UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Financial Statements and Supplementary Information

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Fiscal year 2010 Official Roster

Board of Trustees

Maria Griego-Raby Albuquerque, New Mexico	Chairperson (Term expires 06/30/11, Regent appointed)
Jerry Geist Albuquerque, New Mexico	Vice Chairperson (Term expires 06/30/12, Regent appointed)
Michelle Melendez Albuquerque, New Mexico	Secretary (Term expires 03/31/11, County appointed)
Louise Campbell-Tolber Albuquerque, New Mexico	Member (Term expires 06/30/10, Regent appointed)
Maria Goldstein, M.D. Albuquerque, New Mexico	Member (Term expires 04/01/11, County appointed)
William Lang Albuquerque, New Mexico	Member (Term expires 06/30/12, Regent appointed)
Raymond Loretto, DVM San Ysidro, New Mexico	Member (Term expires 06/30/10, All Indian Pueblo Council – Regent appointed)
Michael Olguin Socorro, New Mexico	Member (Term expires 06/01/12, Regent appointed)
William Rayburn, M.D. Albuquerque, New Mexico	Member (Term expires 11/30/10, Regent appointed)

(Continued)

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Fiscal year 2010 Official Roster

Administrative Officers

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

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

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Independent Auditors' Report

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

We have audited the accompanying statements of net assets of UNM Hospital (the Hospital), a division of the University of New Mexico, State 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, 2010 and 2009, 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, 2010. 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 business-type activities 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, 2010 and 2009, the changes in its financial position or, where applicable, its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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, 2010 and 2009, 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 budget 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 November 4, 2010 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 13 and the postemployment benefits other than pensions 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 budget comparison (schedule 1). The accompanying schedule of pledged collateral (schedule 2) and the schedule of individual deposit and investment 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 investment accounts have been subjected to the auditing procedures applied by us in the audit of the basic financial statements referred to above and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

November 4, 2010

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Management's Discussion and Analysis

June 30, 2010 and 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, 2010 and 2009. 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 statements of net assets include all assets and liabilities. Over time, increases or decreases in net assets (the difference between assets and liabilities) is one indicator of the improvement or erosion of the Hospital's financial health when considered with nonfinancial facts such as patient statistics and the condition of facilities. This statement includes all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting method used by private sector institutions.

The statements of revenues, expenses, and changes in net assets present the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A public hospital's dependency on state or county aid can result in an operating deficit since the financial reporting model classifies such aid as nonoperating revenues, which is the case with the Bernalillo County Mill Levy received by the Hospital. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

The statements of cash flows present 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	**2010**	**2009**	**2008**
Current assets	$ 247,361,448	228,591,469	182,168,828
Capital assets, net	292,235,742	300,194,235	296,311,106
Noncurrent assets	42,716,191	39,003,176	47,384,133
Total assets	$ 582,313,381	567,788,880	525,864,067
Liabilities			
Current liabilities	$ 132,457,733	124,647,647	107,848,433
Noncurrent liabilities	180,379,883	182,687,870	189,601,678
Total liabilities	$ 312,837,616	307,335,517	297,450,111
Net Assets			
Invested in capital assets, net of related debt	$ 128,867,880	132,467,712	122,175,727
Restricted	21,912,665	19,149,246	20,629,440
Unrestricted	118,695,220	108,836,405	85,608,789
Total net assets	$ 269,475,765	260,453,363	228,413,956

At June 30, 2010, total Hospital's assets were $582.3 million compared to $567.8 million at June 30, 2009. The Hospital's most significant asset at June 30, 2010 was net capital assets of $292.2 million, followed by cash and cash equivalents of $97.3 million. The Hospital manages all cash receipts and disbursements for all its affiliates, the UNM Psychiatric Center (UNMPC) and the UNM Children's Psychiatric Center (UNMCPC). The due to affiliates in the liability section of the balance sheet reflects all intercompany cash transactions.

