/01/09) and seventy-five (75) (hire date after 07/01/09).

At the date of valuation July 1, 2008, for the Center, there were a total of 3 retirees receiving benefits, 7 active employees fully eligible to receive benefits, and 267 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	$ —	240.50	—	441.80	682.30	30.68
Retiree + 1	463.80	956.70	35.00	905.60	1,398.50	65.68
Retiree + family	508.00	1,024.90	67.00	949.80	1,466.70	97.68

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 Center’s pay-as-you-go expense for the period of July 1, 2008 to June 30, 2009 is $0 as there were no retirees with claims in 2009. 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 4.5% 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, 2008 actuarial valuation considers an annual healthcare cost trend on a select and ultimate basis: medical benefits at select (11%) and ultimate (5%), 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 3.5% 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, 2008. It is assumed that 15% of all eligible retirees participate in the retiree benefit program.

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 No. 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 (NOO) were calculated and allocated to each reporting entity based on the Hospital’s and Centers’ employee data as of July 1, 2008. The allocation is as follows: UNM Hospital – 91%, the Center – 6%, and the UNM Children’s Psychiatric Center – 3%. The OPEB cost and net OPEB obligation information presented below are the Center’s calculated portion.

(Continued)

The Net OPEB Obligation (NOO) is the cumulative difference between the ARC and the employer's contribution to the plan. The Center's NOO as of July 1, 2008 is equal to $33,000, which was determined based on the applicable FTE of the entity as of June 30, 2008. The plan is funded on a pay-as-you-go basis; the NOO at June 30, 2009 is the following:

		Unfunded
NOO – beginning of year	$	33,000
ARC		46,000
Interest on prior year NOO		1,320
Adjustment to ARC		(1,140)
Annual OPEB cost		46,180
Employer contributions		—
Increase in NOO		46,180
NOO – end of year	$	79,180

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009 are as follows:

Fiscal year ended		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
June 30, 2009	$	46,180	—%	$	79,180
June 30, 2008		33,000	—		33,000

(Continued)

Funding Status and Progress: As of July 1, 2008, 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) for the Center is $356,000 and the actuarial value of assets was $0, resulting in an unfunded actuarial liability (UAAL) of $356,000. The UAAL is applicable to all reporting entities based on the percentage noted above.

		Unit credit method unfunded plan June 30, 2009
AAL	$	356,000
Actuarial value of plan assets		—
UAAL		356,000
Funded ratio (actuarial value of plan assets/AAL)		—
Covered payroll (active plan members)	$	13,628,325
UAAL as a percentage of covered payroll		2.6%

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.

(13) Commitments

The Center has operating leases, primarily for office space. Rental expenses under operating leases amounted to approximately $315,000 and $329,000 in 2009 and 2008, respectively.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2009 under noncancelable operating leases and memorandums of understanding are as follows:

		Amount
Fiscal year:		
2010	$	242,000
2011		14,000
	$	256,000

Schedule 1

UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Comparison of Budgeted and Actual Revenues and Expenses

Year ended June 30, 2009

		Budgeted (original)	Budgeted (final)	Actual	Budget variance
Operating revenues:					
Net patient service	$	14,866,080	15,018,800	17,152,367	2,133,567
Other operating revenue		5,895,432	5,995,638	6,271,627	275,989
Total operating revenues		20,761,512	21,014,438	23,423,994	2,409,556
Operating expenses		30,799,549	31,329,251	31,827,226	(497,975)
Operating loss		(10,038,037)	(10,314,813)	(8,403,232)	1,911,581
Nonoperating revenues		10,040,843	10,244,702	10,557,038	312,336
Increase (decrease) in net assets	$	2,806	(70,111)	2,153,806	2,223,917

Note A:

The Center prepares budgets for each year, using the accrual basis of accounting, which are subject to approval by the Board of Trustees and the UNM Board of Regents. The amount budgeted for the Center's operations is included in the UNM budget and submitted to the New Mexico Commission on Higher Education for approval. The parties included in the original budget process must approve all revisions to the approved budget, 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 PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Postemployment Benefits Other than Pension Schedule of Funding Progress

Years ended June 30, 2009 and 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 2008	$ —	356,000	356,000	—%	$ 13,628,325	2.6%
July, 1 2007	—	304,710	304,710	—	11,238,847	2.7

Note B: The above AAL and covered payroll balances represents only the Center's portion of the plan.

