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

Fiscal year 2009 Official Roster

Board of Trustees

Louise Campbell-Tolber Albuquerque, New Mexico	Chairperson (Term expires 06/30/10, Regent appointed)
Maria Griego-Raby Albuquerque, New Mexico	Vice Chairperson (Term expires 06/30/11, Regent appointed)
Jerry Geist Albuquerque, New Mexico	Secretary (Term expires 03/31/12, Regent appointed)
Maria Goldstein, M.D. Albuquerque, New Mexico	Member (Term expires 04/01/11, County appointed)
Maralyn Budke Santa Fe, New Mexico	Member (Term expires 06/30/09, Regent appointed)
Steve Anaya Albuquerque, New Mexico	Member (Term expires 06/30/08, Regent appointed) Remained on the Board until replacement found, July 2009
William Rayburn, M.D. Albuquerque, New Mexico	Member (Term expires 11/30/10, Regent appointed)
Michelle Melendez Albuquerque, New Mexico	Member (Term expires 03/01/11, County appointed)
Raymond Loretto, DVM San Ysidro, New Mexico	Member (Term expires 06/30/10, All Indian Pueblo Council – Regent appointed)

(Continued)

UNM HOSPITAL
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 UNM Health Sciences Center
Ava Lovell	Vice President UNM Health Sciences Center UNM Finance, and University Controller
Steve McKernan	Chief Executive Officer UNM Hospitals Vice President 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 HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

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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 UNM Hospital (the Hospital), a division of the University of New Mexico operated by the University of New Mexico Health Sciences Center Clinical Operations, organized as the University of New Mexico Hospital, 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 Hospital's management. Our responsibility is to express opinions on these financial statements and supplemental schedules 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 Hospital'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 Hospital, 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 Hospital, 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 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 Hospital as of June 30, 2009 and 2008, 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.

KPMG LLP, a U.S. limited liability partnership, is the U.S.
member firm of KPMG International, a Swiss cooperative.

In accordance with *Government Auditing Standards*, we have issued a report dated November 13, 2009 on our consideration of the Hospital'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 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 12 and the postemployment benefits other than pension schedule of funding progress (schedule 4) are not a required part of the basic 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements and the budgetary comparison (schedule 1). The accompanying schedule of pledged collateral (schedule 2) and the schedule of individual deposit and investments accounts (schedule 3) are presented for purposes of additional analysis and are not a required part of the basic financial statements referred to above. The schedule of pledged collateral and the schedule of individual deposit and investments accounts have been subjected to the auditing procedures applied by us in the audit of the basic financial statements referred to above and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

November 13, 2009

This section of the UNM Hospital's (the Hospital) annual financial report presents management's discussion and analysis of the financial performance of the Hospital during the fiscal years ended June 30, 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 Hospital's management.

Using the Annual Financial Report

This annual report consists of financial statements prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended.

The financial statements prescribed by GASB Statement No. 34 (the statements of net 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 corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service, 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 Hospital's financial health when considered with nonfinancial facts such as patient statistics and the condition of facilities. This statement includes all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting method used by 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 Hospital. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

Condensed Summary of Net Assets

		Year ended June 30		
Assets		**2009**	**2008**	**2007**
Current assets	$	228,591,469	182,168,828	164,423,599
Capital assets, net		300,194,235	296,311,106	284,771,108
Noncurrent assets		39,003,176	47,384,133	37,506,190
Total assets	$	567,788,880	525,864,067	486,700,897
Liabilities				
Current liabilities	$	124,647,647	107,848,433	97,395,801
Noncurrent liabilities		182,687,870	189,601,678	193,752,040
Total liabilities	$	307,335,517	297,450,111	291,147,841
Net Assets				
Invested in capital assets, net of related debt	$	132,467,712	122,175,727	109,037,934
Restricted		2,520,826	3,453,212	1,938,754
Unrestricted		125,464,825	102,785,017	84,576,368
Total net assets	$	260,453,363	228,413,956	195,553,056

At June 30, 2009, total Hospital’s assets were $567.8 million compared to $525.9 million at June 30, 2008. The Hospital’s most significant asset at June 30, 2009 was net capital assets of $300.2 million, followed by cash and cash equivalents of $99.5 million.

At June 30, 2008, total Hospital’s assets were $525.9 million compared to $486.7 million at June 30, 2007. The Hospital’s most significant asset at June 30, 2008 was net capital assets of $296.3 million, followed by cash and cash equivalents of $51.5 million.

At June 30, 2009, 2008, and 2007, the Hospital’s current assets of $228.6 million, $182.2 million, and $164.4 million were sufficient to cover current liabilities of $125.7 million (current ratio of 1.82), $108.3 million (current ratio of 1.68), and $97.4 million (current ratio of 1.69), respectively.

The Hospital’s liabilities totaled $307.3 million at June 30, 2009 compared to $297.5 million at June 30, 2008. The bond payable of $186.0 million was the largest liability, followed by accounts payable of $25.0 million.

The Hospital’s liabilities totaled $297.5 million at June 30, 2008 compared to $291.1 million at June 30, 2007. The bond payable of $193.3 million was the largest liability, followed by estimated third-party payor settlements of $22.8 million.

(Continued)

The Hospital manages all cash receipts and disbursements for all its affiliates, the UNM Psychiatric Center (UNMPC) and the UNM Children's Psychiatric Center (UNMCPC).

Total net assets for the year ended June 30, 2009 increased by $32.0 million to $260.5 million, primarily due to the excess of revenues over expenses in fiscal year 2009, which included an operating loss of $32.7 million offset by net nonoperating revenues of $64.2 million. Unrestricted net assets totaled $125.1 million at June 30, 2009.

Total net assets for the year ended June 30, 2008 increased by $32.9 million to $228.4 million, primarily due to the excess of revenues over expenses in fiscal year 2008, which included an operating loss of $62.1 million offset by net nonoperating revenues of $95.0 million. Unrestricted net assets totaled $102.8 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	$ 564,390,855	452,799,811	381,934,951
Total operating expenses	596,551,450	514,936,307	434,141,026
Operating loss	(32,160,595)	(62,136,496)	(52,206,075)
Nonoperating revenues	64,200,002	94,997,396	73,700,149
Assumption of net assets of CTH	—	—	3,845,872
Total increase in net assets	32,039,407	32,860,900	25,339,946
Net assets, beginning of year	228,413,956	195,553,056	170,213,110
Net assets, end of year	$ 260,453,363	228,413,956	195,553,056

Operating Revenues

The sources of operating revenues for the Hospital are net patient services, state and local contracts and grants, and other operating (ancillary services) revenues, with the most significant source being net patient services revenues. Operating revenues were $564.4 million, $452.8 million, and $381.9 million, for the years ended 2009, 2008, and 2007, respectively.

Net patient service revenue is comprised of gross patient revenue, net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient services revenues were $556.5 million, $446.3 million, and $377.7 million, for the years ended 2009, 2008, and 2007, respectively.

Net patient services revenues for 2009 increased $110.2 million from $446.3 million in 2008, which represents a 24.7% increase, primarily due to increases in patient activity. Net patient services revenues for 2008 increased $68.6 million from $377.7 million in 2007, which represents a 18.2% increase, primarily due to increases in patient activity. See table below for key financial statistics.

		2009	2008	2007
Inpatient days	$	148,306	134,294	122,563
Discharges		27,843	26,579	24,482
Outpatient visits		437,757	422,112	406,489
Emergency visits		90,029	86,898	75,165

Inpatient days for 2009 increased 14,012 from 134,294 in 2008, which represents a 10.4% increase. Inpatient days for 2008 increased 11,731 from 122,563 in 2008, which represents a 9.6% increase.

In May 2009, the Hospital opened a 16-bed adult orthopedic inpatient unit in the Main Hospital and opened a clinic in southeast Albuquerque with 21 examination rooms. During January 2008, the Hospital opened a 36-bed adult medical/surgical inpatient unit and a 12-bed transitional nursery unit.

On July 1, 2005 and effective for fiscal years 2009, 2008 and 2007, the Hospital 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 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. At June 30, 2009, 2008, and 2007, the Hospital recognized $37.7 million, $22.8 million, and $7.7 million, respectively. As of June 30, 2009, 2008, and 2007, there were 9,826, 9,783, and 5,251 active SCI enrollees, respectively. Effective September 12, 2008, the HSD suspended enrollment into this program.

This program is available to low-income, uninsured, working adults with family income below 200% of the federal poverty level. The benefit package is a comprehensive healthcare benefit with a claims benefit maximum. The SCI plan features cost sharing designed to ensure that low-income participants would have access to care. The state contracts with managed care organizations to provide the product.

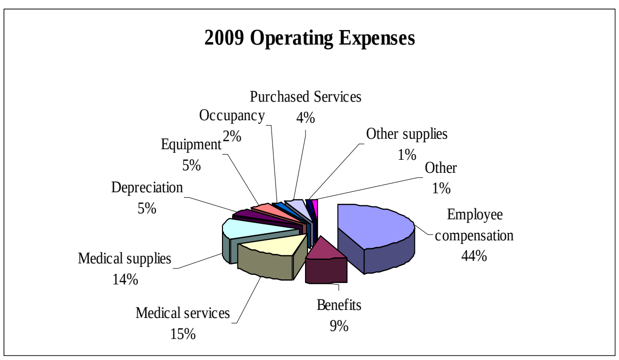
The Hospital encourages all patients to apply for financial assistance. The Hospital offers a financial assistance program called UNM care. This program assigns patients primary care providers and allows them to receive care throughout the Hospital and at all clinic locations. This program is available 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 Hospital does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The cost of care provided under this program for fiscal years ending June 30, 2009, 2008 and 2007 was $95.0 million, $75.0 million and $78.0 million, respectively.

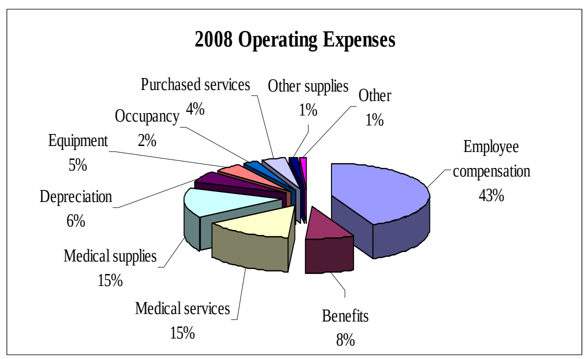
The Hospital provides care to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance. The Hospital encourages patients to meet with a financial counselor to develop payment arrangements. Although the Hospital pursues collection of these accounts usually 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 $98.0 million, $91.4 million, and $64.9 million, respectively. The cost of care provided to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance for fiscal years ending June 30, 2009, 2008 and 2007 was $50.3 million, $52.0 million and $38.8 million, respectively.