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

At June 30, 2010, 2009, and 2008, the Hospital's current assets of $247.4 million, $228.6 million, and $182.2 million were sufficient to cover current liabilities of $132.5 million (current ratio of 1.87), $124.7 million (current ratio of 1.83), and $107.9 million (current ratio of 1.68), respectively.

The Hospital's liabilities totaled $312.8 million at June 30, 2010 compared to $307.3 million at June 30, 2009. Bonds payable of $181.2 million was the largest liability, followed by accounts payable of $25.6 million.

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

Total net assets for the year ended June 30, 2010 increased by $9.0 million to $269.5 million, primarily due to the excess of revenues over expenses in fiscal year 2010, which included an operating loss of $55.8 million offset by net nonoperating revenues of $64.8 million. Unrestricted net assets totaled $138.0 million at June 30, 2010.

Total net assets for the year ended June 30, 2009 increased by $32.0 million to $260.5 million, primarily due to the excess of revenues over expenses in fiscal year 2009, which included an operating loss of $32.2 million offset by net nonoperating revenues of $64.2 million. Unrestricted net assets totaled $125.5 million at June 30, 2009.

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

	Year ended June 30		
	2010	**2009**	**2008**
Total operating revenues	$ 600,497,552	564,390,855	452,799,811
Total operating expenses	656,295,386	596,551,450	514,936,307
Operating loss	(55,797,834)	(32,160,595)	(62,136,496)
Nonoperating revenues and other revenues	64,820,236	64,200,002	94,997,396
Total increase in net assets	9,022,402	32,039,407	32,860,900
Net assets, beginning of year	260,453,363	228,413,956	195,553,056
Net assets, end of year	$ 269,475,765	260,453,363	228,413,956

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 $600.5 million, $564.4 million, and $452.8 million for the years ended 2010, 2009, and 2008, 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 $593.3 million, $556.5 million, and $446.3 million for the years ended 2010, 2009, and 2008, respectively.

Net patient services revenues for 2010 increased $36.8 million from $556.5 million in 2009, which represents a 6.6% increase. On August 31, 2009, the Hospital opened its Adult Infusion Clinic which contributed to the increase in net patient services revenues. Other increases in net patient service revenue are attributable to increased patient activity. Net patient services revenues for 2009 increased $110.2 million from $446.3 million in 2008, which represents a 24.7% increase, primarily due to increases in patient activity. See table below for key financial statistics.

	2010	2009	2008
Inpatient days	149,832	148,306	134,294
Discharges	27,452	27,843	26,579
Outpatient visits	462,715	437,757	422,112
Emergency visits	77,567	77,975	76,493

Inpatient days for 2010 increased 1,526 from 148,306 in 2009, which represents a 1.0% increase. Inpatient days for 2009 increased 14,012 from 134,294 in 2008, which represents a 10.4% increase.

In January 2010 the Hospital opened a new outpatient Digestive Disease Center which includes ten exam and four procedure rooms. In May 2009, the Hospital opened a 16-bed adult orthopedic inpatient unit in the Main Hospital and opened a clinic in southeast Albuquerque with 21 examination rooms. The Hospital also re-opened its newly expanded and renovated Dermatology Clinic in December 2008. During January 2008, the Hospital opened a 36-bed adult medical/surgical inpatient unit and a 12-bed transitional nursery unit.

On July 1, 2005 and effective for fiscal years 2010, 2009, and 2008, the Hospital entered into a reimbursement agreement for the State Coverage Insurance (SCI) program. This program is part of the New Mexico SCI Medicaid plan, funded in part by the New Mexico Human Services Department (HSD). Funding is modeled after a capitated payment program. Funds are remitted to the Hospital on a per member per month basis for all state approved members. At June 30, 2010, 2009, and 2008, the Hospital recognized $42.8 million, $37.7 million, and $22.8 million, respectively. As of June 30, 2010, 2009, and 2008, there were 11,131, 10,746, and 9,783 active SCI enrollees, respectively. Effective September 12, 2008, the HSD suspended any new enrollment into this program, re-enrollments continued to be allowed. Effective July 1, 2010, HSD eliminated the 30-day grace period for re-enrollment of members after the end of their enrollment year.