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
Board of Trustees and
Mr. Hector Balderas, New Mexico State Auditor:

We have audited the financial statements of the UNM Psychiatric Center (the Center) and the budgetary comparison presented as supplemental information as of and for the year ended June 30, 2009, and have issued our report thereon dated November 13, 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 deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

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 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 an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which is described in the accompanying schedule of findings and responses as item 2009-01.

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Center's response and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, the Finance and Audit 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

November 13, 2009

Section IV – Other Findings as Required by State Statute, Section 12-6-5, NMSA 1978

2009-01 – Physical Inventory and Disposition of Property

Condition

UNM Hospitals (UNM Hospital and Other Clinical Operation centers (UNMH)) could not confirm that every department had a proper annual physical inventory and if the equipment listings are complete and accurate. In addition, UNMH and University of New Mexico (UNM) did not submit notification to the State Auditor of erasure of hard drive for assets with original cost less than $5,000.

Criteria

12-6-10(A) NMSA 1978 requires each agency to conduct an annual physical inventory of movable chattels and equipment on the inventory list at the end of each physical year. The agency shall certify the correctness of the inventory after the physical inventory.

2.2.2.10.V (2) and (3) Disposition of Property requires that “the agency will certify in writing the proper erasure of the hard drive and submit the certification along with notification of the proposed disposition of the property to the State Auditor at least 30 days prior to taking action even if the assets originally cost less than $5,000.”

Cause

UNMH follows UNM policies in regards to property management and control of which the policy is in compliance with 12-6-10 (NMSA 1978). UNMH finance personnel did not ensure that 100% of the hospital’s departments’ annual physical inventories were complete and proper, nor the capital equipment listings are complete. UNMH ensures proper erasure of the computer hard drives and proper certification of the erasure is maintained on file. UNMH relies on UNM (the agency) to ensure the State Auditor is properly notified of the dispositions. UNM was unaware of the dollar threshold requirement for hard drive erasure notification to the State Auditor. UNM does certify and send notification to the State Auditor of all hard drive erasures and dispositions of assets with original cost over $5,000.

Effect

UNMH is in violation of Section 2.2.2.10 V and Y of NMAC.

Recommendation

We recommend that UNMH refine the current policy to assure compliance with the NMAC Audit Rule in regards to capital asset inventories. In addition, UNM should revise the current disposition of property policy to include notification to the State Auditor of all hard drive erasures and dispositions. UNMH should work with UNM to assure the proper notifications of the UNMH’s dispositions are communicated to the State Auditor.

Hospital Response

UNMH will refine the current policy to assure compliance with the NMAC Audit Rule in regards to capital asset inventories. UNMH will work with University Services department to assure proper notifications of the UNMH’s dispositions are communicated to the State Auditor.

UNM PSYCHIATRIC CENTER
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Exit Conference

June 30, 2009

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

An exit conference was conducted on November 5, 2009 with the Finance and Audit Committee of the Board of Trustees 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:

Ella Watt	Chief Financial Officer
Jim Pendergast	Human Resources Administrator
Sandra Long Mendoza	Finance Director
Roberta Reinhardt	Finance Director
Christine Chavez	UNM Internal Audit Director
Michael Olguin	Member, Finance and Audit Committee
Raymond Loretto	Member, Finance and Audit Committee
Cynthia Reinhart	Engagement Partner, KPMG LLP
Jaime Clark	Senior Manager, KPMG LLP