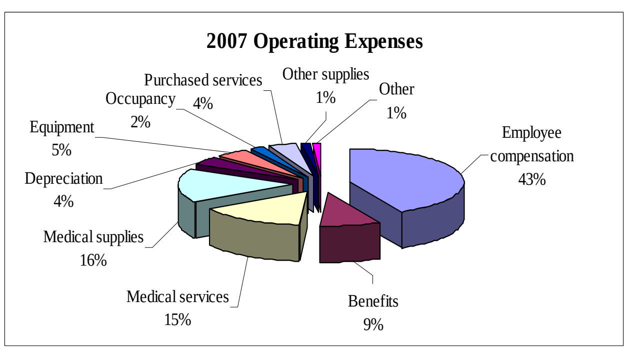
Operating Expenses

Operating expenses for the Hospital include items such as employee compensation and benefits, medical service, medical supplies, and equipment. The most significant expenditures were for employee compensation and benefits. Compensation and benefits combined were $317.0 million, $263.6 million, and $222.0 million for the years ended June 30, 2009, 2008, and 2007, respectively.

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







At June 30, 2009, operating expenses, including depreciation of $30.2 million, totaled $596.6 million, an increase from 2008 of $81.7 million or 15.9%. The overall increase was attributed to the increase in employee compensation and benefits of $53.3 million (20.2%) as a result of wage increases and the addition of 520 positions, as well as an increase in medical supplies of $8.0 million (10.4%) and medical services of $11.6 million (15.5%), which correlates with the increase in patient days of 14,012 (10.4%) from 2008. In addition, equipment increased $3.7 million (15.6%) and purchased services increased $1.7 million (8.3%).

At June 30, 2008, operating expenses, including depreciation of $29.3 million, totaled $514.9 million, an increase from 2007 of $80.8 million or 18.6%. The overall increase was attributed to the increase in employee compensation and benefits of $41.6 million (18.7%) as a result of wage increases and the addition of 466 positions, as well as an increase in medical supplies of $6.7 million (9.4%), which correlates with the increase in patient days of 11,731 (9.6%) from 2007. In addition, occupancy increased $3.6 million (40.7%) with the opening of the Children's Hospital and Critical Care Pavilion (CHCCP), medical services increased $9.6 million (14.6%), and purchased services increased $4.4 million (26.6%).

Nonoperating Revenues and Expenses

For the year ended June 30, 2009, $64.2 million has been recorded as net nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net assets.

At June 30, 2009 and 2008, the Bernalillo County mill levy tax subsidy was the most significant nonoperating revenue, totaling $77.2 million in 2009 and $73.8 million in 2008. The mill levy increased $3.4 million (4.7%) from 2008 and increased $7.2 million (10.9%) from 2007. This tax subsidy is provided for the general operations of the Hospital. The Hospital received this tax subsidy by voter endorsement for the services the Hospital provides. The voters approved the renewal of the mill levy in the November 2008 election. The mill levy is subject to approval by the Bernalillo County voters every eight years, and will be up for renewal in the November 2016 election.

The next largest nonoperating revenue in 2009 was $6.1 million of state appropriation funds compared to $5.9 million in 2008. Included in this amount for 2009 and 2008 was $5.4 million and $5.3 million for Carrie Tingley Hospital (CTH), respectively, and $721,000 and $622,000 for Young Children Health Center. State land revenue and oil and gas royalties for CTH for 2009 and 2008 were $800,000 and $706,600, respectively. The year ended June 30, 2007 included CTH state appropriation funds of $4.7 million and CTH state land revenue of $637,300.

The State of New Mexico appropriated capital funds to the Hospital in the General Appropriation Act of 2008. The funds were designated for the purchase of patient care equipment. The Hospital recorded $5.3 million in state capital appropriation funds for 2009.

A significant nonoperating revenue in 2008 was $27.1 million in cigarette tax bond proceeds. In the 2003 legislative session, the New Mexico State Legislature amended Section 7-1-6.11, NMSA 1978, to provide, in part, for a distribution of 14.52% of the net receipts of cigarette excise tax revenues to the New Mexico Finance Authority (NMFA) for the benefit of the University of New Mexico (UNM) Health Sciences Center (HSC). The act permits the NMFA to issue and sell revenue bonds in an amount not to exceed $60.0 million for a term not to exceed 15 years, for the purpose of designing, constructing, equipping, and furnishing additions and improvements to the Hospital and the Cancer Research Treatment Center at the UNM HSC. On April 1, 2004, the NMFA issued its Cigarette Tax Revenue Bonds (UNM HSC Project), Series 2004A, which generated proceeds of approximately $40.0 million for deposit into the Hospital's construction account at the NMFA. On September 22, 2004, the NMFA issued its Cigarette Tax Revenue Bonds (UNM HSC Project), Series 2004B, which generated proceeds of approximately $9.6 million for deposit into the Hospital's construction account at the NMFA. In 2005, the NMFA issued the remaining cigarette tax revenue bonds for the benefit of the UNM HSC, specifically for the UNM Cancer Center.

The principal and interest on both the 2004A and 2004B bonds are payable from and secured by a distribution of certain cigarette excise taxes imposed and collected in the State of New Mexico. The 2004A and 2004B bonds, together with interest thereon, are not an indebtedness of the UNM, or the Hospital, but are special limited obligations of the NMFA payable solely from and secured solely by the cigarette tax revenues and amounts in certain funds and accounts created under the indenture.

Nonoperating revenue for 2009 includes $3.0 million in capital grants and gifts, a decrease of $832,000 from 2008. All donated monies are received by the UNM Foundation and are drawn upon as needed by the Hospital. Also included in nonoperating revenue for 2008 was $3.8 million in capital grants and gifts, an increase of $2.3 million from 2007. The Hospital received $2.1 million in contributions from the UNM Foundation for pediatric and adult equipment. The Hospital also recognized $1.1 million in 2008 for contributions for equipment related to the CHCCP.

The largest nonoperating expense recorded in 2009, 2008, and 2007 was $23.0 million, $15.5 million, and $14.0 million, respectively, for strategic capital projects such as the replacement building for CTH, orthopedic clinic, ophthalmology clinic, and a primary care clinic to be located at Central and Unser. Refer to note 19 in the accompanying notes to the financial statements.

Included in nonoperating expense in 2009 was $8.5 million in interest expense on capital asset-related debt. This debt consists of Federal Housing Administration (FHA) insured Hospital Mortgage Revenue Bonds issued on October 14, 2004, in the aggregate principal amount of $192.3 million. Interest on the bonds ranges from 2% to 5% and is payable semi-annually on each January 1 and July 1. The Series 2004 bonds were issued for the purpose of financing the construction, equipping, and furnishing of the CHCCP. The CHCCP was placed into service in June 2007. Nonoperating expense for the year ended June 30, 2008 included $8.7 million in interest on capital asset related debt. This amount represents the interest expense for June 2008 only, as interest for prior periods was capitalized during the construction period.

Capital Assets

At June 30, 2009, the Hospital had $300.1 million invested in capital assets, net of accumulated depreciation of $234.8 million. Depreciation charges for the year totaled $30.2 million compared to $29.3 million and $18.9 million in fiscal years 2008 and 2007, respectively.

		2009	2008	2007
Land, building, and improvements	$	177,752,304	173,886,074	164,844,289
Building service equipment		129,645,949	120,667,523	111,124,625
Fixed equipment		14,283,545	12,453,324	11,682,250
Major moveable equipment		194,352,813	183,342,875	167,541,489
Construction in progress		18,922,530	16,218,904	10,585,193
		534,957,141	506,568,700	465,777,846
Less accumulated depreciation		(234,762,906)	(210,257,594)	(181,006,738)
Net property and equipment	$	300,194,235	296,311,106	284,771,108

During 2009, the largest capital increase was within the major moveable equipment ($11.1 million), building service equipment ($9.0 million), land, building, and improvements ($3.9 million), and construction in progress ($2.7 million). The largest capital expenditures in major moveable equipment include the purchase of two Cardiac Catheterization Labs, the daVinci Surgical Robot, the Pharmnet Pharmaceutical System, and the Symbia T Spect CT. The largest capital expenditures in construction in progress include the Cardiac Catheterization Lab, computerized physician order entry (CPOE), orthopedic inpatient unit renovation, and plant infrastructure related to chilled water needs. The Cardiac Catheterization Labs are used for balloon valvulopalasty and percutaneous impella (left ventricular assist device) and provide three dimensional imaging for electrophysiology.

During 2008, the largest capital increase was within the major moveable equipment ($15.8 million), building service equipment ($9.5 million), land, building, and improvements ($9.0 million), and construction in progress ($5.6 million). The largest capital expenditures in major moveable equipment include the Magnetom Trio A 3.0T MRI, the Somatom Definition CT, the Allura Xper FD20 cardiovascular x-ray machine, a digital diagnostic machine with dual detectors, and a surgical microscope. The largest capital expenditures in construction in progress include expansion of the electronic medical record, computerized physician order entry (CPOE), infrastructure related to emergency operations, and Cardiac Catheterization Lab renovations.

In 2007, the largest capital expenditures in major moveable equipment include the Easy Diagnost Eleva System, the Diamond Select CV, the Xcelera/EnConcert/Inturis Suite, a Dual Detector Gamma Camera, the Modularis Uro Plus, a Cardiac Hemodynamic Monitoring System, and a DT Highlight Color Printer with Controller.

Funding for all capital improvement projects is allocated based on the capital needs of the Hospital as a portion of the consolidated Hospital's capital budget.

Debt Activity

The Hospital's bonds payable totaled $186.0 million and $193.3 million at June 30, 2009 and 2008, respectively. The current portion of this debt is $4.4 million and $4.1 million at June 30, 2009 and 2008, respectively. This debt is related to the FHA insured Hospital Mortgage Revenue Bonds, Series 2004, issued by the UNM Board of Regents for the purpose of financing the construction, equipping, and furnishing of the CHCCP. The project was placed into service June 2007.