This program is available to low-income, uninsured working adults with family income below 200% of the Federal Poverty Level (FPL). The benefit package is a comprehensive healthcare benefit with a claims benefit maximum. Effective September 23, 2010, the claims benefit maximum was eliminated. 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 Medicaid services to eligible and enrolled members.

The Hospital encourages all patients to apply for financial assistance. The Hospital offers a financial assistance program called UNM care. This program assigns patients primary care providers and allows them to receive care throughout the Hospital and at all clinic locations. This program is available to Bernalillo County residents who also meet certain income thresholds. Prior to January 1, 2010, the income threshold was set at 235% of the FPL. Effective January 1, 2010, the income threshold was changed to 300% of the FPL. Patients may apply for this

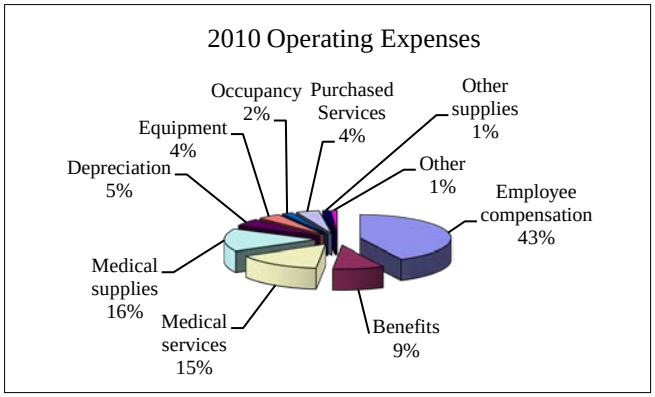
program at various locations throughout the Health Sciences Center (HSC) and various community locations. As of June 30, 2010, 2009, and 2008, there were 27,411, 24,697, and 20,464 active enrollees, respectively. The Hospital does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments. The cost of charity care provided under this program for fiscal years ending June 30, 2010, 2009, and 2008 was $109.3 million, $94.7 million, and $75.0 million, respectively.

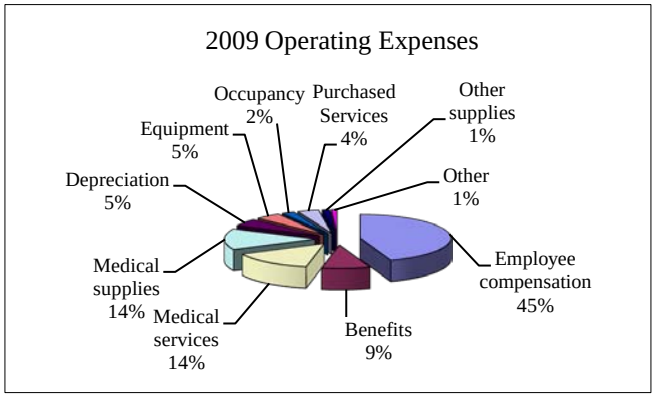
The Hospital provides care to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance. The Hospital encourages patients to meet with a financial counselor to develop payment arrangements. Although the Hospital pursues collection of these accounts usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, liens are not placed on property or assets, and judgments are not filed against the patients. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for fiscal years 2010, 2009, and 2008 was $69.5 million, $98.0 million, and $91.4 million, respectively. The cost of care provided to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance for fiscal years ending June 30, 2010, 2009, and 2008 was $35.4 million, $52.9 million, and $52.0 million, respectively.

