UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Financial Statements and Supplementary Information

June 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Fiscal year 2008 Official Roster

Clinical Operations Board

Louise Campbell-Tolber Albuquerque, New Mexico	Chairperson (Term expires 06/30/10, Regent appointed)
Maria Griego-Raby Albuquerque, New Mexico	Vice Chairperson (Term expires 06/30/08, Regent appointed)
Jerry Geist Albuquerque, New Mexico	Secretary (Term expires 03/31/09, Regent appointed)
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)
Fred Hashimoto, M.D. Albuquerque, New Mexico	Member (Term expires 09/30/08, 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 2008 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 Finance 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

Table of Contents

KPMG

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

Independent Auditors' Report

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

We have audited the accompanying statements of net assets of 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, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. We have also audited the budget comparison presented as supplemental information for the year ended June 30, 2008. These financial statements and supplemental information are the responsibility of the 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, 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective budgetary comparison for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued a report dated January 5, 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

January 5, 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, 2008 and 2007. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of 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.

(Continued)

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		**2008**	**2007**	**2006**
Current assets	$	182,168,828	164,423,599	142,386,736
Capital assets, net		296,311,106	284,771,108	204,830,690
Noncurrent assets		47,384,133	37,506,190	120,280,575
Total assets	$	525,864,067	486,700,897	467,498,001
Liabilities				
Current liabilities	$	108,275,433	97,395,801	101,077,125
Noncurrent liabilities		189,174,678	193,752,040	196,207,766
Total liabilities	$	297,450,111	291,147,841	297,284,891
Net Assets				
Invested in capital assets, net of related debt	$	122,175,727	109,037,934	109,116,612
Restricted		3,453,212	1,938,754	2,405,337
Unrestricted		102,785,017	84,576,368	58,691,161
Total net assets	$	228,413,956	195,553,056	170,213,110

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, 2007, total Hospital's assets were $486.7 million compared to $467.5 million at June 30, 2006. The Hospital's most significant asset at June 30, 2007 was net capital assets of $284.8 million, followed by cash and cash equivalents of $54.3 million.

For June 30, 2008, 2007, and 2006, the Hospital's current assets of $182.1 million, $159.8 million, and $142.4 million were sufficient to cover current liabilities of $108.3 million (current ratio of 1.68), $97.4 million (current ratio of 1.64), and $101.1 million (current ratio of 1.41), respectively.

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 $189.2 million was the largest liability, followed by estimated third-party payor settlements of $22.8 million.

The Hospital's liabilities totaled $291.1 million at June 30, 2007 compared to $297.3 million at June 30, 2006. The bond payable of $193.8 million was the largest liability, followed by accounts payable of $17.3 million.

(Continued)

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

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 nonoperating revenues of $95.0 million. Unrestricted net assets totaled $102.8 million at June 30, 2008.

Total net assets for the year ended June 30, 2007 increased by $25.3 million to $195.6 million, primarily due to the excess of revenues over expenses in fiscal year 2007 of $21.5 million, which included an operating loss of $52.2 million offset by nonoperating revenues of $73.7 million. Unrestricted net assets totaled $84.6 million at June 30, 2007. The inclusion of Carrie Tingley Hospital (CTH) for the fiscal year ended June 30, 2007 increased net assets by $3.8 million.

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

	Year ended June 30		
	2008	**2007**	**2006**
Total operating revenues	$ 452,799,811	381,934,951	326,116,558
Total operating expenses	514,936,307	434,141,026	371,601,681
Operating loss	(62,136,496)	(52,206,075)	(45,485,123)
Nonoperating revenues	94,997,396	73,700,149	50,532,018
Assumption of net assets of CTH	—	3,845,872	—
Total increase in net assets	32,860,900	25,339,946	5,046,895
Net assets, beginning of year	195,553,056	170,213,110	165,166,215
Net assets, end of year	$ 228,413,956	195,553,056	170,213,110

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 $452.8 million, $381.9 million, and $326.1 million, for the years ended 2008, 2007, and 2006, 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 $446.3 million, $377.7 million, and $320.7 million, for the years ended 2008, 2007, and 2006, respectively.

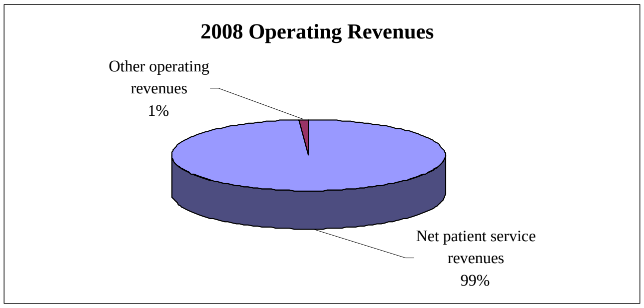
In June 2007, CTH inpatient unit relocated to the Barbara and Bill Richardson Children's Hospital and Critical Care Pavilion (CHCCP), a new addition to the Hospital. The unit was moved to better serve the patients of CTH. Patients requiring operations no longer have to be transported from a remote site to the main hospital, as the inpatient unit is located in the same building as the new pediatric operating room. In addition, children now are able to take advantage of the rehabilitation services as well as other programs at the main hospital. As a result, the Hospital's fiscal year 2008 and 2007 financial statements include financial activity of CTH.

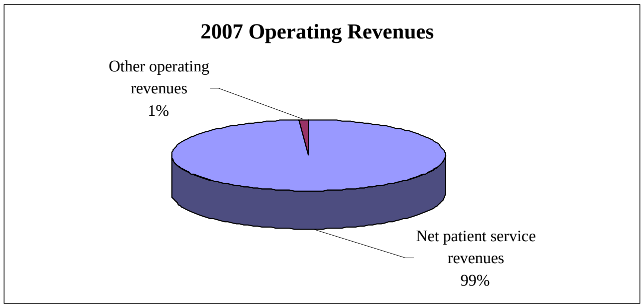
Net patient services revenues for 2008 increased $68.6 million from $377.7 million in 2007, which represents a 18.2% increase, primarily due to increases in patient activity. Patient days were 134,294 and 122,563 for 2008 and 2007, respectively. Outpatient clinic visits were 422,112, which represents an increase of 15,263 from 406,489 for the same time period in fiscal year 2007.

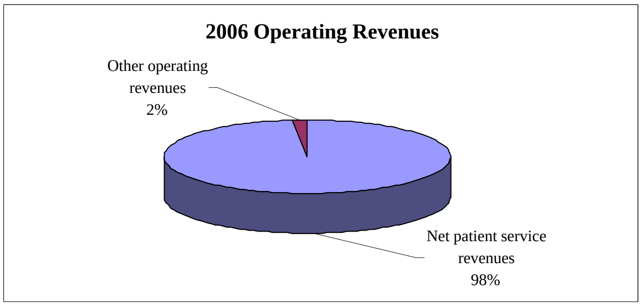
The Hospital entered into a reimbursement agreement for the State Coverage Insurance (SCI) Program during fiscal year 2007. This program is part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico Human Services Department (HSD). Funding is modeled after a capitated payment program. Funds are remitted to the Hospital on a per member per month basis for all state approved members. At June 30, 2008 and 2007, the Hospital recognized $22.8 million and $7.7 million, respectively.