Change in Net Assets

The Hospital's total change in net assets showed a net increase for 2009 and 2008. Total net assets (assets minus liabilities) are classified by the Hospital'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 Hospital. Net assets increased approximately $32.0 million in 2009. Some of the major reasons for the increase include a $110.2 million increase in net patient revenue and state capital appropriations of $5.3 million.

Factors Impacting Future Periods

National Health Reform could impact all healthcare providers once final legislation is signed by President Obama and Centers for Medicare and Medicaid Services (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 the 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 Human Services Department 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 November 12, 2009, Governor Bill Richardson signed House Appropriations and Finance Committee Substitute for House Bills 17 and 33, as amended enacted during the Forty-Ninth Legislature, First Special Session, 2009. This document reduces each public post-secondary educational institution general purpose appropriations by six and five-tenths percent. The Hospitals 2010 appropriations will be reduced by $485.8 thousand.

On October 1, 2008, 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 3-year demonstration program identified over $1 billion in overpayments. 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.

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) to 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 slowdowns in the building construction industry.

Effective August 27, 2009, the Hospital and the HSC entered into an MOU whereby the Hospital will assume responsibility for the chemotherapy infusion suite located on the fourth floor of the UNM Cancer Center building. The Hospital's 2010 financial statements will reflect the revenues and associated patient care costs associated with these activities.

Contacting the Hospital's Financial Management

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

UNM HOSPITAL
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 (note 4)	$	99,500,491	51,475,048
Marketable securities (note 4)		32,572,060	31,343,921
Assets whose use is limited held by trustee for debt service (note 7)		8,077,846	7,925,624
Receivables:			
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $134,902,000 in 2009 and $142,654,000 in 2008) (note 5)		57,147,708	52,035,923
Due from University of New Mexico		3,570,366	5,799,512
Estimated third-party payor settlements (note 6)		11,616,244	20,085,727
Bernalillo County Treasurer		1,303,410	1,047,719
Other		2,662,052	1,368,016
Total net receivables		76,299,780	80,336,897
Prepaid expenses		6,417,950	6,521,136
Inventories		5,723,342	4,566,202
Total current assets		228,591,469	182,168,828
Noncurrent assets:			
Bond issuance costs		4,803,467	5,651,151
Assets whose use is limited (note 7):			
Held by trustee for capital acquisitions		—	8,499,722
Held by trustee for mortgage reserve fund		4,774,116	3,642,604
Held by trustee for debt service reserve		13,513,150	13,513,150
Held by trustee for collateral		3,844,454	3,828,000
Held by trustee for redemption fund		2,004	1,780,000
By UNM Hospital Board of Trustees		12,065,985	10,469,506
Total assets whose use is limited (note 7)		34,199,709	41,732,982
Capital assets (note 8):			
Nondepreciable assets:			
Land		1,747,245	1,747,245
Construction in progress		18,922,530	16,218,904
Depreciable capital assets, net		279,524,460	278,344,957
Capital assets, net (note 8)		300,194,235	296,311,106
Total noncurrent assets		339,197,411	343,695,239
Total assets		567,788,880	525,864,067
Liabilities			
Current liabilities:			
Accounts payable		24,957,460	28,011,034
Accrued payroll		20,595,632	16,670,313
Due to University of New Mexico		15,280,185	4,961,504
Due to affiliates		17,440,761	13,410,799
Bonds payable – current		4,390,000	4,125,000
Interest payable bonds		4,418,890	4,560,165
Accrued compensated absences		14,444,942	12,075,314
Estimated third-party payor settlements		21,746,258	22,764,948
Other accrued liabilities (note 10)		1,373,519	1,269,356
Total current liabilities		124,647,647	107,848,433
Noncurrent liabilities:			
Bonds payable (note 11)		181,653,140	189,174,678
Net OPEB obligation (note 17)		1,034,730	427,000
Total noncurrent liabilities		182,687,870	189,601,678
Total liabilities		307,335,517	297,450,111
Net Assets			
Invested in capital assets, net of related debt		132,467,712	122,175,727
Restricted for expendable grants, bequests, and contributions		2,520,826	3,453,212
Unrestricted		125,464,825	102,785,017
Commitments and contingencies (notes 9, 10, 11, 14, 15, 16, 17, 18, 19, and 20)			
Total net assets	$	260,453,363	228,413,956

See accompanying notes to financial statements.

UNM HOSPITAL
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 12 and 13)	$	556,462,181	446,253,617
State and local contracts and grants		1,471,391	1,522,698
Other operating revenues		6,457,283	5,023,496
Total operating revenues		564,390,855	452,799,811
Operating expenses:			
Employee compensation		265,827,559	222,350,369
Benefits		51,162,379	41,291,686
Medical services		86,726,058	75,083,043
Medical supplies		85,639,984	77,577,907
Depreciation		30,210,430	29,250,856
Equipment		27,189,387	23,518,508
Occupancy		13,288,908	12,396,971
Purchased services		22,652,928	20,925,553
Other supplies		7,657,104	7,228,506
Other		6,196,713	5,312,908
Total operating expenses		596,551,450	514,936,307
Operating loss		(32,160,595)	(62,136,496)
Nonoperating revenues (expenses):			
Bernalillo County mill levy		77,231,883	73,752,924
State general fund and other state fund appropriations		6,134,400	5,888,100
State general fund and other state fund capital appropriations		5,281,868	—
Cigarette tax bond proceeds		58,886	27,112,345
State of New Mexico Land and Permanent Fund proceeds		800,098	706,555
Capital initiatives (note 19)		(23,000,000)	(15,700,000)
Investment income (interest, dividends, gains, and losses)		4,322,265	9,317,791
Equity in earnings of TriCore and TriCore Lab Service Corp.		925,838	532,782
Interest on capital asset-related debt		(8,462,763)	(8,698,194)
Capital grants and gifts		2,972,850	3,804,555
Bequests and contributions		53,236	153,930
Other nonoperating expense		(2,118,559)	(1,873,392)
Net nonoperating revenues		64,200,002	94,997,396
Increase in net assets		32,039,407	32,860,900
Net assets, beginning of year		228,413,956	195,553,056
Net assets, end of year	$	260,453,363	228,413,956

See accompanying notes to financial statements.

UNM HOSPITAL
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	$ 353,791,118	271,376,699
Cash received from insurance and patients	205,010,071	168,146,778
Cash received from contracts and grants	1,631,009	1,392,739
Cash payments to suppliers	(208,035,657)	(194,257,868)
Cash payments to employees	(258,924,882)	(217,047,019)
Cash payments to University of New Mexico	(96,688,518)	(72,454,321)
Cash received from affiliates	4,029,962	893,474
Other receipts	5,880,578	7,210,647
Net cash provided by (used in) operating activities	6,693,681	(34,738,871)
Cash flows from noncapital financing activities:		
Cash received from Bernalillo County mill levy	76,976,192	73,685,286
Cash received from state general fund and other state fund appropriations	7,115,750	4,906,750
Cash received from State of New Mexico Land and Permanent Fund	801,477	691,416
Cash received from contributions for other-than-capital purposes	53,236	153,931
Net cash provided by noncapital financing activities	84,946,655	79,437,383
Cash flows from capital financing activities:		
Interest payments on bonds	(9,045,576)	(9,180,782)
Principal payments of bonds	(6,815,000)	(2,015,000)
Purchases of capital assets	(34,630,270)	(40,790,854)
Cash received from cigarette tax bonds	58,886	22,400,291
Cash payments to University of New Mexico	(12,000,000)	(19,700,000)
Cash received from state general fund and other state fund capital appropriations	5,281,868	—
Capital grants and gifts received	2,972,850	3,804,555
Cash receipts (payments) for mortgage-related activities	227,837	(928,357)
Net cash used in capital financing activities	(53,949,405)	(46,410,147)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	66,515,055	26,682,925
Purchase of investments	(57,508,672)	(34,467,512)
Interest and dividends on investments	1,328,129	6,659,566
Net cash provided by (used in) investing activities	10,334,512	(1,125,021)
Net increase (decrease) in cash and cash equivalents	48,025,443	(2,836,656)
Cash and cash equivalents, beginning of year	51,475,048	54,311,704
Cash and cash equivalents, end of year	$ 99,500,491	51,475,048

(Continued)

UNM HOSPITAL
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	$	(32,160,595)	(62,136,496)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense		30,210,430	29,250,856
Provision for doubtful accounts		97,991,199	91,412,617
Reduction in laboratory expenses of TLSC		(670,641)	(653,375)
Change in assets and liabilities:			
Patient receivables		(103,102,984)	(95,030,725)
Due from University of New Mexico		1,247,796	(2,373,036)
Estimated third-party payor settlements receivables		8,469,483	(9,713,158)
Other receivables		(417,087)	2,179,406
Inventories		(1,157,140)	(474,817)
Due to University of New Mexico		(681,319)	(2,130,936)
Estimated third-party payor settlements liabilities		(1,018,690)	6,601,126
Due to affiliates		4,029,962	893,474
Accrued expenses		6,902,677	5,303,350
Accounts payable		(2,949,410)	2,132,843
Net cash provided by (used in) operating activities	$	6,693,681	(34,738,871)

See accompanying notes to financial statements.

(1) Description of Business

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

The Hospital's facilities are leased from Bernalillo County (the County) by UNM under a lease expiring June 30, 2055. The lease provides for a $1 annual rental payment, an allocation of the County mill levy, and medical treatment for American Indians as required by a 1952 agreement with the federal government, and is contingent on approval of the mill levy by the electorate every eight years with the last voter approval in November 2008. Effective as of November 18, 2004, the UNM Board of Regents and the Board of County Commissioners entered into a First Amendment to the Original Lease, as amended, (the Lease), under which, among other things, (i) the term of the Original Lease was extended until June 30, 2055, which is after the maturity of the Department of Housing and Urban Development (HUD) insured loan (refer to note 11, Bonds Payable); (ii) the Hospital was authorized to obtain the HUD-insured loan; (iii) the Hospital was authorized to encumber the Lease with a leasehold mortgage; and (iv) the actions that are to be taken concerning the operations of the Hospital in the event of a default under the HUD-insured loan were described.