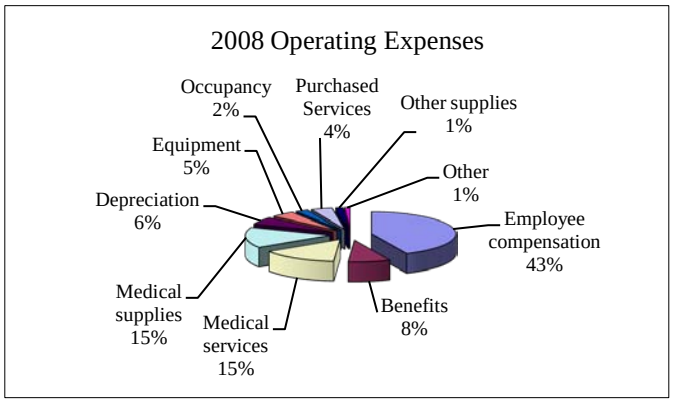
Operating Expenses

Operating expenses for the Hospital include items such as employee compensation and benefits, medical services, medical supplies, and equipment. The most significant expenditures were for employee compensation and benefits. Compensation and benefits combined were $338.9 million, $317.0 million, and $263.6 million for the years ended June 30, 2010, 2009, and 2008, respectively.

The following pie charts depict the operating expense mix for the years ended June 30, 2010, 2009, and 2008:







At June 30, 2010, operating expenses, including depreciation of $33.3 million, totaled $656.3 million, an increase from 2009 of $59.7 million or 10.0%. The overall increase was attributed to the increase in employee compensation and benefits of $21.9 million (6.9%) as a result of wage increases and the addition of 265 full-time equivalent's (FTE), as well as an increase in medical supplies of $16.8 million (19.6%) and medical services of $13.2 million (15.2%), which correlates with the increase in patient days and outpatient visits of 1% and 6%, respectively, from 2009 as well as the opening of the Adult Infusion Clinic. In addition, purchased services increased $4.4 million (19.6%) due to the change to remote hosting of the clinical information system and the radiology digital imaging system as well as the implementation of a clinical documentation improvement process.

At June 30, 2009, operating expenses, including depreciation of $30.2 million, totaled $596.6 million, an increase from 2008 of $81.7 million or 15.9%. The overall increase was attributed to the increase in employee compensation and benefits of $53.3 million (20.2%) as a result of wage increases and the addition of 520 FTE's, as well as an increase in medical supplies of $8.0 million (10.4%) and medical services of $11.6 million (15.5%), which correlates with the increase in patient days of 14,012 (10.4%) from 2008. In addition, equipment increased $3.7 million (15.6%) due to the hospital-wide replacement of the pharmaceutical dispensing system and the purchase of Workstations on Wheels for charting to the electronic medical record.

Nonoperating Revenues and Expenses

For the year ended June 30, 2010, $64.8 million has been recorded as net nonoperating revenue in the accompanying statements of revenues, expenses, and changes in net assets.

At June 30, 2010 and 2009, the Bernalillo County Mill Levy tax subsidy was the most significant nonoperating revenue, totaling $79.7 million in 2010 and $77.2 million in 2009. This tax subsidy is provided for the general operations of the Hospital. The Hospital received this tax subsidy by voter endorsement for the services the Hospital provides. The voters approved the renewal of the mill levy in the November 2008 election. The mill levy is subject to approval by the Bernalillo County voters every eight years, and will be up for renewal in the November 2016 election.

The next largest nonoperating revenue in 2010 was $5.8 million of state appropriation funds compared to $6.1 million in 2009. Included in this amount for 2010 and 2009 was $5.2 million and $5.4 million for Carrie

Tingley Hospital (CTH), respectively, and $606,000 and $721,000 for Young Children Health Center, respectively. State land revenue and oil and gas royalties for CTH for 2010 and 2009 were $797,000 and $800,000, respectively. The year ended June 30, 2008 included CTH state appropriation funds of $5.3 million and CTH state land revenue of $706,600. During the 2010 special sessions of the New Mexico legislature, the state appropriation for 2010 was reduced from the original appropriation by $477,900 (6.5%). During the regular session of the New Mexico legislature, the state appropriation for 2009 was reduced from the original appropriation by $186,000 (2.5%).

The State of New Mexico appropriated capital funds to the Hospital designated for the purchase of patient care equipment. The General Appropriation Acts of 2009 and 2008 allocated $75,000 and $5.3 million, respectively, to the Hospital.