Net patient service revenues for 2007 increased $57.0 million from $320.7 million in 2006, which represents a 17.8% increase. This increase is related to increases in patient volumes. Patient days were 122,563 and 114,222 for fiscal years 2007 and 2006, respectively. Outpatient clinic visits were 406,489 and 364,063 for the same time period.

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



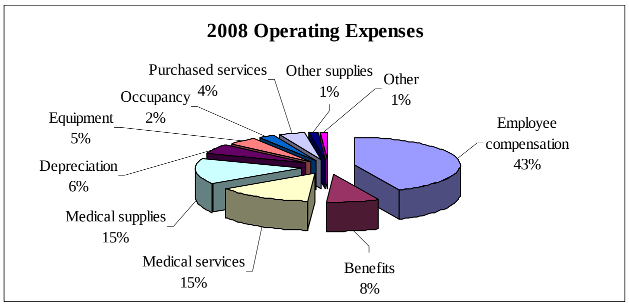


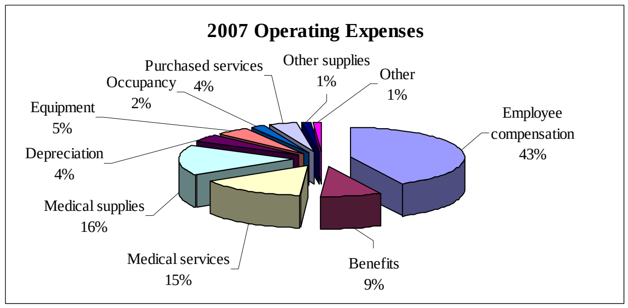


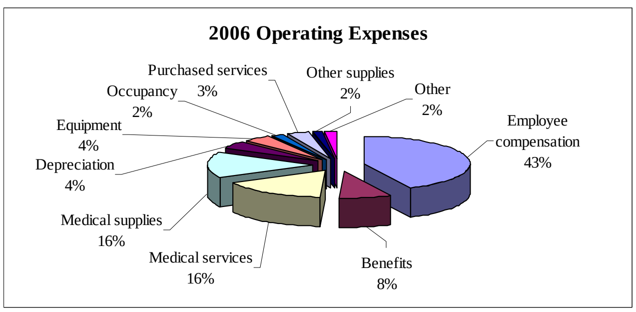
Operating Expenses

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 $263.6 million, $222.0 million, and $188.5 million for the years ended June 30, 2008, 2007, and 2006, respectively.

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







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 CHCCP, medical services increased $9.6 million (14.6%), and purchased services increased $4.4 million (26.6%).

At June 30, 2007, operating expenses, including depreciation of $18.9 million, totaled $434.1 million, an increase from 2006 of $62.5 million or 16.8%. The overall increase was attributed to the increase in employee compensation and benefits of $33.6 million (17.8%) as a result of wage increases and the addition of 203 positions, as well as an increase in medical supplies of $12.7 million (21.8%), which correlates with the increase in patient days of 8,341 from 2006. In addition, equipment increased $5.6 million (36.9%), medical services increased $4.8 million (7.8%), and purchased services increased $4.2 million (33.6%). The inclusion of CTH for the fiscal year ended June 30, 2007 increased overall expenses by $15.4 million.

Nonoperating Revenues and Expenses

For the year ended June 30, 2008, $95.0 million has been recorded as nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net assets.

At June 30, 2008 and 2007, the Bernalillo County mill levy tax subsidy was the most significant nonoperating revenue, totaling $73.8 million in 2008 and $66.5 million in 2007. The mill levy increased $7.2 million (10.9%) from 2007 and increased $4.8 million (7.8%) from 2006. This tax subsidy is provided for the general operations of the Hospital. The Hospital received this tax subsidy, which was increased in 2000, by voter endorsement for the services the Hospital provides. The voters approved the renewal of the mill levy in the November 2008 election.

The next largest 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. The NMFA may still issue approximately $11.0 million of cigarette tax revenue bonds at a future date for the benefit of the UNM HSC.

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.

The next largest nonoperating revenue in 2007 was capital appropriations of $10.3 million as compared to $2.0 million in 2006. The increase of $8.3 million represents the $10.0 million state appropriation for patient care equipment that was funded through the State of New Mexico general fund surplus and House Bill 2 approved during the 2007 legislative session.

Also included in nonoperating revenue for 2008 was $5.9 million of state appropriation funds, $5.3 million for CTH, $6,000 for Young Children Health Center, and $706,600 of CTH state land revenue and oil and gas royalties. The year ended June 30, 2007 included CTH state appropriation funds of $4.7 million and CTH state land revenue of $637,300.

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 contributions for equipment related to the CHCCP.

The largest nonoperating expense recorded in 2008 was $15.5 million for strategic capital projects as set forth in the current year Memorandum of Understanding (MOU) between the Hospital and UNM HSC. In 2007, the Hospital recorded $14.0 million in nonoperating expense strategic capital projects as set forth in the fiscal year 2007 MOU. Refer to note 20 in the accompanying notes to the financial statements.

Also included in nonoperating expense in 2008 was $8.7 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, 2007 included $728,000 in interest on capital asset related debt. This amount represents the interest expense for June 2007 only, as interest for prior periods was capitalized. See note 2(r) in the accompanying notes to the financial statements for further details regarding capitalized interest.

Capital Assets

At June 30, 2008, the Hospital had $296.3 million invested in capital assets, net of accumulated depreciation of $210.2 million. Depreciation charges for the year totaled $29.3 million compared to $18.9 million and $16.7 million in fiscal years 2007 and 2006, respectively.

		2008	2007	2006
Land, building, and improvements	$	173,886,074	164,844,289	59,883,501
Building service equipment		120,667,523	111,124,625	34,436,608
Fixed equipment		12,453,324	11,682,250	7,566,838
Major moveable equipment		183,342,875	167,541,489	139,930,743
Construction in progress		16,218,904	10,585,193	123,415,640
		506,568,700	465,777,846	365,233,330
Less accumulated depreciation		(210,257,594)	(181,006,738)	(160,402,640)
Net property and equipment	$	296,311,106	284,771,108	204,830,690

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 ($2.3 million), the Somatom Definition CT ($2.1 million), the Allura Xper FD20 cardiovascular x-ray machine ($1.2 million), a digital diagnostic machine with dual detectors ($427,000), and a surgical microscope ($265,000). The largest capital expenditures in construction in progress include expansion of the electronic medical record ($1.7 million), computerized physician order entry ($2.4 million), infrastructure related to emergency operations ($3.8 million), and West renovations ($604,000).