The UNM Board of Regents is the ultimate governing authority of the Hospital, but has delegated certain oversight responsibilities to the UNM HSC Board of Trustees. The Hospital is governed by the UNM HSC Board of Trustees, which consists of nine members, including seven members appointed by the UNM Board of Regents, one of whom is nominated by the All Indian Pueblo Council, and two members appointed by the County Commission.

In 2007, UNM Carrie Tingley Hospital (CTH) inpatient unit relocated to the Barbara and Bill Richardson Pavilion, a new addition to the Hospital known as Children's Hospital and Critical Care Pavilion (CHCCP). As a result, CTH's healthcare provider number was terminated, and CTH became a pediatric unit of the Hospital.

CTH was created in 1989 by the legislature of the State of New Mexico to provide care and treatment for the physically challenged children of the State of New Mexico in need of long-term inpatient or outpatient care. A brief summary of CTH's financial results for the fiscal years 2009 and 2008 follows:

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

		2009	2008
Total operating revenues	$	10,397,924	8,654,336
Total operating expenses		16,711,953	15,016,146
Operating loss		(6,314,029)	(6,361,810)
Nonoperating revenues		6,323,518	6,373,080
Total increase in net assets		9,489	11,270
Net assets, beginning of year		4,323,459	4,312,189
Net assets, end of year	$	4,332,948	4,323,459

(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 Hospital follows the business-type activities' requirements of GASB Statement No. 34. This approach requires the following components of the Hospital'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 statement of cash flows using the direct method for the Hospital 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, Net of Related Debt* – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets
- *Restricted Net Assets* – Expendable – Net assets whose use by the Hospital is subject to externally imposed constraints that can be fulfilled by actions of the Hospital pursuant to those constraints or that expire by the passage of time
- *Unrestricted* – Net 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 or 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 Hospital 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 the disclosure of contingent assets and liabilities at the financial statement dates, and the reported amount of revenues and expenses during the reporting periods. Due to uncertainties inherent in the estimation process, actual results could differ from those estimates.

(c) Grants and Contracts

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

(d) Operating Revenues and Expenses

The Hospital'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 Hospital's principal activity. Exchange transactions are those in which each party to the transaction receives and gives up essentially equal values. Operating expenses are all expenses incurred to provide healthcare services.

(e) Nonoperating Revenue and Expense

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 the County. Cigarette tax revenue is recognized when all applicable eligibility requirements have been met, specifically when expenditures related to the CHCCP have been submitted and approved for payment. Capital initiatives expense is recognized in the period in which the parties enter into an agreement as evidenced by executed Memorandum of Understanding between UNM HSC and the Hospital.

(f) Cash and Cash Equivalents

The Hospital considers all highly liquid investments (excluding amounts whose use is limited) purchased with an original maturity of three months or less to be cash equivalents.

(g) Investments and Investment Return

Investments are recorded at fair market value. At June 30, 2009 and 2008, investments consist of obligations of the U.S. government and government agencies. Investment income includes interest and realized and unrealized gains and losses on investments. Investment income is reported as nonoperating revenue when earned.

The Hospital follows GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risk, concentration of risk, interest rate risk, and foreign currency risk, and also requires certain disclosures of investments at fair values that are highly sensitive to changes in interest rates, as well as deposit and investment policies related to the risks identified in the statement. GASB Statement No. 3 disclosures, generally referred to as category 1 and category 2 deposits and investments, are eliminated. However, disclosure of authorized investments and the requirements for reporting certain repurchase agreements and reverse repurchase agreements are still required.

(h) Assets Whose Use is Limited by UNM Hospital Board of Trustees

The investment in TriWest Healthcare Alliance Corporation (TriWest) is accounted for using the cost method. The investment in TriCore Reference Laboratories (TRL or Tricore) is accounted for using the equity method. A portion of the Hospital’s investment in TriCore Laboratory Service Corporation (TLSC) is reflected as a reduction in laboratory expense based on the ratio of the Hospital’s laboratory service volume of total laboratory services provided by TLSC to its members. The remaining ownership percentage is accounted for using the equity method and is recorded as nonoperating revenue.

(i) Inventories

Inventories consisting of medical, surgical and maintenance supplies, and pharmaceuticals are stated at the lower of cost or market. Cost is determined using the first-in, first-out valuation method, except that the replacement cost method is used for pharmacy and operating room inventories.

(j) Bond Issuance Costs

Deferred bond issuance costs represent the bond issuance costs for the Federal Housing Administration (FHA) Insured Hospital Mortgage Revenue Bond. The bond issuance costs are amortized over the terms of the related indebtedness using the interest method.

(k) Capital Assets

Capital assets are stated at cost or at estimated fair value on date of acquisition. Donated property and equipment are stated at fair market value when received. The Hospital's capitalization policy for assets includes all items with a unit cost of more than $5,000. Depreciation on capital assets is calculated using the straight-line method over the estimated useful lives of the assets as indicated in the "Estimated Useful Lives of Depreciable Hospital Assets," Revised 2008 Edition published by the American Hospital Association. Repairs and maintenance costs are charged to expense as incurred. On a quarterly basis, the Hospital assesses long-lived assets in order to determine whether or not it is necessary to retire, replace, or impair based on condition of the assets and their intended use.

(l) Net Patient Service Revenues

Net patient service revenues are recorded at the estimated net realizable amount due from patients, third-party payors, and others for services rendered, 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, Medicaid, and certain managed care programs, are recorded as deductions from patient revenues. The Hospital is eligible for and receives additional Medicaid reimbursement for the gap between the amount that would be equal to the Medicare reimbursement per discharge compared to the Medicaid payment per discharge. This upper payment limit is based on the reimbursement that would use Medicare reimbursement principles. This amount is recorded as an offset to contractual adjustments. With respect to SCI 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. Accounts, when determined to be uncollectible, are charged against the allowance for doubtful accounts.

(Continued)

(m) Charity Care

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

(n) Bernalillo County Taxes

The amount of the property tax levy is assessed annually on November 1 on the valuation of property as determined by the County Assessor and is due in equal semiannual installments on November 10 and April 10 of the next year. Taxes become delinquent 30 days after the due date unless the original levy date has been formally extended. Taxes are collected on behalf of the Hospital by the County Treasurer and are remitted to the Hospital in the month following collection. Revenue is recognized in the fiscal year the levy is collected by the County.

(o) Cigarette Tax

During 2003, the New Mexico State Legislature passed a cigarette tax and revenue bond act (the Act) that allowed the New Mexico Finance Authority to (NMFA) to issue and sell revenue bonds for the purpose of designing, constructing, equipping, and furnishing additions and improvements to the Hospital and the UNM HSC Cancer Research and Treatment Center. In accordance with the Act, the Hospital is reimbursed for qualifying capital expenditures from the bond proceeds and records these amounts as nonoperating revenue. Cigarette tax revenue is recognized when all applicable eligibility requirements have been met, specifically when expenditures related to the CHCCP have been submitted and approved for payment. At June 30, 2009, all amounts available from the revenue bonds have been received.

(p) Bond Premium

The premium associated with the issuance of the FHA Insured Hospital Revenue Bonds is amortized using the effective-interest method over the life of the series of bonds.

(q) Income Taxes

As part of a state institution of higher education, the income of the Hospital is generally excluded from federal and state income taxes under Section 115(1) of the Internal Revenue Code. However, income generated from activities unrelated to the Hospital's exempt purpose is subject to income taxes under Internal Revenue Code, Section 511(a)(2)(B).

(r) Capitalized Interest

During fiscal year 2007, the Hospital capitalized interest cost associated with the FHA-Insured Hospital Mortgage Revenue Bonds in accordance with FASB Statement No. 62 (FAS 62), *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants*. FAS 62 requires capitalization of interest cost of restricted tax-exempt borrowings less any interest earned on temporary investment of the proceeds of those borrowings from the date of borrowing until the specified qualifying assets acquired with those borrowings are ready for their intended use. The capitalized costs were transferred to construction in progress. Beginning June 2007, bond interest was expensed due to the completion of the CHCCP.

(s) Invested in Capital Assets, Net of Related Debt

Invested in capital assets, net of related debt, represents the Hospital's total investment in capital assets, net of outstanding debt related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. There are $13.5 million in unspent bond proceeds at June 30, 2009 and 2008, reserved for debt services as required by the trustee.

(t) Risk Management

The UNM Hospital sponsors a self-insured health plan in which UNM Psychiatric Center and UNM Children's Psychiatric Center also participate, as all employees 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 Hospital's claims and accrued invoices was $3.7 million and $2.7 million, respectively, which is included in accrued payroll. The liability for claims incurred but not reported liability was based on an actuarial analysis calculated using information provided by BCBSNM. Changes in the reported liability since June 30, 2008 resulted from the following:

	Beginning of fiscal year liability	Current year claims and changes in estimates	Claim payments	Balance at fiscal year-end
2008 – 2009	$ 2,705,475	23,189,007	(22,200,645)	3,693,837
2007 – 2008	2,459,377	17,962,734	(17,716,636)	2,705,475

(u) 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 Employees for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and 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 governments (those with total annual revenues of $100 million or more), and therefore effective for the Hospital and the Centers 2008 fiscal year.

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.

(v) State Appropriation

The funding for the state appropriation is included in the General Appropriation Act, which is approved by the House and Senate of the State Legislature and signed by the governor before going into effect. Total funds appropriated include $7,034,138 and $310,335 in the General Fund and Other State Funds, respectively. Included in the General Fund is $1,210,073, Out-of-County Indigent funds, which are reported in net patient service revenue. The General Fund is designated as a non-reverting fund, per House Bill 2, Section 4. Sub-section J. Higher Education. Other State Funds are defined as non-reverting in House Bill 2, Section 2, Sub-section I Definitions.

(w) Capital Appropriation

The funding for the capital appropriation includes $5,000,000 in the General Appropriation Act. This General Fund amount is designated as a reverting fund, per House Bill 2, Section 5, Special Appropriations. The following amounts are also included in Capital Appropriations, per House Bill 622, 2006, $39,444, Senate Bill 827, 2007, $147,425 and Senate Bill 471, 2008, $95,000. The funds are designated as reverting in each bill, per Section 2, General Fund and Other Fund Appropriations, Limitations and Reversions.

(x) Classification

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

(3) Accounting Polices and Statements Effective in 2009

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning.