A significant nonoperating revenue in 2008 was $27 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) HSC. The act permits the NMFA to issue and sell revenue bonds in an amount not to exceed $60.0 million for a term not to exceed 15 years, for the purpose of designing, constructing, equipping, and furnishing additions and improvements to the Hospital and the Cancer Research Treatment Center at the UNM HSC. On April 1, 2004, the NMFA issued its Cigarette Tax Revenue Bonds (UNM HSC Project), Series 2004A, which generated proceeds of approximately $40.0 million for deposit into the Hospital's construction account at the NMFA. On September 22, 2004, the NMFA issued its Cigarette Tax Revenue Bonds (UNM HSC Project), Series 2004B, which generated proceeds of approximately $9.6 million for deposit into the Hospital's construction account at the NMFA. In 2005, the NMFA issued the remaining cigarette tax revenue bonds for the benefit of the UNM HSC, specifically for the UNM Cancer Center.

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

Nonoperating revenue for 2010 includes $4.1 million in capital grants and gifts, an increase of $1.1 million from 2009. Nonoperating revenue for 2009 includes $3.0 million in capital grants and gifts, a decrease of $832,000 from 2008. Included in capital grants and gifts for 2010 and 2009 are $2.7 million and $2.1 million, respectively, in contributions from the UNM Foundation for pediatric and adult equipment. All donated monies are received by the UNM Foundation and are drawn upon as needed by the Hospital.

The largest nonoperating expense recorded in 2010, 2009, and 2008 was $21.4 million, $23.0 million, and $15.5 million, respectively, for strategic capital projects such as the Neurosciences and Pain Center, orthopedic clinic, ophthalmology clinic, and the Southwest Mesa primary care clinic at Central and Unser. Refer to note 19 in the accompanying notes to the financial statements.

Included in nonoperating expense was $8.3 million and $8.5 million in interest expense on capital asset-related debt for the years ended June 30, 2010 and 2009, respectively. 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 Barbara and Bill Richardson Pavilion. The 478,000 square foot pavilion was placed into service in June 2007.

Capital Assets

At June 30, 2010, the Hospital had $292.2 million invested in capital assets, net of accumulated depreciation of $266.9 million. Depreciation charges for the year totaled $33.4 million compared to $30.2 million and $29.3 million in fiscal years 2009 and 2008, respectively.

	2010	2009	2008
Land, building, and improvements	$ 178,030,672	177,752,304	173,886,074
Building service equipment	141,518,703	129,645,949	120,667,523
Fixed equipment	15,099,920	14,283,545	12,453,324
Major moveable equipment	219,165,504	194,352,813	183,342,875
Construction in progress	5,307,157	18,922,530	16,218,904
	559,121,956	534,957,141	506,568,700
Less accumulated depreciation	(266,886,214)	(234,762,906)	(210,257,594)
Net property and equipment	$ 292,235,742	300,194,235	296,311,106

During 2010, the largest capital increase was within the major moveable equipment ($24.8 million), building service equipment ($11.9 million), and land, building, and improvements ($278,000). Construction in progress decreased from 2009 ($13.6 million). The emergency generator and chilled water systems were upgraded, the electronic medical record system was implemented and the operating room suite upgrade was completed. The largest capital expenditures in major moveable equipment include the purchase of the Positron Emission Tomography (PET CT) and includes the renovations to the imaging suite at the Outpatient Surgery and Imaging Services Building. Another large expenditure was the purchase of the Interventional Radiology Bi-plane angiographic system which provides frontal and lateral views to better place catheters and wires especially for neuro interventions in the distal region of the brain. In addition, there was a purchase of a cardiac x-ray machine for the Cardiac Catheterization Labs. The Cardiac Catheterization Labs are used for balloon valvulopalasty and percutaneous impella (left ventricular assist device) and provide three dimensional imaging for electrophysiology. A 64-slice dual head CT was also purchased during 2010. The largest capital expenditure in construction in progress was the Life Safety improvements. There were also renovations to the Interventional Radiology procedure room.