During 2007, the capitalization of the CHCCP was estimated based on the project budget. This estimate of the capitalization resulted in increases in the land, building and improvements ($105.0 million), building service equipment ($76.7 million), fixed equipment ($4.1 million), and major moveable equipment ($27.6 million) categories and a decrease in construction-in-progress CHCCP ($112.8 million). The project was completed in June 2007 and capitalized in fiscal year 2008. The building asset balance was $161.7 million and $192.8 million at June 30, 2008 and 2007, respectively, a decrease of $31.1 million. The decrease in the building asset balance from 2007 to 2008 is due to a reclassification of capitalized assets from building to building service equipment. In fiscal year 2007, the capitalization of the CHCCP project was estimated based on the project budget. The project was completed in June 2007, and the estimated capitalization was replaced with actual capitalization in fiscal year 2008, which resulted in a reclassification from building to building service equipment. The building asset balance was $161.7 million and $153.8 million at June 30, 2008 and 2007, respectively, an increase of $7.9 million. The building service equipment asset balance was $120.7 million and $111.1 million at June 30, 2008 and 2007, respectively, an increase of $9.5 million.

The CHCCP is a seven-floor, 478,748 square-foot addition to the existing main Hospital building, connected on the west side of the existing building by an enclosed transit corridor. Six of the floors house patient care areas, while the seventh (a partial basement) houses the Hospital's inpatient food preparation facilities. The CHCCP roof has two helicopter landing pads.

The CHCCP has 302 inpatient beds, surgical suites, an expanded emergency department, with separate adult and pediatric units, and a suite of modern labor and delivery rooms. The Hospital's pediatric services, including the acute care pediatric services of the Children's Hospital (an operational division of the Hospital) and the inpatient rehabilitation services were previously provided in the separate CTH facility.

The street level of the CHCCP houses a 49,900 square-foot Emergency Department (ED), with separate pediatric and adult units. The new ED includes the Hospital's Level I Trauma Center. The ED has a decontamination unit and its own imaging center with computerized tomographic scanning capability, eliminating the need to transport patients to other areas of the Hospital for those procedures.

A portion of the existing hospital structure, including the existing ED and certain intensive care units, reached the end of its useful life and was partially demolished upon completion and occupancy of the CHCCP. New exterior walls were constructed on the portion that remains, with some reconfiguration of entries and utilities. In 2008, the Hospital recorded $399,000 in expense related to contractor costs for the demolition. In 2007, the Hospital recorded a $1.9 million loss related to impairment of the asset that was demolished.

In 2007, the largest capital expenditures in major moveable equipment include the Easy Diagnost Eleva System ($1.2 million), the Diamond Select CV ($614,000), the Xcelera/EnConcert/Inturis Suite ($442,000), a Dual Detector Gamma Camera ($339,000), the Modularis Uro Plus ($286,000), a Cardiac Hemodynamic Monitoring System ($252,000), and a DT Highlight Color Printer with Controller ($250,000).

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.

 (Continued)

Debt Activity

The Hospital's long-term debt and bonds payable totaled $189.2 million and $193.8 million at June 30, 2008 and 2007, respectively. The current portion of this debt is $4.1 million and $2.0 million at June 30, 2008 and 2007, 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 2008 and 2007. 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 non-hospital entities. Restricted net assets are those generated by donations and gifts. The restricted net assets are further classified in general terms as to the function for which they must be used. Unrestricted net assets may be used to meet all operating needs of the Hospital. Net assets increased approximately $32.9 million in 2008. Some of the major reasons for the increase include a $27.1 million in cigarette tax bond proceeds and $9.3 million in investment income.

Factors Impacting Future Periods

On May 23, 2007, the Center for Medicare and Medicaid Services published a proposed Graduate Medical Education (GME) rule to clarify that costs and payments associated with GME programs are not expenditures for Medical Assistance, which are federally reimbursed under the Medicaid program. If this proposed rule is implemented, the impact to the Hospital's Medicaid GME reimbursement is expected to decrease approximately $7.0 million annually.

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

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

In addition, the State of New Mexico received a Health Insurance Flexibility and Affordability (HIFA) waiver in 2002 in order to expand coverage to low-income uninsured working adults. In July 2005, the state implemented the New Mexico SCI. The goal of the SCI is to address the State of New Mexico's high rate of uninsured and low rate of employer sponsored healthcare.

The 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.

In May 2005, UNM HSC signed a Government Services Agreement (GSA) with the HSD and began enrolling members for benefits under this program to begin on July 1, 2005. As of June 30, 2008 and 2007, there were 9,783 and 5,251 active SCI enrollees, respectively. The Hospital received $22.8 million and $7.7 million in reimbursement for the SCI program in fiscal years 2008 and 2007, respectively. Effective September 12, 2008, the HSD suspended enrollment into this program.

The HSD pays a capitation amount to the Hospital for each member on a monthly basis. Through June 30, 2008, the average monthly rate per member was $405. Effective July 1, 2008, the average monthly rate was decreased to $250. The suspension of enrollment coupled with decreased reimbursement will have a financial impact on the Hospital.

The Hospital receives mill levy funds, which were increased significantly in 2000 by voter endorsement for the general operations of the Hospital. The mill levy is subject to approval by the Bernalillo County voters every eight years, and was approved in the November 2008 election.

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, 2008 and 2007

Assets	**2008**	**2007**
Current assets:		
Cash and cash equivalents	$ 51,475,048	54,311,704
Marketable securities	31,343,921	29,048,204
Assets whose use is limited:		
Held by trustee for debt service	7,925,624	—
Held by trustee for capital acquisitions	—	4,590,391
Receivables:		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $142,654,000 in 2008 and $70,685,000 in 2007)	52,035,923	48,417,815
University of New Mexico	5,799,512	2,445,126
Estimated third-party payor settlements	20,085,727	10,372,569
Bernalillo County Treasurer	1,047,719	980,081
Other	1,368,016	3,492,473
Total net receivables	80,336,897	65,708,064
Prepaid expenses	6,521,136	6,673,851
Inventories	4,566,202	4,091,385
Total current assets	182,168,828	164,423,599
Noncurrent assets:		
Bond issuance cost	5,651,151	6,197,105
Assets whose use is limited:		
Held by trustee for capital acquisitions	8,499,722	3,484,362
Held by trustee for mortgage reserve fund	3,642,604	1,200,224
Held by trustee for debt service reserve	13,513,150	13,513,150
Held by trustee for collateral	3,828,000	3,828,000
Held by trustee for redemption fund	1,780,000	—
By UNM Hospital Clinical Operations Board	10,469,506	9,283,349
Total assets whose use is limited	41,732,982	31,309,085
Capital assets:		
Nondepreciable assets:		
Land	1,747,245	1,747,245
Construction in progress	16,218,904	10,585,193
Depreciable capital assets, net	278,344,957	272,438,670
Capital assets, net	296,311,106	284,771,108
Total noncurrent assets	343,695,239	322,277,298
Total assets	525,864,067	486,700,897
Liabilities		
Current liabilities:		
Accounts payable	21,115,208	17,271,017
Accrued payroll	17,155,313	13,312,223
Payable to University of New Mexico	4,961,504	11,092,440
Due to affiliates	13,352,799	12,459,325
Construction payable	6,895,826	8,202,476
Bonds payable – current	4,125,000	2,015,000
Interest payable bonds	4,560,165	4,590,391
Accrued compensated absences	12,075,314	10,615,054
Estimated third-party payor settlements	22,764,948	16,163,822
Other accrued liabilities	1,269,356	1,674,053
Total current liabilities	108,275,433	97,395,801
Noncurrent liabilities:		
Bonds payable	189,174,678	193,752,040
Total noncurrent liabilities	189,174,678	193,752,040
Total liabilities	297,450,111	291,147,841
Net Assets		
Invested in capital assets net of related debt	122,175,727	109,037,934
Restricted for expendable grants, bequests, and contributions	3,453,212	1,938,754
Unrestricted	102,785,017	84,576,368
Commitments and contingencies (notes 10, 12, 13, 14, and 15)		
Total net assets	$ 228,413,956	195,553,056