GASB Statement No. 49 identifies five obligating events that trigger a government entity's requirement to estimate the components of expected pollution remediation outlays and determine whether such outlays should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Below are the five obligating events:

1. The unit of government is compelled to take pollution remediation action because of an imminent endangerment.

2. The unit of government violates a pollution prevention-related permit or license.

3. The unit of government is named, or evidence indicates that it will be named, by a regulator as a responsible party, or potentially responsible party (PRP) for remediation, or as a government responsible for sharing costs.

4. The unit of government is named, or evidence indicates that it will be named, in a lawsuit to compel participation in pollution remediation.

5. The unit of government commences or legally obligates itself to commence pollution remediation.

Management is not aware of any obligating events that would require the estimate and recognition of a liability.

(4) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

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

The carrying amounts of the Hospital's deposits with financial institutions at June 30, 2009 and 2008 are $99,500,491 and $51,475,048, respectively.

The State of New Mexico requires that securities underlying repurchase agreements have a market value of at least 102% of the cost of the repurchase agreement. The market value of the securities underlying the repurchase agreements was at or above the required level during the years ended June 30, 2009 and 2008.

(Continued)

Bank balances are categorized as follows:

		2009	2008
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$	250,000	100,000
Repurchase agreements		1,638,572	1,639,069
Amount collateralized with securities held in the Hospital's name		117,102,514	76,368,834
Other cash		16,916	7,970
	$	119,008,002	78,115,873

In October 2008, President Bush signed the Emergency Economic Stabilization Act of 2008, which temporarily raised the basic limit on FDIC coverage from $100,000 to $250,000 per depositor.

Cash in excess of FDIC insurance is collateralized at June 30, 2009 and 2008 by a U.S. government agency security held by the financial institution in the Hospital's name.

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital has a custodial risk policy for deposits that requires collateral in an amount greater than or equal to 50% of the deposit not insured by the FDIC. A greater amount of collateral is required when the Hospital determines it is prudent. As of June 30, 2009 and 2008, the Hospital's bank deposits were not exposed to custodial credit risk.

(b) Marketable Securities

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

(Continued)

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

	June 30, 2009		
	Fair value	Less than 1 year	1 – 5 years
Items not subject to interest rate risk:			
Money market deposits	$ 15,375	15,375	—
Items subject to interest rate risk:			
Money market funds	1,400,502	1,400,502	—
U.S. Treasury securities:			
Treasury notes	22,723,458	2,817,727	19,905,731
Treasury STRIPS	4,026,681	—	4,026,681
U.S. government agency obligations:			
FHLMC	2,853,180	—	2,853,180
FNMA	1,552,864	—	1,552,864
Total items subject to interest rate risk	32,556,685	4,218,229	28,338,456
Total marketable securities	$ 32,572,060	4,233,604	28,338,456

	June 30, 2008		
	Fair value	Less than 1 year	1 – 5 years
Items not subject to interest rate risk:			
Money market deposits	$ 38,287	38,287	—
Items subject to interest rate risk:			
Money market funds	182,723	182,723	—
U.S. Treasury securities:			
Treasury notes	21,840,557	482,234	21,358,323
Treasury STRIPS	8,656,380	1,348,545	7,307,835
U.S. government agency obligations:			
FHLMC	625,974	—	625,974
Total items subject to interest rate risk	31,305,634	2,013,502	29,292,132
Total marketable securities	$ 31,343,921	2,051,789	29,292,132

(Continued)

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral that is in the possession of an outside party at June 30, 2009. Marketable securities of $31,156,183 and $31,122,911 at 2009 and 2008, are insured, registered, and held by the counterparty's agent in the Hospital's name.

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

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

Concentration of Credit Risk – Investments – Concentration risk is the risk of loss attributed to investments in a single issuer. Investments in any one issuer that represent 5% or more of all total investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. For long-term investments, the Hospital has a policy to limit its exposure to concentrated risk. It states the portfolio will be constructed and maintained to provide prudent diversification with regard to concentration of holdings in individual issues, corporations, or industries.

The Hospital's exposure to concentrated credit risk is as follows: $2,853,180, which is invested in Federal Home Loan Mortgage Corporation (FHLMC) securities and equates to 8.8% of marketable securities held at June 30, 2009. An additional $1,552,864 is invested in Federal National Mortgage Association (FNMA) securities, which equates to 4.8% of marketable securities held, and falls just below the disclosure requirement threshold.

A summary of the marketable securities at June 30, 2009 and 2008 and their exposure to credit risk is as follows:

	2009		2008	
	Rating	**Fair value**	**Rating**	**Fair value**
Items not subject to credit risk:				
U.S. Treasury securities:				
Treasury notes	Not rated	$ 22,723,458	Not rated	$ 21,840,557
Treasury STRIPS	Not rated	4,026,681	Not rated	8,656,380
Items subject to credit risk:				
Money market deposits	Not rated	15,375	Not rated	38,287
Money market funds	Not rated	1,400,502	Not rated	182,723
U.S. government agency obligations:				
FNMA	Fitch – AAA	1,552,864	N/A	—
FHLMC	Fitch – AAA	2,853,180	Fitch – AAA	625,974
Total items subject to credit risk		5,821,921		846,984
Total marketable securities		$ 32,572,060		$ 31,343,921

(c) Short-Term Investments

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

A portion of assets whose use is limited is classified in the accompanying statements of net assets as current assets as these assets are designated by the FHA and the UNM Hospital Board of Trustees to cover the current portion of long-term debt and are subject to approval by the respective parties.

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

	June 30, 2009	
	Fair value	**Less than 1 year**
Items not subject to interest rate risk:		
Money market deposits	$ 1,407,375	1,407,375
Items subject to interest rate risk:		
Money market fund	3,486,056	3,486,056
U.S. government agency obligations:		
FNMA	3,184,415	3,184,415
Total items subject to interest rate risk	6,670,471	6,670,471
Total short-term investments	$ 8,077,846	8,077,846

	June 30, 2008	
	Fair value	**Less than 1 year**
Items not subject to interest rate risk:		
Money market deposits	$ —	—
Items subject to interest rate risk:		
Money market fund	2,621,419	2,621,419
U.S. government agency obligations:		
FNMA	3,182,956	3,182,956
FHLMC	2,121,249	2,121,249
Total items subject to interest rate risk	7,925,624	7,925,624
Total short-term investments	$ 7,925,624	7,925,624

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2009 and 2008, the short-term investments of $3,184,415 and $5,304,205 in U.S. government obligations were insured, registered, and held by the counterparty's agent in the Hospital's name.

The Hospital's custodial risk policy for the bond proceeds conforms to the Trust Indenture, and the Trustee holds the investments in safekeeping.

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

A summary of the short-term investments at June 30, 2009 and 2008 and their exposure to credit risk is as follows:

	2009		2008	
	Rating	Fair value	Rating	Fair value
Items subject to credit risk:				
Money market deposits	Not rated	$ 1,407,375	N/A	$ —
Money market fund	Not rated	3,486,056	Not rated	2,621,419
U.S. government agency obligations:				
FNMA	Fitch – AAA	3,184,415	Fitch – AAA	3,182,956
FHLMC	Fitch – AAA	—	Fitch – AAA	2,121,249
Total items subject to credit risk		8,077,846		7,925,624
Total short-term investments		$ 8,077,846		$ 7,925,624

The fair values of U.S. Treasury and U.S. government mortgage-backed securities investments are based on quoted market prices.

(d) Long-Term Investments

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

A portion of assets whose use is limited is classified in the accompanying statements of net assets as noncurrent assets as these assets are designated by the FHA and the UNM Hospital Board of Trustees for future use subject to approval by the respective parties.

(Continued)

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

	June 30, 2009	
	Fair value	**Less than 1 year**
Items not subject to interest rate risk:		
Equity securities*	$ 12,065,985*	—
Money market deposits	4,502	4,502
Items subject to interest rate risk:		
Money market fund	8,685,709	8,685,709
Repurchase agreements	13,443,513	13,443,513
Items subject to interest rate risk	22,129,222	22,129,222
Total long-term investments	$ 34,199,709	22,133,724

	June 30, 2008	
	Fair value	**Less than 1 year**
Items not subject to interest rate risk:		
Equity securities*	$ 10,469,506*	—
Money market deposits	2,112,583	2,112,583
Items subject to interest rate risk:		
Money market fund	15,698,280	15,698,280
Repurchase agreements	13,452,613	13,452,613
Items subject to interest rate risk	29,150,893	29,150,893
Total long-term investments	$ 41,732,982	31,263,476

* Equity securities noted are investments in TriWest (recorded at cost) and TRL and TLSC (recorded by the equity method)

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2009 and 2008, the Hospital held no U.S. government obligations for long-term investment purposes.

The Hospital's custodial risk policy for the bond proceeds conforms to the Trust Indenture, and the Trustee holds the investments in safekeeping.

The State of New Mexico requires that securities underlying repurchase agreements have a market value of at least 102% of the cost of the repurchase agreement. The market value of the securities underlying the repurchase agreements was at or above the required level during the years ended June 30, 2009 and 2008.

The repurchase agreement for the Reserve Account was $13,443,513 and $13,452,613 at June 30, 2009 and 2008, respectively. This is an American International Group (AIG) Matched Funding Corporation agreement collateralized by five FHLMC securities held by the Trustee in the Hospital's name. As of July 31, 2009, the market value of the repurchase agreement was $1,142,000 in excess of the investment principal resulting in a security ratio of 108.5% collateralization.

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

A summary of the investments at June 30, 2009 and 2008 and their exposure to credit risk is as follows:

	2009		2008	
	Rating	**Fair value**	**Rating**	**Fair value**
Items not subject to credit risk:				
Equity securities*	N/A	$ 12,065,985*	N/A	$ 10,469,506*
Items subject to credit risk:				
Money market deposits	Not rated	4,502	Not rated	2,112,583
Money market fund	Not rated	8,685,709	Not rated	15,698,280
Repurchase agreements	Moodys – Aa3	13,443,513	Moodys – Aa3	13,452,613
Total items subject to credit risk		22,133,724		31,263,476
Total long-term investments		$ 34,199,709		$ 41,732,982

* Equity securities noted are investments in TriWest (recorded at cost) and TRL and TLSC (recorded by the equity method)

The fair values of U.S. Treasury and U.S. government mortgage-backed securities investments are based on quoted market prices.