During 2009, the largest capital increase was within the major moveable equipment ($11.1 million), building service equipment ($9.0 million), land, building, and improvements ($3.9 million), and construction in progress ($2.7 million). The largest capital expenditures in major moveable equipment include the purchase of two Cardiac Catheterization Labs, the daVinci Surgical Robot, the Pharmnet Pharmaceutical System, and the Symbia T Spect CT. The largest capital expenditures in construction in progress include the Cardiac Catheterization Lab,

computerized physician order entry (CPOE), orthopedic inpatient unit renovation, and plant infrastructure related to chilled water needs. The Cardiac Catheterization Labs are used for balloon valvulopalasty and percutaneous impella (left ventricular assist device) and provide three dimensional imaging for electrophysiology.

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

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

Debt Activity

The Hospital's bonds payable totaled $181.2 million and $186.0 million at June 30, 2010 and 2009, respectively. The current portion of this debt is $4.6 million and $4.4 million at June 30, 2010 and 2009, respectively. This debt is related to the Federal Housing Administration (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 478,000-square foot Bill and Barbara Richardson Pavilion. 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 2010 and 2009. Total net assets (assets minus liabilities) are classified by the Hospital's ability to use these assets to meet operating needs. Unrestricted net assets may be used to meet all operating needs of the Hospital. Net assets may be restricted as to their use by sponsoring agencies, donors, or other nonhospital entities. Restricted net assets are those generated by donations and gifts. The restricted net assets are further classified as to the purpose for which they must be used. Net assets increased approximately $9.0 million in 2010. Some of the major reasons for the increase include a $36.8 million increase in net patient revenue and a $2.5 million increase in the Bernalillo County Mill Levy.

Factors Impacting Future Periods

On March 23, 2010, the Patient Protection and Affordable Care Act (PPACA) was enacted. This National Health Reform includes value-based purchasing requirements, expanded Medicaid eligibility provisions, Medicare and Medicaid funding reforms, and private insurance market reforms. Medicaid expansion under PPACA includes new eligibility criteria establishing a minimum floor for Medicaid coverage to 133% of the Federal Poverty Level (FPL), eliminating other nonincome-based criteria (such as age, disability, or asset testing). This FPL criteria is mandatory for State implementation January 2014 and optional for years 2010 through 2013. The population most impacted by the new eligibility criteria is expected to be childless adults. States are also prohibited from reducing Medicaid or Children's Health Insurance Program (CHIP) eligibility that was in place

on the date of PPACA enactment. PPACA provides additional federal financing through the Federal Medical Assistance Percentage (FMAP) for newly eligible Medicaid patients.

PPACA includes legislation on Health Exchanges. Health Exchanges are expected to facilitate the purchase of health insurance for qualified individuals and small employers. A qualified individual is a lawful resident with income between 133% and 400% of the FPL. Federal subsidies for premiums under Health Exchanges become available beginning 2014. Health Exchanges are designed to be "one-stop-shopping" where participants can compare and purchase insurance coverage. Insurance coverage will have essential health benefits that cover benefit costs ranging from 60% to 90% with out-of-pocket limits equal to Health Savings Account current law limits.

Health Plan reforms under PPACA include a set of required essential benefits including, but not limited to, emergency services, hospitalization, maternity and newborn care, mental health and substance use disorder services, preventative and wellness services, and pediatric services, including oral and vision care. Plans must also not require copayment or deductible on preventative services. For plan years beginning after September 23, 2010, existing plans must provide coverage to dependent children until age 26 (unless eligible for other coverage), eliminate lifetime aggregate dollar limits and annual dollar limits on essential benefits, eliminate pre-existing condition exclusions for children up to age 19, and prohibit rescinding of coverage except in cases of fraud, intentional misrepresentation, and nonpayment of premium. Effective in 2014, existing insurance plans must eliminate annual aggregate benefit limits, provide coverage of dependents to age 26 regardless of eligibility for other coverage, eliminate pre-existing condition limitations for adults, and eliminate waiting periods of greater than 90 days.