The notes are an integral part of these 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, 2008 and 2007

	2008	2007
Operating revenues:		
Net patient service	$ 446,253,617	377,709,202
State and local contracts and grants	1,522,698	1,371,878
Other operating revenues	5,023,496	2,853,871
Total operating revenues	452,799,811	381,934,951
Operating expenses:		
Employee compensation	222,350,369	184,817,299
Benefits	41,291,686	37,228,210
Medical services	75,083,043	65,498,521
Medical supplies	77,577,907	70,913,507
Depreciation	29,250,856	18,931,275
Equipment	23,518,508	20,602,303
Occupancy	12,396,971	8,809,545
Purchased services	20,925,553	16,534,913
Other supplies	7,228,506	6,363,835
Other	5,312,908	4,441,618
Total operating expenses	514,936,307	434,141,026
Operating loss	(62,136,496)	(52,206,075)
Nonoperating revenues (expenses):		
Bernalillo County mill levy	73,752,924	66,510,944
State appropriation	5,888,100	5,117,500
State capital appropriations	—	10,348,676
Cigarette tax bond proceeds	27,112,345	2,357,033
State of New Mexico Land and Permanent Fund proceeds	706,555	644,606
Capital initiatives	(15,700,000)	(14,000,000)
Intergovernmental transfer	—	(4,919,844)
Investment income (interest, dividends, gains, and losses)	9,317,791	5,780,161
Equity in income (loss) of TriCore and TriCore Lab Service Corp.	532,782	606,586
Interest on capital asset-related debt	(8,698,194)	(727,999)
Capital grants and gifts	3,804,555	1,469,744
Bequests and contributions	153,930	512,742
Other nonoperating expense	(1,873,392)	—
Net nonoperating revenues	94,997,396	73,700,149
Assumption of surplus in net assets of CTH as of July 1, 2006	—	3,845,872
Increase in net assets	32,860,900	25,339,946
Net assets, beginning of year	195,553,056	170,213,110
Net assets, end of year	$ 228,413,956	195,553,056

The notes are an integral part of these financial statements.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Cash Flows

Years ended June 30, 2008 and 2007

		2008	2007
Cash flows from operating activities:			
Cash received from Medicaid and Medicare	$	271,376,699	239,271,929
Cash received from insurance and patients		168,146,778	144,374,987
Cash received from contracts and grants		1,392,739	1,530,772
Cash payments to suppliers		(194,257,868)	(188,905,249)
Cash payments to employees		(217,047,019)	(179,971,850)
Cash payments to University of New Mexico		(72,454,321)	(46,091,414)
Cash received from affiliates		893,474	1,722,237
Other receipts and payments		7,210,647	(1,831,552)
Net cash used in operating activities		(34,738,871)	(29,900,140)
Cash flows from noncapital financing activities:			
Cash received from Bernalillo County mill levy		73,685,286	66,809,263
Cash received from state appropriations		4,906,750	5,117,500
Cash received from State of New Mexico Land and Permanent Fund		691,416	820,916
Cash received from contributions for other-than-capital purposes		153,931	512,742
Cash payments for intergovernmental transfers		—	(7,302,274)
Net cash provided by noncapital financing activities		79,437,383	65,958,147
Cash flows from capital financing activities:			
Interest payments on bonds		(9,180,782)	(9,181,031)
Principal payments of bonds		(2,015,000)	(25,000)
Purchases of capital assets		(40,790,854)	(91,657,122)
Cash received from cigarette tax bonds		22,400,291	2,357,033
Cash payments to University of New Mexico		(19,700,000)	(19,000,000)
Capital appropriations received		—	10,348,676
Capital grants and gifts received		3,804,555	1,469,744
Cash payments for mortgage-related activities		(928,357)	—
Net cash used in capital financing activities		(46,410,147)	(105,687,700)
Cash flows from investing activities:			
Proceeds from sales and maturities of investments		26,682,925	114,264,214
Purchase of investments		(34,467,512)	(38,895,566)
Interest and dividends on investments		6,659,566	6,098,858
Net cash (used in) provided by investing activities		(1,125,021)	81,467,506
Net (decrease) increase in cash and cash equivalents		(2,836,656)	11,837,813
Cash and cash equivalents, beginning of year		54,311,704	42,473,891
Cash and cash equivalents, end of year	$	51,475,048	54,311,704

(Continued)

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Cash Flows

Years ended June 30, 2008 and 2007

		2008	2007
Noncash investing, capital, and financing activities:			
Cash and cash equivalents	$	—	1,310
Receivables:			
Patient		—	1,413,451
Due from affiliates		—	226,073
State of New Mexico Land and Permanent Fund		—	225,247
University of New Mexico		—	40,369
Estimated third-party payor settlements		—	51,159
Inventories		—	200,806
Capital assets, net		—	3,352,535
Accounts payable		—	(196,655)
Due to University of New Mexico		—	(364,650)
Estimated third-party payor liabilities		—	(467,509)
Accrued compensation and benefits		—	(636,264)
Assumption of surplus in net assets of CTH as of July 1, 2006	$	—	3,845,872
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(62,136,496)	(52,206,075)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		29,250,856	18,931,275
Provision for doubtful accounts, net		91,412,617	64,932,577
Loss on retirement of assets		—	1,849,400
Change in assets and liabilities:			
Patient receivables		(95,030,725)	(65,823,517)
Due from University of New Mexico		(2,373,036)	1,502,989
Third-party receivables		(9,713,158)	6,297,936
Other receivables		2,179,406	(4,526,529)
Inventories		(474,817)	(526,635)
Due to University of New Mexico		(2,130,936)	(707,959)
Third-party liabilities		6,601,126	530,718
Due from affiliates		893,474	1,722,237
Accrued expenses		5,303,350	4,845,449
Accounts payable and construction payable		1,479,468	(6,722,006)
Net cash used in operating activities	$	(34,738,871)	(29,900,140)

The notes are an integral part of these 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 which 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, 2020. 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. The lease contains a 20-year renewal option and is contingent on approval of the mill levy by the electorate every eight years with next voter approval scheduled for 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 Clinical Operations Board. The Hospital is governed by the UNM HSC Clinical Operations Board, 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. The Hospital's fiscal year 2007 financial statements include financial activity for CTH, and the assumption of the surplus in net assets as of July 1, 2006 has been included in the statements of revenues, expenses, and changes in net assets.

(Continued)

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 2008 and 2007 follows:

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

		2008	2007
Total operating revenues	$	8,654,336	10,362,857
Total operating expenses		15,016,146	15,374,676
Operating loss		(6,361,810)	(5,011,819)
Nonoperating revenues		6,373,080	5,478,136
Total increase in net assets		11,270	466,317
Net assets, beginning of year		4,312,189	3,845,872
Net assets, end of year	$	4,323,459	4,312,189

(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 Clinical Operations Board 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 to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

(b) Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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

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.