(5) Concentration of Risk

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

	2009		2008	
Medicare and Medicaid	$ 77,101,210	40%	$ 83,356,523	43%
Other third-party payors	83,920,463	44	81,545,830	42
Others	31,027,980	16	29,787,968	15
Total patient accounts receivable	192,049,653	100%	194,690,321	100%
Less allowance for uncollectible accounts and contractual adjustments	(134,901,945)		(142,654,398)	
Patient accounts receivable, net	$ 57,147,708		$ 52,035,923	

(6) Estimated Third-Party Payor Settlements

The Hospital is reimbursed by the Medicare and Medicaid programs for certain reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the Hospital (see note 12). The annual cost reports are subject to audit by the Medicare intermediary and the Medicaid audit agent. Cost reports through 2004 have been final settled for the Medicaid programs. Cost reports through 2004, and 2006 and 2007 have been final settled for the Medicare program. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(Continued)

(7) Assets Whose Use is Limited

The following summarizes assets whose use is limited as of June 30:

		2009	2008
Current:			
Held by trustee for debt service	$	8,077,846	7,925,624
Noncurrent:			
Held by trustee for capital acquisitions		—	8,499,722
Held by trustee for mortgage reserve fund		4,774,116	3,642,604
Held by trustee for debt service reserve		13,513,150	13,513,150
Held by trustee for collateral		3,844,454	3,828,000
Held by trustee for redemption fund		2,004	1,780,000
By UNM Hospital Board of Trustees		12,065,985	10,469,506
	$	42,277,555	49,658,606

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

Assets Whose Use is Limited Held by the Trustee – The Hospital had deposited all of the net proceeds from the sale of the Series 2004 Bonds with the Trustee in the "Held by trustee for capital acquisitions" fund. Moneys deposited in this fund were designated for the costs of the CHCCP. The Hospital submitted the expense incurred on the CHCCP project to FHA for approval. Once approved, the Trustee released the funds to the Hospital for payment to the contractors. At June 30, 2009, the funds had been fully expended.

The Hospital has established a "Mortgage Reserve Fund" in accordance with the requirements and conditions of the Federal Housing Administration (FHA) Regulatory Agreement. Notwithstanding any other provision in the Regulatory Agreement, the Mortgage Reserve Fund may be used by HUD if the Hospital is unable to make a mortgage note payment on the due date. The Hospital is required to make contributions to the fund based on the Mortgage Reserve Fund schedule.

As of June 30, 2009, $4.4 million of the $8.1 million balance in the held by trustee for debt service account represents the bond interest payment due July 1, 2009. As of June 30, 2008, $4.6 million of the $7.9 million balance in the held by trustee for debt service account represents the bond interest payment due July 1, 2008.

The Hospital has established a "Debt Service Reserve Fund" (consists of (noncurrent) held by trustee for debt service reserve and held by trustee for collateral accounts) and has agreed to maintain this fund for as long as any of the bonds are outstanding. The amount of the Debt Service Reserve Fund is $17.3 million and is closely related to the total annual obligation under the bond repayment schedule for the fiscal years 2010 through 2028.

Assets whose use is limited by UNM Hospital Clinical Operation Board – In 1997, the Hospital contributed $2,612,500 to TriWest, an organization formed to administer healthcare benefits to military retirees and dependents of active duty personnel in the CHAMPUS/TriCare Central Region, in exchange for 2,613 shares of common stock, which represents an approximate 12% ownership of TriWest. The investment in TriWest is accounted for using the cost method.

The Hospital has an affiliation agreement with Presbyterian Healthcare Services for the operation of a consolidated clinical laboratory (TriCore) to optimize the quality, performance, and delivery of routine and specialized clinical laboratory tests for patients throughout the State of New Mexico in a cost-effective and timely manner. The Hospital contributed $3,999,965 in cash and equipment during 1998 related to the affiliation agreement, titled TriCore. During 2004, TriCore reorganized its business activities into two entities: TriCore whose business consists of laboratory testing services for nonmembers; and TLSC, which organized solely to perform laboratory services, on a centralized basis, for its members, the Hospital, and Presbyterian Healthcare Services. TLSC is a tax-exempt, cooperative hospital service organization under Section 501(e) of the Internal Revenue Code of 1986.

UNM, through the Hospital, has a 50% interest in TriCore totaling $4,920,000 and $4,230,000 at June 30, 2009 and 2008, respectively, which is being accounted for using the equity method. A copy of the TriCore audited financial statements may be obtained by writing to TriCore Reference Laboratories, Attn: Finance Department, 1001 Woodward Pl NE, Albuquerque, New Mexico 87102.

The Hospital has a 50% interest in TLSC totaling $4,534,000 and $3,627,000 at June 30, 2009 and 2008, respectively. Approximately 34% and 37% of the net earnings of TLSC in fiscal years 2009 and 2008, respectively, are recorded as a reduction to laboratory expense. This is based on the ratio of the Hospital's volume of total laboratory services provided by TLSC to its members. The remaining 16% and 13% is accounted for under the equity method in fiscal years 2009 and 2008, respectively. The Hospital recorded laboratory expenses of approximately $24,200,000, net of the 34% reduction in laboratory expense, which totaled $671,000 in 2009. The Hospital recorded laboratory expenses of approximately $21,200,000, net of the 37% reduction in laboratory expense, which totaled $883,000 in 2008. A copy of the TriCore Laboratory Services Corporation audited financial statements may be obtained by writing to TriCore Reference Laboratories, Attn: Finance Department, 1001 Woodward Pl NE, Albuquerque, New Mexico 87102.

(Continued)

(8) Capital Assets

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

	Year ended June 30, 2009				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
UNM Hospital capital assets not being depreciated:					
Land	$ 1,747,245	—	—	—	1,747,245
Construction in progress	16,218,904	18,607,154	(15,903,528)	—	18,922,530
	$ 17,966,149	18,607,154	(15,903,528)	—	20,669,775
UNM Hospital depreciable capital assets:					
Land improvements	$ 10,431,783	42,801	455,913	—	10,930,497
Buildings and building improvements	161,707,046	25,375	3,342,141	—	165,074,562
Building service equipment	120,667,523	20,130	8,978,183	(19,887)	129,645,949
Fixed equipment	12,453,324	582,960	1,247,261	—	14,283,545
Major movable equipment	183,342,875	15,351,850	1,880,030	(6,221,942)	194,352,813
Total depreciable capital assets	488,602,551	16,023,116	15,903,528	(6,241,829)	514,287,366
Less accumulated depreciation for:					
Land improvements	(1,631,192)	(912,436)	—	—	(2,543,628)
Buildings and building improvements	(46,711,218)	(5,619,998)	—	—	(52,331,216)
Building service equipment	(22,866,005)	(7,555,509)	—	13,589	(30,407,925)
Fixed equipment	(7,652,301)	(529,279)	—	—	(8,181,580)
Major movable equipment	(131,396,878)	(15,593,209)	—	5,691,530	(141,298,557)
Total accumulated depreciation	(210,257,594)	(30,210,431)	—	5,705,119	(234,762,906)
UNM Hospital depreciable capital assets, net	$ 278,344,957	(14,187,315)	15,903,528	(536,710)	279,524,460

	Year ended June 30, 2009				
	Beginning balance	**Additions**	**Transfers**	**Retirements**	**Ending balance**
Capital asset summary:					
UNM Hospital capital assets not being depreciated	$ 17,966,149	18,607,154	(15,903,528)	—	20,669,775
UNM Hospital depreciable capital assets, at cost	488,602,551	16,023,116	15,903,528	(6,241,829)	514,287,366
UNM Hospital total cost of capital assets	506,568,700	34,630,270	—	(6,241,829)	534,957,141
Less accumulated depreciation	(210,257,594)	(30,210,431)	—	5,705,119	(234,762,906)
UNM Hospital capital assets, net	$ 296,311,106	4,419,839	—	(536,710)	300,194,235

	Year ended June 30, 2008				
	Beginning balance	**Additions**	**Transfers**	**Retirements**	**Ending balance**
UNM Hospital capital assets not being depreciated:					
Land	$ 1,747,245	—	—	—	1,747,245
Construction in progress	10,585,193	26,515,937	(20,882,226)	—	16,218,904
	$ 12,332,438	26,515,937	(20,882,226)	—	17,966,149
UNM Hospital depreciable capital assets:					
Land improvements	$ 9,289,953	—	1,141,830	—	10,431,783
Buildings and building improvements	153,807,091	—	7,899,955	—	161,707,046
Building service equipment	111,124,625	98,683	9,444,215	—	120,667,523
Fixed equipment	11,682,250	214,443	556,631	—	12,453,324
Major movable equipment	167,541,489	13,961,791	1,839,595	—	183,342,875
Total depreciable capital assets	453,445,408	14,274,917	20,882,226	—	488,602,551
Less accumulated depreciation for:					
Land improvements	(1,064,782)	(566,410)	—	—	(1,631,192)
Buildings and building improvements	(41,193,571)	(5,517,647)	—	—	(46,711,218)
Building service equipment	(15,292,120)	(7,573,885)	—	—	(22,866,005)
Fixed equipment	(7,168,920)	(483,381)	—	—	(7,652,301)
Major movable equipment	(116,287,345)	(15,109,533)	—	—	(131,396,878)
Total accumulated depreciation	(181,006,738)	(29,250,856)	—	—	(210,257,594)
UNM Hospital depreciable capital assets, net	$ 272,438,670	(14,975,939)	20,882,226	—	278,344,957

	Year ended June 30, 2008				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Capital asset summary:					
UNM Hospital capital assets not being depreciated	$ 12,332,438	26,515,937	(20,882,226)	—	17,966,149
UNM Hospital depreciable capital assets, at cost	453,445,408	14,274,917	20,882,226	—	488,602,551
UNM Hospital total cost of capital assets	465,777,846	40,790,854	—	—	506,568,700
Less accumulated depreciation	(181,006,738)	(29,250,856)	—	—	(210,257,594)
UNM Hospital capital assets, net	$ 284,771,108	11,539,998	—	—	296,311,106

(9) Compensated Absences

Qualified hospital 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 on an hour-for-hour basis. At termination, only employees who retire from the Hospital and qualify under the Hospital's policy or estates of employees who die as the result of a compensable occupational illness or injury are eligible for payment of unused accumulated hours. Accrued sick leave as of June 30, 2009 and 2008 of $1,847,000 and $1,476,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued. The increase of $371,000 was primarily attributed to the wage increases and the addition of 520 positions.