The PPACA legislation reduces Medicaid and Medicare Disproportionate Share Hospital (DSH) payments by $14 billion and $22 billion, respectively, from 2014 through 2019. PPACA also reduces the annual market basket increase for Medicare inpatient and outpatient hospital services beginning in October 1, 2010.

PPACA implements a budget neutral value-based purchasing program for hospitals, reduces payments to account for preventable readmissions for certain conditions, and adjusts hospital payments for certain hospital-acquired conditions. The value-based purchasing program provides incentive payments to hospitals that meet or exceed certain performance standards. The program will begin in 2013 and will cover five specific conditions or procedures: 1) acute myocardial infarction, 2) heart failure, 3) pneumonia, 4) surgeries, and 5) healthcare associated infections. Beginning in 2014, the measures must include efficiency measures, including Medicare spending per beneficiary. The Secretary of Health and Human Services must make available to the public information regarding performance of individual hospitals under the program.

The HSD of the State of New Mexico implemented cost containment measures on December 1, 2009, including a 3% reduction in inpatient Medical Severity Diagnosis Related Groups (MS-DRG) rates, a 3% reduction in behavioral health reimbursement rates, converted radiology reimbursement to the Medicaid physician fee schedule and reduced the outpatient interim rate to 50%. HSD has identified a further budget shortfall for 2011 and 2012. One measure to be taken by Medical Assistance Division (MAD) to offset this shortfall is the implementation of an Outpatient Prospective Payment System (OPPS) for Medicaid outpatient payment rates effective November 1, 2010. The payment rate will be at 100% of the Medicare standard rate. It is expected that the Managed Care Organizations (MCOs) will also implement OPPS.

HSD eliminated the 30-day grace period for re-enrollment under the SCI program effective July 1, 2010. The SCI Program is under consideration for possible elimination from the Medical Assistance Division Budget for subsequent years.

On March 24, 2010, Governor Bill Richardson signed House Bill 2. This bill reduced general funding for higher education by an average of 3.5%. UNM HSC applied the decrease evenly across its programs, which resulted in an additional 2% reduction to the Hospital. The legislation also included language that if general fund revenues become insufficient to meet general fund appropriations for fiscal year 2011, the legislation authorized reductions in general fund allotments to all agencies, funds, programs, and other recipients that receive a general fund appropriation in Section 4 of the General Appropriation Act of 2010. On August 12, 2010, The State Board of Finance approved a further reduction of 3.2445% in General Fund appropriations. The Hospital's 2011 appropriations will be reduced by $598,200 from 2010.

Medicare has put a program in place to review healthcare claims in order to identify and recover inappropriate payments made to providers for fee-for-service Medicare. This program is called the Recovery Audit Contract (RAC) program and was created through the Medicare Modernization Act of 2003 (MMA). The three-year demonstration program identified over $1 billion in overpayments. In 2006, Congress mandated expansion of the RAC program to all 50 states. The RAC program encompassing New Mexico became effective in March 2009. Connolly Consulting Associates, Inc. is the contractor for this region. The RAC contractor can request up to 200 records every 45 days and can review claims from October 2007 and forward. To date, the Hospital has not received a request from the RAC contractor for medical records.

The Deficit Reduction Act of 2005 established the Medicaid Integrity Program (MIP) to identify, collect, and prevent overpayments made under fee-for-service Medicaid. The two operational functions of MIP are 1) to review the actions of those providing Medicaid services and 2) to provide support and assistance to the states to combat Medicaid fraud, waste, and abuse. The MIP in New Mexico has been initiated and the Hospital received a request for records in January 2010. The Hospital has not received any details on the outcome of the review.

The mill levy is based on property values. Given the state of the economy, it is possible that the amount of the mill levy may remain flat or potentially decrease as the result of reduced property values and slowdowns in the building construction industry. During 2010, the County held back a portion of the mill levy proceeds ($554,000) for the impact of tax lightning.