(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, 2008 and 2007, 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 income 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 Clinical Operations Board

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. The investment in TriCore Laboratory Service Corporation (TLSC) is reflected as a reduction in laboratory expense up to 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.

(Continued)

(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.

(l) Net Patient Service Revenues

Net patient 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. Accounts, when determined to be uncollectible, are charged against the allowance for doubtful accounts.

(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.

(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

(Continued)

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.

(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 were no unspent proceeds at June 30, 2008 and $1,491,000 at June 30, 2007.

(t) Risk Management

The Hospital self-insures its own health plan. 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, 2008 and 2007, the estimated amount of the Hospital's claims and accrued invoices was $3.0 million and $2.7 million, respectively. The liability balance for the self-insurance plan is included in accrued payroll. The incurred but not reported liability was calculated using information provided by Gallagher Benefit Services, Inc. and BCBSNM. Changes in the reported liability since June 30, 2006 resulted from the following:

		Beginning of fiscal year liability	Current year claims and changes in estimates	Claim payments	Balance at fiscal year-end
2007 – 2008	$	2,697,823	19,704,287	(19,434,329)	2,967,781
2006 – 2007		2,406,243	18,696,634	(18,405,054)	2,697,823

(u) Financial Reporting by Employers for Postemployment Benefits Other Than Pensions

The Hospital and the Other Clinical Operation centers (OCOs) provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment medical and dental healthcare provided separately from a benefit or pension plan. GASB Statement No 45, *Accounting and Financial Reporting by 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, 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 applicable for the Hospital and OCOs 2008 fiscal year.

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

(v) Classification

Certain 2007 amounts have been reclassified to conform to the 2008 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 clean-ups. 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, capitalize 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, 2008 and 2007 are $51,475,048 and $54,311,704, 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, 2008 and 2007.

Bank balances are categorized as follows:

	2008	2007
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 100,000	100,000
Repurchase agreements	1,639,069	1,642,858
Amount collateralized with securities held in the Hospital's name	76,368,834	71,659,837
Other cash	7,970	—
	$ 78,115,873	73,402,695

Cash in excess of FDIC insurance is collateralized at June 30, 2008 and 2007 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 does have a custodial risk policy for deposits, which 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, 2008 and 2007, 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, 2008		
	Fair value	**Less than 1 year**	**1 – 5 years**
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 marketable securities	$ 31,343,921	2,051,789	29,292,132

	June 30, 2007		
	Fair value	**Less than 1 year**	**1 – 5 years**
Items subject to interest rate risk:			
U.S. Treasury securities	$ 12,609,695	—	12,609,695
U.S. government agency obligations:			
FNMA	12,742,292	6,525,750	6,216,542
FHLMC	3,696,217	—	3,696,217
Total marketable securities	$ 29,048,204	6,525,750	22,522,454

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. Of the Hospital's investments of $31,122,911 in securities at June 30, 2008 and $29,048,204 in securities at June 30, 2007, all amounts 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.

(Continued)

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.

Concentration of Credit Risk – Investments – Concentration risk is the risk of loss attributed to the magnitude of a government's investment 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 does have 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 has no significant exposure to concentrated credit risk, since only $626,000 is invested in Federal Home Loan Mortgage Corporation (FHLMC) securities. This investment is 2.01% of the total long- and short-term investments held. FHLMC investments are implicitly guaranteed by the U.S. government.

A summary of the marketable securities at June 30, 2008 and 2007 and their exposure to credit risk is as follows:

	2008		2007	
	Rating	**Fair value**	**Rating**	**Fair value**
Items not subject to credit risk:				
Money market deposits	Not rated	$ 38,287	N/A	$ —
Money market funds	Not rated	182,723	N/A	—
U.S. Treasury securities:				
Treasury notes	Not rated	21,840,557	Not rated	12,609,695
Treasury STRIPS	Not rated	8,656,380	N/A	—
Items subject to credit risk:				
U.S. government agency obligations:				
FNMA	N/A	—	Fitch – AAA	12,742,292
FHLMC	Fitch – AAA	625,974	Fitch – AAA	3,696,217
Total marketable securities		$ 31,343,921		$ 29,048,204

(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 Clinical Operations Board 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, 2008	
	Fair value	**Less than 1 year**
Items not subject to interest rate risk:		
Equity securities	$ —	—
Items subject to interest rate risk:		
Money market	2,621,419	2,621,419
Money market deposits	—	—
Repurchase agreements	—	—
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

	June 30, 2007	
	Fair value	**Less than 1 year**
Items not subject to interest rate risk:		
Equity securities	$ —	—
Items subject to interest rate risk:		
U.S. government agency obligations:		
FNMA	4,590,391	4,590,391
FHLMC	—	—
Total items subject to interest rate risk	4,590,391	4,590,391
Total short-term investments	$ 4,590,391	4,590,391

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, 2008 and 2007, the Hospital's investments of $5,304,205 and $4,590,391 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, 2008 and 2007 and their exposure to credit risk is as follows:

	2008		2007	
	Rating	**Fair value**	**Rating**	**Fair value**
Items not subject to credit risk:				
Equity securities	N/A	$ —	N/A	$ —
Items subject to credit risk:				
Money market	Not rated	2,621,419	N/A	—
Money market deposits	N/A	—	N/A	—
Repurchase agreements	N/A	—	N/A	—
U.S. government agency obligations:				
FNMA	Fitch – AAA	3,182,956	Fitch – AAA	4,590,391
FHLMC	Fitch – AAA	2,121,249	Fitch – AAA	—
Total items subject to credit risk		7,925,624		4,590,391
Total short-term investments		$ 7,925,624		$ 4,590,391

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.

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

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

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

	June 30, 2007	
	Fair value	**Less than 1 year**
Items not subject to interest rate risk:		
Equity securities	$ 9,283,349	—
Money market	5,785,653	5,785,653
Money market deposits	333,910	333,910
Repurchase agreements	13,513,150	13,513,150
U.S. government agency obligations, FNMA	2,393,023	2,393,023
Items subject to interest rate risk	22,025,736	22,025,736
Total long-term investments	$ 31,309,085	22,025,736

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, 2008 and 2007, the Hospital's investments of $0 and $2,393,023 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.

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, 2008 and 2007.

The repurchase agreement for the Reserve Account was $13,452,613 and $13,513,150 at June 30, 2008 and 2007, respectively. This is an American International Group (AIG) Matched Funding Corporation agreement collateralized by four FHLMC securities held by the Trustee in the Hospital's name. As of August 31, 2008, the market value of the repurchase agreement was $792,000 in excess of the investment principal resulting in a security ratio of 110.07% collateralization. As of September 30, 2008, this investment had no subsequent decline in market value.