Major and minor sick leave balances earned by the consolidated employees under the UNM plan were transferred to the Hospital. Under the UNM plan, only employees hired prior to July 1, 1984 were eligible to accrue major sick leave. Eligible employees, 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 minor sick leave hours carried over from UNM were converted to cash in December 2000, at a rate equal to 50% of the employee's hourly wage, multiplied by the number of hours converted. Upon retirement, all minor hours in excess of 600 are paid at a rate equal to 50% of the employee's hourly wage multiplied by the number of hours in excess of 600 unused sick leave hours based on FTE status, not to exceed 440 hours of such sick leave.

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

(b) Annual Leave

Full-time employees accrue annual leave based on their length of employment up to a maximum of 480 hours. Part-time employees who are at least 0.5 FTE earn annual leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange for cash up to 80 annual leave hours accumulated in excess of 240 hours. At termination, employees are eligible for payment of unused accumulated hours, not to exceed 480 hours. Accrued annual leave as of June 30, 2009 and 2008 of $12,165,000 and $10,341,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued. The increase of $1,824,000 was primarily attributed to wage increases and the addition of 520 positions.

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 July 30, 2009
$ 12,075,313	24,884,243	(22,514,614)	14,444,942

Balance July 1, 2007	Increase	Decrease	Balance July 30, 2008
$ 10,615,054	20,492,594	(19,032,334)	12,075,314

The balances above include annual leave and sick leave, disclosed above, in addition to compensatory time and holiday, totaling $433,000 and $258,000 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.

(10) Other Accrued Liabilities

At June 30, other accrued liabilities consisted of the following:

		2009	2008
Deferred revenue	$	648,914	377,479
Deferred rent		426,296	603,660
Other		298,309	288,217
	$	1,373,519	1,269,356

(11) Bonds Payable

On October 14, 2004, UNM Board of Regents issued FHA insured Hospital Mortgage Revenue Bonds (University of New Mexico Hospital Project), Series 2004 in the aggregate principal amount of $192,250,000. Interest on the bonds ranges from 2% to 5% and is payable semi-annually on each January 1 and July 1, commencing January 1, 2005. The Series 2004 bonds were issued for the purpose of financing the construction, equipping, and furnishing of the CHCCP, which provides care to patients requiring trauma, children's and women's services, funding the Debt Service Reserve Fund, and paying costs of issuance associated with the bonds.

In conjunction with this construction project, the U. S. Department of Housing and Urban Development (HUD), under Section 242 CFDA No. 14.128, issued a loan guarantee for the mortgage amount of $183,399,000. The loan guarantee is considered federal assistance subject to the requirements of Office of Management and Budget (OMB) Circular A-133 and the Single Audit Act. Accordingly, the loan guarantee has been audited as a major program included in the June 30, 2009 and 2008 UNM financial statements.

The bonds are limited obligations of the UNM Board of Regents, and have a claim for payment solely from: (1) the trust revenues pursuant to Trust Indenture, dated as of November 1, 2004 by and between the UNM Board of Regents and Wells Fargo Bank National Association, as trustee, including without limitation, payments or prepayments to be made on the Mortgage Note (the Series 2004 Note); (2) payments made under the Mortgage and Series 2004 Note; (3) in the event of default by the UNM Board of Regents under the Series 2004 Note or the Mortgage and the assignment thereof to FHA, from proceeds of the Mortgage Insurance paid by the HUD, acting by and through the FHA under Section 242 of Title II of the National Housing Act; (4) moneys and investments held by the Trustee under the Trust Indenture; and (5) under certain circumstances, proceeds from insurance and condemnation awards and sales consummated under threat of condemnation.

Interest expense associated with the bonds payable was $8,905,000 and $9,000,000 net of amortization of bond premium totaling $442,000 and $301,000 for the years ended June 30, 2009 and 2008, respectively. Interest income earned from the investment of the bond proceeds was $904,948 and $1,592,000 for the years ended June 30, 2009 and 2008, respectively.

Bonds payable consist of the following:

	Year ended June 30, 2009				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
FHA Insured Hospital Mortgage Revenue:					
Bonds Series 2004	$ 190,210,000	—	(6,815,000)	183,395,000	4,390,000
Bond premium	3,089,678	—	(441,537)	2,648,141	—
	$ 193,299,678	—	(7,256,537)	186,043,141	4,390,000

	Year ended June 30, 2008				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
FHA Insured Hospital Mortgage Revenue:					
Bonds Series 2004	$ 192,225,000	—	(2,015,000)	190,210,000	4,125,000
Bond premium	3,542,040	—	(452,362)	3,089,678	—
	$ 195,767,040	—	(2,467,362)	193,299,678	4,125,000

Per Section 5.02 of the related Trust Indenture, the three bonds in the 2004 Series maturing on July 1, 2030, 2031, and 2032 are subject to sinking fund redemption in part prior to maturity. Excess funds in the debt service account and investment income received can be used for bond sinking fund redemption. On July 1, 2008, a bond sinking fund payment of $1,780,000 was made on the Series 2004 Bonds maturing in 2030, 2031, and 2032.

Per Section 5.01(B) of the related Trust Indenture, excess funds in the investment income account can be used for a special mandatory redemption. On January 2, 2009, a special mandatory redemption payment of $910,000 was made on the Series 2004 Bond maturing on July 1, 2032.

Future debt service (not including sinking fund redemptions) as of June 30, 2009 for the bonds follows:

		Principal	Interest	Total
2010	$	4,390,000	8,700,881	13,090,881
2011		4,570,000	8,501,938	13,071,938
2012		4,790,000	8,287,309	13,077,309
2013		4,985,000	8,085,213	13,070,213
2014		5,240,000	7,871,938	13,111,938
2015 – 2019		30,395,000	35,089,875	65,484,875
2020 – 2024		38,915,000	26,362,375	65,277,375
2025 – 2029		44,305,000	15,646,328	59,951,328
2030 – 2033		45,805,000	5,442,818	51,247,818
	$	183,395,000	123,988,675	307,383,675

On November 15, 2004, the Hospital established a mortgage reserve fund in accordance with the requirements and conditions of the FHA Regulatory Agreement. Future Mortgage Reserve Fund contributions are summarized as follows:

		Annual contribution
2010	$	2,518,920
2011		2,621,545
2012		2,728,351
2013		2,325,566
2014		2,420,313
2015 – 2017		7,868,817
	$	20,483,512

(12) Net Patient Service Revenues

The majority of the Hospital’s revenue is generated through agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established charges. Approximately 44% and 43% of the Hospital’s gross patient revenue for the years ended June 30, 2009 and 2008, respectively, was derived from the Medicare and Medicaid programs, the continuation of which are dependent upon governmental policies. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital’s billings at established charges for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from major third-party payors follows:

(Continued)

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

Medicaid – The Hospital is eligible for and receives additional Medicaid reimbursement for the gap between the amount that would be equal to the Medicare reimbursement per discharge compared to the Medicaid payment per discharge. This upper payment limit is based on the reimbursement that would use Medicare reimbursement principles. The Hospitals recorded Upper Payment Limit for the years ended June 30, 2009 and 2008 in the amounts of $21.3 million and $17.4 million, respectively.

The Hospital has reimbursement agreements with certain healthcare contractors that have contracted to provide services to Medicaid beneficiaries enrolled under the State of New Mexico SALUD! (managed care) program. The basis for reimbursement under these agreements includes prospectively determined rates per diem for inpatient services and predetermined fee schedules for outpatient services. The Medicaid SALUD! agreements are capitated contracts whereby the Hospital is paid a predetermined rate for inpatient and outpatient services subject to final settlement based on a comparison of the amount withheld from the negotiated rates. About 39% of the Medicaid services rendered are reimbursed on a fee-for-service arrangement utilizing a prospective Diagnosis Related Group system for inpatient services and an adjusted-cost methodology for outpatient services.

The Hospital entered into a reimbursement agreement for the SCI program during fiscal year 2007. This program is part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico 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 Hospital's funding under the SCI program for the years ended June 30, 2009 and 2008 was $37.7 million and $22.8 million, respectively.

Other – The Hospital has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined per diem rates.

A summary of net patient revenues follows for the years ended June 30:

		2009	2008
Charges at established rates	$	1,206,624,223	984,393,713
Charity care		(183,220,345)	(137,982,221)
Contractual adjustments		(368,950,498)	(308,745,258)
Provision for doubtful accounts		(97,991,199)	(91,412,617)
Net patient revenues	$	556,462,181	446,253,617

Contractual adjustments for the years ended June 30, 2009 and 2008 were increased by third-party payor settlements to the Hospital of $1,287,000 and $5,208,000, respectively.

(13) Charity Care

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

		2009	2008
Charges foregone, based on established rates	$	183,220,345	137,982,221
Estimated costs and expenses incurred to provide charity care		94,358,478	74,372,417
Equivalent percentage of charity care charges forgone to total gross revenue		15%	14%

(14) Malpractice Insurance

As a part of the UNM, the Hospital 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 Hospital's sovereign immunity for claims arising out of negligence out of the operation of the Hospital, the treatment of the Hospital's patients, and the healthcare services provided by Hospital employees. In addition, the 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 set forth as follows: (a) $200,000 for real property; (b) up to $300,000 for past and future medical and medically related expenses; and (c) up to $400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. 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. 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 Hospital 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 Hospital. As a result of the foregoing, the Hospital is fully covered for claims and/or lawsuits relating to medical malpractice or professional liability.

(15) Related-Party Transactions

The Hospital provides professional services, referral services, and office space to UNM and other entities associated with UNM. The Hospital billed the following amounts, included as an expense reduction in the accompanying statements of revenues, expenses, and changes in net assets, for services rendered during the years ended June 30:

		2009	2008
UNM Health Sciences Center	$	9,958,435	5,537,989
UNM Cancer Center		102,523	86,859
	$	10,060,958	5,624,848

The Hospital reimburses UNM and the UNM HSC for the cost of utilities and the salaries of various medical and administrative personnel incurred on behalf of the Hospital. The Hospital incurred expenses, included in total expenses in the accompanying statements of revenues, expenses, and changes in net assets, related to the following entities during the years ended June 30:

		2009	2008
UNM	$	14,234,135	14,514,351
UNM Health Sciences Center		93,377,363	77,460,846
	$	107,611,498	91,975,197

(16) Benefit Plans

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

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

The Hospital also has a defined benefit plan that covers all employees who were members of the clerical and service worker collective bargaining unit as of June 30, 1977 and had completed a year of service prior to June 30, 1977. The plan provides monthly pension benefits based on service before July 1, 1977. The name of the plan is University of New Mexico/BCMC Retirement Plan B. There are currently

119 participants included in this plan. Actuarial pension data for this plan may be obtained by writing to UNM Hospital's Human Resources Department, P.O. Box 80600, Albuquerque, NM 87198-0600.

A small portion (approximately 35) of the Hospital'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 the Educational Retirement Board, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's website at www.nmerb.org.

Funding Policy

The expense for the defined contribution plan was $9,082,000, $7,739,000, and $6,440,000 in fiscal years 2009, 2008, and 2007, respectively. Total employee contributions under this plan were $10,505,000, $9,413,000, and $8,253,000 in fiscal years 2009, 2008, and 2007, respectively.

There was no expense for the deferred compensation plan in 2009, 2008, and 2007, respectively, as the Hospital does not contribute to this plan. Total employee contributions under this plan were $1,929,000, $1,727,000, and $1,365,000 in 2009, 2008, and 2007, respectively.

Effective July 1, 2008, plan members of the public employee retirement system are required to contribute 9.40% of their gross salary. The Hospital is required to contribute 10.90% of the gross covered salary. 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 Hospital's contributions to ERB for the fiscal years ended June 30, 2009, 2008, and 2007 were $217,000, $195,000, and $206,000, respectively, which equal the amount of the required contributions for each fiscal year.

(17) 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 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 BCBSNM. 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 post-employment benefits when:

- The employee reaches the minimum age of fifty (50)
- The employee has at least five years of continuous employment
- The employee has a combined age plus year of service sum of at least seventy (70) (hire date prior to July 1, 2009) and seventy-five (75) (hire date after July 1, 2009).

At the date of valuation, July 1, 2008, there were a total of 18 retirees receiving benefits, 363 active employees fully eligible to receive benefits, and 4,166 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 retirees 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)		
	Standard network	**Extended network**	**Delta dental**	**Standard network**	**Extended network**	**Delta dental**
Rate tier:						
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 Hospital's pay-as-you-go expense for the period of July 1, 2008 to June 30, 2009 is $109,000. 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 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 that 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 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%, UNM Psychiatric Center – 6%, and the UNM Children's Psychiatric Center – 3%. The OPEB cost and net OPEB obligation information presented below are UNM Hospital'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 Hospital's NOO as of July 1, 2008 is equal to $427,000, 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	$	427,000
ARC		714,000
Interest on prior year NOO		20,020
Adjustment to ARC		(17,290)
Annual OPEB cost		716,730
Employer contributions		(109,000)
Increase in NOO		607,730
NOO – end of year	$	1,034,730

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	$	716,730	15.2%	$	1,034,730
June 30, 2008		525,000	18.7		427,000

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) is \$5,305,000 and the actuarial value of assets was \$0, resulting in an unfunded actuarial liability (UAAL) of \$5,305,000. The UAAL is applicable to all reporting entities based on the percentage noted above.

		Unit credit method unfunded plan June 30, 2009
AAL	$	5,305,000
Actuarial value of plan assets		—
UAAL		5,305,000
Funded ratio (actuarial value of plan assets/AAL)		—
Covered payroll (active plan members)		227,182,132
UAAL as a percentage of covered payroll		2.3%

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 4), 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.

(18) Commitments and Contingencies

(a) Lease Commitments

The Hospital is committed under various leases for building and office space and data processing equipment. Rental expenses on operating leases and other nonlease equipment amounted to \$10,042,000 in 2009 and \$9,070,000 in 2008.

The Hospital has entered into a memorandum of understanding with UNM to lease the medical facility referred to as the Ambulatory Care Center and usage of the related parking structure through fiscal year 2019. The Hospital pays semiannual installments of approximately \$969,000 under this memorandum of understanding.

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	$	5,851,402
2011		4,567,767
2012		4,243,097
2013		3,944,187
2014		3,865,768
2015 – 2019		9,310,662
2020 – 2024		1,257,085
2025 – 2029		1,257,085
2030 – 2034		1,257,085
2035 – 2039		1,131,064
	$	36,685,202

(b) Contingencies

The Hospital is currently a party to various claims and legal proceedings. The Hospital makes provisions for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Hospital believes it has adequate provisions for potential liability in litigation matters. The Hospital reviews these provisions on a periodic basis and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Based on the information that is currently available to the Hospital, the Hospital believes that the ultimate outcome of litigation matters, individually and in aggregate, will not have a material adverse effect on its results of operations or financial position. However, litigation is inherently unpredictable.

(19) Capital Initiatives

The Hospital and the UNM HSC entered into a Memorandum of Understanding (MOU), for a third year, to collaborate on strategic capital projects. Per the agreement, the Hospital recorded a nonoperating expense of $23.0 million and $15.7 million in 2009 and 2008, respectively, to provide for the development of clinical facilities pursuant to the agreement. All capital facilities are owned by UNM HSC for use by the Hospital. Capital project disbursements in 2009 and 2008 were $8.0 million and $5.0 million, respectively. The ending balance for the strategic capital initiatives account at UNM HSC was $45.5 million at June 30, 2009.

(Continued)

(20) Risks and Uncertainties

The Hospital's investments are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets.

Schedule 1

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Comparison of Budgeted and Actual Revenues and Expenses

Year ended June 30, 2009

		Budget (original)	Budget (final)	Actual	Budget variance
Operating revenues:					
Net patient service	$	465,383,475	508,467,620	556,462,181	47,994,561
Other operating revenue		6,455,207	7,815,099	7,928,674	113,575
Total operating revenues		471,838,682	516,282,719	564,390,855	48,108,136
Operating expenses		549,043,766	587,532,029	596,551,450	(9,019,421)
Operating loss		(77,205,084)	(71,249,310)	(32,160,595)	39,088,715
Nonoperating revenues, net		82,210,144	79,471,872	64,200,002	(15,271,870)
Increase in net assets	$	5,005,060	8,222,562	32,039,407	23,816,845

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

See accompanying independent auditors' report.

Schedule 2

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Pledged Collateral by Banks

Year ended June 30, 2009

	Pledged collateral			Bank balance		
	Safekeeping location	Type of security	CUSIP	Bank of America Albuquerque New Mexico	First Community Bank Albuquerque New Mexico	Total
Funds on deposit:						
Demand deposits				$ 118,991,086	16,916	119,008,002
Less repurchase agreements at cost 102% collateralized by	Bank of America Charlotte, NC	U.S. FHLMC	3128LDGK4	(1,638,572)	—	(1,638,572)
		U.S. FNMA	31415P2L1			
		U.S. FNMA	31416HSN6			
		U.S. FHLMC	3128LC6C5			
		U.S. FNMA	31416PNP8			
		U.S. FHLMC	3128PLG63			
FDIC insurance				(250,000)	(16,916)	(266,916)
Total uninsured public funds				$ 117,102,514	—	117,102,514
50% collateral requirement per Section 6-10-17 NMSA				$ 58,551,257	—	58,551,257
Pledged collateral	Bank of America Charlotte, NC	U.S. FNMA	31385XAZ0	142,060,425	—	142,060,425
Total pledged collateral				142,060,425	—	142,060,425
Excess of pledged collateral over the required amount				$ (83,509,168)	—	(83,509,168)

See accompanying independent auditors' report.

Schedule 3

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Schedule of Individual Deposit and Investment Accounts

Year ended June 30, 2009

Name of bank/broker	Account type	Balance per bank statement	Reconciled balance per financial statement
UNM Hospital cash:			
Bank of America:			
Operating	Checking	$ 117,349,390	97,814,326
Other Clinical Operations	Checking	3,124	3,124
Consolidated Automated Overnight Investment	Repurchase agreement	1,638,572	1,638,570
First Community Bank:			
UNM Hospital Change Campaign	Checking	16,916	16,916
Petty Cash	Cash on hand	—	27,555
Total UNM Hospital cash		$ 119,008,002	99,500,491
UNM Hospital short-term investments:			
Citi Smith Barney	Money market deposits	$ 15,375	15,375
Wells Fargo	Money market deposits	1,407,375	1,407,375
Citi Smith Barney	Money market funds	1,400,502	1,400,502
Wells Fargo	Money market funds	3,486,056	3,486,056
Wells Fargo	FNMA	3,184,415	3,184,415
Citi Smith Barney	FNMA	1,552,864	1,552,864
Citi Smith Barney	FHLMC	2,853,180	2,853,180
Citi Smith Barney	U.S. Treasury notes	2,817,727	2,817,727
Citi Smith Barney	U.S. Treasury notes	19,905,731	19,905,731
Citi Smith Barney	U.S. Treasury STRIPS	4,026,681	4,026,681
Total UNM Hospital short-term investments		$ 40,649,906	40,649,906
UNM Hospital long-term investments:			
Wells Fargo	Money market deposits	$ 4,502	4,502
Wells Fargo	Money market funds	8,685,709	8,685,709
Wells Fargo	Collateralized repurchase agreement	13,443,513	13,443,513
Investment in TriWest	Equity securities	2,612,500	2,612,500
Investment in TRL (TriCore)	Equity securities	4,919,791	4,919,791
Investment in TLSC	Equity securities	4,533,694	4,533,694
Total UNM Hospital long-term investments		$ 34,199,709	34,199,709

See accompanying independent auditors' report.

Schedule 4

UNM HOSPITAL
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	$ —	5,305,000	5,305,000	—%	$ 227,182,132	2.3%
July 1, 2007	—	3,830,640	3,830,640	—	194,841,644	2.0

Note B: The above AAL and covered payroll balances represents UNM Hospital portion of the plan.

See accompanying independent auditors' report.

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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 Hospital (the Hospital) 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 Hospital'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 Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital'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 Hospital'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 Standards* and which is described in the accompanying schedule of findings and responses as item 2009-01.

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Hospital's responses, 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 Operations 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 thirty 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 HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Exit Conference

Year ended June 30, 2009

The Hospital'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 Hospital'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
Robert Fondino	Chief Finance and Budget Officer
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