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 does have 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, 2008 and 2007 and their exposure to credit risk is as follows:

	2008		2007	
	Rating	Fair value	Rating	Fair value
Items not subject to credit risk:				
Equity securities	N/A	$ 10,469,506	N/A	$ 9,283,349
Items subject to credit risk:				
Money market	Not rated	15,698,280	Not rated	5,785,653
Money market deposits	Not rated	2,112,583	Not rated	333,910
Repurchase agreements	Moodys – Aa3	13,452,613	Moodys – Aa2	13,513,150
U.S. government agency obligations:				
FNMA	N/A	—	Fitch – AAA	2,393,023
Total items subject to credit risk		31,263,476		22,025,736
Total long-term investments		$ 41,732,982		$ 31,309,085

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 percentage of gross accounts receivable from all payors as of June 30:

	2008	2007
Medicare and Medicaid	43%	32%
Other third-party payors	42	46
Others	15	22
	100%	100%

(6) Estimated Third-Party Payor Settlements

The Hospital is reimbursed by the Medicare and Medicaid programs for certain reimbursable items at a tentative 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 2000 have been final settled for the Medicaid programs. Cost reports through 2004 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.

(7) Assets Whose Use is Limited

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

	2008	2007
Current		
Held by trustee for debt service	$ 7,925,624	—
Held by trustee for capital acquisitions	—	4,590,391
Noncurrent		
Held by trustee for capital acquisitions	8,499,722	3,484,362
Held by trustee for mortgage reserve fund	3,642,604	1,200,224
Held by trustee for debt service reserve	13,513,150	13,513,150
Held by trustee for collateral	3,828,000	3,828,000
Held by trustee for redemption fund	1,780,000	—
By UNM Hospital Clinical Operations Board	10,469,506	9,283,349
	$ 49,658,606	35,899,476

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 Clinical Operations Board for future use subject to approval by the respective parties.

Assets whose use is limited Held by the Trustee - The Hospital has 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 account as a mortgage fund. Moneys deposited in this account are designated for the costs of the CHCCP. On a monthly basis, the Hospital submits an itemization representing the expense incurred on the CHCCP project to FHA for approval. Once approved, the Trustee releases the funds to the Hospital for payment to the contractors. 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. As of June 30, 2007, $4.6 million of the $8.1 million balance in the Held by trustee for capital acquisitions account represents the bond interest payment due July 1, 2007.

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 $17,341,150 and is closely related to the total annual obligation under the bond repayment schedule for the fiscal years 2009 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. In addition, the Hospital had set aside $3,660,000 in an escrow fund to be contributed upon request by TriWest, subject to approval, by the UNM Hospital Clinical Operations Board. Effective February 19, 2007, the funds were released from escrow in accordance with Section 6.a. (iii) of the Depository Agreement, whereby the Hospital was granted permission to terminate the restrictions in their entirety.

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. UNM, through the Hospital, has a 50% interest in TriCore totaling $4,230,000 and $3,926,000 at June 30, 2008 and June 30, 2007, 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.

During 2004, TriCore reorganized its business activities into two entities: TriCore whose business consists of laboratory testing services for nonmembers; and TLSC, which organized solely to perform laboratory services, on a centralized basis, for its members, the Hospital and Presbyterian Healthcare Services. TLSC is a tax-exempt, cooperative hospital service organization under Section 501(e) of the Internal Revenue Code of 1986. The Hospital has a 50% interest in TLSC totaling $3,627,000 and $2,744,000 at June 30, 2008 and June 30, 2007, respectively. Approximately 37% and 38% of the net earnings of TLSC in fiscal years 2008 and 2007, 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 13% and 12% is accounted for under the equity method in fiscal years 2008 and 2007, respectively. The Hospital recorded laboratory expenses of approximately $21,200,000, net of the 37% reduction in laboratory expense, which totaled $883,000 in 2008. The Hospital recorded laboratory expenses of approximately $18,600,000, net of the 38% reduction in laboratory expense, which totaled $604,000 in 2007. 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.

(8) Capital Assets

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

	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

(Continued)

	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

	Year ended June 30, 2007				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
UNM Hospital capital assets not being depreciated:					
Land	$ 1,247,245	500,000	—	—	1,747,245
Construction in progress	123,415,640	88,227,794	(201,058,241)	—	10,585,193
	$ 124,662,885	88,727,794	(201,058,241)	—	12,332,438
UNM Hospital depreciable capital assets:					
Land improvements	$ 1,686,589	157,108	7,446,256	—	9,289,953
Buildings and building improvements	56,949,667	8,665,507	95,598,127	(7,406,210)	153,807,091
Building service equipment	34,436,608	1,518,207	76,432,993	(1,263,183)	111,124,625
Fixed equipment	7,566,838	88,247	4,148,250	(121,085)	11,682,250
Major movable equipment	139,930,743	10,756,774	17,432,615	(578,643)	167,541,489
Total depreciable capital assets	240,570,445	21,185,843	201,058,241	(9,369,121)	453,445,408
Less accumulated depreciation for:					
Land improvements	(833,260)	(231,522)	—	—	(1,064,782)
Buildings and building improvements	(37,275,491)	(10,340,225)	—	6,422,145	(41,193,571)
Building service equipment	(13,250,987)	(2,521,786)	—	480,653	(15,292,120)
Fixed equipment	(7,174,630)	(83,522)	—	89,232	(7,168,920)
Major movable equipment	(101,868,272)	(14,946,763)	—	527,690	(116,287,345)
Total accumulated depreciation	(160,402,640)	(28,123,818)	—	7,519,720	(181,006,738)
UNM Hospital depreciable capital assets, net	$ 80,167,805	(6,937,975)	201,058,241	(1,849,401)	272,438,670

	Year ended June 30, 2007				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Capital asset summary:					
UNM Hospital capital assets not being depreciated	$ 124,662,885	88,727,794	(201,058,241)	—	12,332,438
UNM Hospital depreciable capital assets, at cost	240,570,445	21,185,843	201,058,241	(9,369,121)	453,445,408
UNM Hospital total cost of capital assets	365,233,330	109,913,637	—	(9,369,121)	465,777,846
Less accumulated depreciation	(160,402,640)	(28,123,818)	—	7,519,720	(181,006,738)
UNM Hospital capital assets, net	$ 204,830,690	81,789,819	—	(1,849,401)	284,771,108

The Hospital capitalizes interest expense incurred during the period as an asset is being prepared for its intended use. For the year ended June 30, 2007, the Hospital capitalized interest expense of approximately $5,711,000. Beginning June 2007, bond interest was expensed due to the completion of the CHCCP.

CTH's capital assets of $12.5 million and related accumulated depreciation of $9.2 million were assumed by the Hospital on July 1, 2006 and have been included in the additions column in the preceding 2007 capital assets table. Therefore the $28.1 million additions in accumulated depreciation listed above, represents $9.2 million of assumed CTH accumulated depreciation and the 2007 depreciation expense of $18.9 million.

The CHCCP project was completed in June 2007, and at that time the capitalization was estimated based on the project budget. Thereafter, in fiscal year 2008, this estimated capitalization was replaced with actual capitalization, which resulted in a reclassification from building to building service equipment. The building asset balance was $162.0 million and $154.0 million at fiscal years ended June 30, 2008 and 2007, respectively, an increase of $8.0 million. The building service equipment asset balance was $121.0 million and $111.0 million at fiscal years ended June 30, 2008 and 2007, respectively, for increase of $10.0 million.

(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, 2008 and 2007 of $1,476,000 and $1,327,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued. The increase of $149,000 was primarily attributed to the wage increases and the addition of 466 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, 2008 and 2007 of $10,341,000 and $9,084,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued. The increase of $1,257,000 was primarily attributed to wage increases and the addition of 466 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, 2008 and 2007, the following changes occurred in accrued compensated absences:

	Balance July 1, 2007	Increase	Decrease	Balance July 30, 2008
$	10,615,054	20,492,593	(19,032,334)	12,075,313

	Balance July 1, 2006	Increase	Decrease	Balance June 30, 2007
$	9,294,458	18,858,598	(17,538,002)	10,615,054

The balances above include annual leave and sick leave, disclosed above, in addition to compensatory time and holiday, totaling $258,000 and $203,000 in FY 2008 and FY 2007, 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:

		2008	2007
Deferred revenue	$	377,479	350,299
Deferred rent		603,660	845,139
Other		288,217	478,615
	$	1,269,356	1,674,053

(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 will provide 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 United States 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 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, 2008 and 2007 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 $9,151,000 and $9,181,000 for the years ended June 30, 2008 and 2007, respectively. Interest income earned from the investment of the bond proceeds was $1,592,000 and $2,301,000 for the years ended June 30, 2008 and 2007, respectively.

Bonds payable consist of the following:

	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

	Year ended June 30, 2007				
	Beginning balance	**Additions**	**Deductions**	**Ending balance**	**Amounts due within one year**
FHA Insured Hospital Mortgage Revenue:					
Bonds Series 2004	$ 192,250,000	—	(25,000)	192,225,000	2,015,000
Bond premium	3,982,766	—	(440,726)	3,542,040	—
	$ 196,232,766	—	(465,726)	195,767,040	2,015,000

Per Section 5.02 of the related Trust Indenture, the three bonds 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.

(Continued)

Future debt service (not including sinking fund redemptions) as of June 30, 2008 for the bonds follows:

		Principal	Interest	Total
2009	$	4,125,000	9,014,931	13,139,931
2010		4,390,000	8,833,981	13,223,981
2011		4,570,000	8,635,038	13,205,038
2012		4,790,000	8,420,409	13,210,409
2013		4,985,000	8,218,313	13,203,313
2014 – 2018		28,940,000	37,239,413	66,179,413
2019 – 2023		37,045,000	28,950,000	65,995,000
2024 – 2028		42,130,000	18,524,284	60,654,284
2029 – 2032		59,235,000	8,178,338	67,413,338
	$	190,210,000	136,014,706	326,224,706

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
2009	$	2,420,313
2010		2,518,920
2011		2,621,545
2012		2,728,351
2013		2,325,566
2014 – 2017		10,289,130
	$	22,903,825

(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 43% and 39% of the Hospital's gross patient revenue for the years ended June 30, 2008 and 2007, 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:

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. Medicare outpatient – most covered Medicare outpatient services are paid under 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 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 43% 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 State Coverage Insurance (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 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.

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.

(Continued)

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

		2008	2007
Charges at established rates	$	984,393,713	808,051,099
Charity care		(137,982,221)	(136,807,635)
Contractual adjustments		(308,745,258)	(228,601,685)
Provision for doubtful accounts, net		(91,412,617)	(64,932,577)
Net patient revenues	$	446,253,617	377,709,202

Contractual adjustments for the years ended June 30, 2008 and 2007 were decreased by third-party payor settlements to the Hospital of $12,209,000 and $14,862,000, 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:

		2008	2007
Charges foregone, based on established rates	$	137,982,221	136,807,635
Estimated costs and expenses incurred to provide charity care		74,372,417	74,970,584
Equivalent percentage of charity care to total gross revenue		14%	17%

(14) Malpractice Insurance

As a part of the University of New Mexico, 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 $750,000.00 set forth as follows: (a) $200,000.00 for real property; (b) up to $300,000 for past and future medical and medically related expenses; and (c) up to $400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. The language of the New Mexico Tort Claims Act does not provide for claims of loss of consortium, however, New Mexico appellate court decisions have allowed claimants to seek consortium. 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

(Continued)

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 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:

		2008	2007
UNM Health Sciences Center	$	5,537,989	15,194,179
UNM Cancer Center		86,859	27,227
	$	5,624,848	15,221,406

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:

		2008	2007
UNM	$	14,514,351	11,884,467
UNM Health Sciences Center		77,460,846	64,223,383
	$	91,975,197	76,107,850

(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 Clinical Operations Board 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

(Continued)

established by the UNM Hospital Clinical Operations Board 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 40) 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 $7,739,000, $6,440,000, and $5,412,000 in fiscal years 2008, 2007, and 2006, respectively. Total employee contributions under this plan were $9,413,000, $8,253,000, and $6,891,000 in fiscal years 2008, 2007, and 2006, respectively.

There was no expense for the deferred compensation plan in 2008, 2007, and 2006, respectively, as the Hospital does not contribute to this plan. Total employee contributions under this plan were $1,727,000, $1,365,000, and $1,132,000 in 2008, 2007, and 2006, respectively.

Plan members of the public employee retirement system are required to contribute 7.42% of their gross salary. The Hospital is required to contribute 10.9% of the gross covered salary. Effective July 1, 2008, plan members are required to contribute 7.9% of their gross salary. The employer contribution will increase 0.75% each year until July 1, 2011 when the employer contribution will be 13.9%. The contribution requirements of plan members and the Hospital are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Hospital's contributions to ERB for the fiscal years ended June 30, 2008, 2007, and 2006 were $195,000, $206,000, and $71,000, respectively, which equal the amount of the required contributions for each fiscal year.

(17) Other Postemployment Benefit Plan

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

Plan Description – The Hospital administers a single employer defined-benefit postemployment benefit plan that offers postemployment healthcare coverage to eligible retirees and their dependents. Eligible retired employees are offered combined medical/prescription drug benefits through the Hospital's self-insured health plan administered by 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).

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

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

(Continued)

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	$ —	195.32	—	364.84	560.16	28.62
Retiree +1	369.14	762.10	32.66	733.98	11,126.94	61.28
Retiree + family	408.18	822.02	62.42	773.02	1,186.86	91.04

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

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

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

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

Annual retirement probabilities and the rate of withdrawal for reasons other than death and retirement have been determined based on the New Mexico Educational Retirement Board Actuarial Valuation as of June 30, 2006. It is assumed that 55% of all eligible retirees participate in the retiree benefit program, if they have an accumulated leave balance. Of these retirees, 40% are assumed to continue receiving benefits after exhaustion of the leave balance.

Annual OPEB Cost and Net OPEB Obligation – The annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 the OCOs. The OPEB cost and net OPEB obligation information presented below are for the plan in aggregate. The OPEB cost and net OPEB obligation were allocated to each reporting entity based on the applicable FTE of the entity as of June 30, 2008 as follows: Hospital – 88%, the UNM Psychiatric Center – 7%, and the UNM Children's Psychiatric Center – 5%.

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

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

The portion of NOO ($485,000) recorded by the Hospital is approximately $427,000.

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

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

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

		Unit credit method unfunded plan June 30, 2008
AAL	$	4,353,000
Actuarial value of plan assets		—
UAAL		4,353,000
Funded ratio (actuarial value of plan assets/AAL)		—
Covered payroll (active plan members)	$	194,841,644
UAAL as a percentage of covered payroll		2.2%

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, current and future retirees and their dependants, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimate 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) Intergovernmental Transfer

The Hospital recorded transfers of $4,919,844 in 2007. These amounts were paid on behalf of Bernalillo County to the State of New Mexico in fulfillment of the County's obligation to make certain county Medicaid contributions in pursuant to the Statewide Healthcare Act, NMSA (1978), Section 27-10-1. The Intergovernmental Transfer distributions were permitted by HUD during the construction period provided that the following conditions were met:

(a) The Hospital is current on all mortgage payments.

(b) The transfer does not threaten the ability of the Hospital to make any future mortgage payments.

(c) Bernalillo County maintains a tax levy for the benefit of the Hospital resulting in annual cash support to the Hospital in excess of $50 million per year.

(d) The board chairperson, chief executive officer, and chief finance officer of the Hospital provide an annual certification to HUD stating the amount of the distribution and that the above were satisfied at the time of the distribution.

At June 30, 2007, the Hospital met the above conditions required to make the transfer. On April 10, 2007, the Hospital entered into an Agreement with the County to terminate UNM's payments on behalf of the County effective as of January 1, 2007. There were no transfers made in 2008.

(19) Commitments and Contingencies

(a) Construction Commitments

At June 30, 2007, the Hospital's commitments for a construction project were $26,125,600. At June 30, 2008, there are no construction commitments.

(b) 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 $9,070,000 in 2008 and $7,426,000 in 2007.

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 $971,000 under this memorandum of understanding.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2008, under noncancelable operating leases and memorandums of understanding, are as follows:

	Amount
Fiscal year:	
2009	$ 7,639,363
2010	5,336,922
2011	3,203,958
2012	2,823,038
2013	2,439,035
2014 – 2018	11,195,382
2019 – 2023	940,623
2024 – 2028	1,197,590
2029 – 2033	1,197,590
2034 – 2038	1,080,241
	$ 37,053,742

(c) 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.

(20) Capital Initiatives

During fiscal year 2008, the Hospital and the UNM HSC entered into a MOU, for a second year, to collaborate on strategic capital projects. Per the agreement, the Hospital recorded a nonoperating expense of $15.7 million to provide for the development of clinical facilities pursuant to the agreement. Capital project disbursements in fiscal year 2008 were $5.0 million. The ending balance for the strategic capital initiatives account at UNM HSC was $30 million at June 30, 2008. During fiscal year 2007, the Hospital recorded $14 million as nonoperating expense for the amount of the MOU with the UNMHSC that was related to strategic capital projects.

(21) 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, 2008

		Budget (original)	Budget (final)	Actual	Budget variance
Operating revenues:					
Net patient service	$	416,377,567	431,008,005	446,253,617	15,245,612
Other operating revenue		5,736,788	5,383,692	6,546,194	1,162,502
Total operating revenues		422,114,355	436,391,697	452,799,811	16,408,114
Operating expenses		491,251,654	511,344,510	514,936,307	(3,591,797)
Operating loss		(69,137,299)	(74,952,813)	(62,136,496)	12,816,317
Nonoperating revenues		69,264,188	106,803,475	94,997,396	(11,806,079)
Increase in net assets	$	126,889	31,850,662	32,860,900	1,010,238

Note A: The Hospital prepares a budget for each fiscal year, using the accrual basis of accounting, which is subject to approval by the Clinical Operations Board and the UNM Regents. The amount budgeted for the Hospital's operations are 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, 2008

	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				$ 78,107,903	7,970	78,115,873
Less repurchase agreements at cost 102% collateralized by	Bank of America Charlotte, NC	U.S. FNMA U.S. FHLMC U.S. FNMA	CUSIP#31402CVY5 CUSIP#3128LADN7 CUSIP#31410KK78	(1,639,069)	—	(1,639,069)
FDIC insurance				(100,000)	(7,970)	(107,970)
Total uninsured public funds				$ 76,368,834	—	76,368,834
50% collateral requirement per Section 6-10-17 NMSA				$ 38,184,417	—	38,184,417
Pledged collateral	Bank of America Charlotte, NC	U.S. FNMA	CUSIP #31385XAZ0	68,694,601	—	68,694,601
Total pledged collateral				68,694,601	—	68,694,601
Excess of pledged collateral over the required amount				$ (30,510,184)	—	(30,510,184)

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, 2008

Name of bank/broker	Account type		Balance per bank statement	Reconciled balance per financial statement
UNM Hospital cash:				
Bank of America:				
Operating	Checking	$	76,465,709	49,798,876
Other Clinical Operations	Checking		3,125	3,125
Consolidated Automated Overnight Investment	Repurchase agreement		1,639,069	1,639,051
First Community Bank:				
UNM Hospital Change Campaign	Checking		7,970	7,970
Petty Cash	Cash on hand		—	26,026
Total UNM Hospital cash		$	78,115,873	51,475,048
UNM Hospital short-term investments:				
Citi Smith Barney	Money market deposits	$	38,287	38,287
Citi Smith Barney	Money market funds		182,723	182,723
Wells Fargo	Money market funds		2,621,419	2,621,419
Wells Fargo	FNMA		3,182,956	3,182,956
Wells Fargo	FHLMC		2,121,249	2,121,249
Citi Smith Barney	FHLMC		625,974	625,974
Citi Smith Barney	U.S. Treasury notes		482,234	482,234
Citi Smith Barney	U.S. Treasury notes		21,358,323	21,358,323
Citi Smith Barney	U.S. Treasury STRIPS		1,348,545	1,348,545
Citi Smith Barney	U.S. Treasury STRIPS		7,307,835	7,307,835
Total UNM Hospital short-term investments		$	39,269,545	39,269,545
UNM Hospital long-term investments:				
Wells Fargo	Money market deposits	$	2,112,583	2,112,583
Wells Fargo	Money market funds		15,698,280	15,698,280
Wells Fargo	Collateralized repurchase agreement		13,452,613	13,452,613
Investment in TriWest	Equity securities		2,612,500	2,612,500
Investment in TRL (TriCore)	Equity securities		4,229,583	4,229,583
Investment in TLSC	Equity securities		3,627,423	3,627,423
Total UNM Hospital long-term investments		$	41,732,982	41,732,982

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

Year ended June 30, 2008

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrued Liability (AAL) – Unit Credit Method (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
July 1, 2007	$ —	4,353,000	4,353,000	—%	$ 194,841,644	2.2%

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

See accompanying independent auditors' report.

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

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

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

We have audited the 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, 2008, and have issued our report thereon dated January 5, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

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

KPMG LLP

January 5, 2009

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Schedule of Findings and Responses

Year ended June 30, 2008

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

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

The prior year state compliance finding 2007-1 has been resolved.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Exit Conference

Year ended June 30, 2008

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

An exit conference was conducted on November 11, 2008 with the Resource Development Committee of the Clinical Operations Board 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:

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