Contacting the Hospital's Financial Management

This financial report is designed to provide the Hospital's patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital's Finance and Accounting Department, Attn.: Controller, P.O. 80600, Albuquerque, NM 87198-0600.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Net Assets

June 30, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents (note 4)	$ 97,288,466	99,500,491
Marketable securities (note 4)	33,359,816	32,572,060
Assets whose use is limited held by trustee for debt service (note 7)	8,226,093	8,077,846
Receivables:		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $158,146,000 in 2010 and $134,902,000 in 2009) (note 5)	66,025,089	57,147,708
Due from University of New Mexico	2,313,128	3,570,366
Estimated third-party payor settlements (note 6)	21,766,472	11,616,244
Bernalillo County Treasurer	1,286,991	1,303,410
Other	4,681,367	2,662,052
Total net receivables	96,073,047	76,299,780
Prepaid expenses	3,787,349	6,417,950
Inventories	8,626,677	5,723,342
Total current assets	247,361,448	228,591,469
Noncurrent assets:		
Bond issuance costs	4,366,141	4,803,467
Assets whose use is limited (note 7):		
Held by trustee for mortgage reserve fund	7,265,372	4,774,116
Held by trustee for debt service reserve	13,513,150	13,513,150
Held by trustee for collateral	3,828,031	3,844,454
Held by trustee for redemption fund	2,004	2,004
By UNM Hospital Board of Trustees	13,741,493	12,065,985
Total assets whose use is limited (note 7)	38,350,050	34,199,709
Capital assets (note 8):		
Nondepreciable assets:		
Land	1,747,245	1,747,245
Construction in progress	5,307,157	18,922,530
Depreciable capital assets, net	285,181,340	279,524,460
Capital assets, net (note 8)	292,235,742	300,194,235
Total noncurrent assets	334,951,933	339,197,411
Total assets	582,313,381	567,788,880
Liabilities		
Current liabilities:		
Accounts payable	25,554,667	24,957,460
Accrued payroll	21,339,473	20,595,632
Due to University of New Mexico	20,443,015	15,280,185
Due to affiliates	18,359,177	17,440,761
Bonds payable – current	4,570,000	4,390,000
Interest payable bonds	4,330,490	4,418,890
Accrued compensated absences	15,450,874	14,444,942
Estimated third-party payor settlements	20,587,945	21,746,258
Other accrued liabilities (note 10)	1,822,092	1,373,519
Total current liabilities	132,457,733	124,647,647
Noncurrent liabilities:		
Bonds payable (note 11)	176,677,153	181,653,140
Net OPEB obligation (note 17)	3,702,730	1,034,730
Total noncurrent liabilities	180,379,883	182,687,870
Total liabilities	312,837,616	307,335,517
Net Assets		
Invested in capital assets, net of related debt	128,867,880	132,467,712
Restricted, expendable:		
For grants, bequests, and contributions	2,591,165	2,520,826
In accordance with the trust indenture and debt agreement	19,321,500	16,698,420
Unrestricted	118,695,220	108,766,405
Commitments and contingencies (notes 9, 10, 11, 14, 15, 16, 17, 18, 19, and 20)		
Total net assets	$ 269,475,765	260,453,363

See accompanying notes to financial statements.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2010 and 2009

	2010	2009
Operating revenues:		
Net patient service (notes 12 and 13)	$ 593,285,174	556,462,181
State and local contracts and grants	1,522,754	1,471,391
Other operating revenues	5,689,624	6,457,283
Total operating revenues	600,497,552	564,390,855
Operating expenses:		
Employee compensation	279,340,155	265,827,559
Benefits	59,571,998	51,162,379
Medical services	99,887,600	86,726,058
Medical supplies	102,394,630	85,639,984
Depreciation	33,352,314	30,210,430
Equipment	26,740,335	27,189,387
Occupancy	12,999,902	13,288,908
Purchased services	27,095,637	22,652,928
Other supplies	7,563,741	7,657,104
Other	7,349,074	6,196,713
Total operating expenses	656,295,386	596,551,450
Operating loss	(55,797,834)	(32,160,595)
Nonoperating revenues (expenses):		
Bernalillo County mill levy	79,710,329	77,231,883
State general fund and other state fund appropriations	5,760,500	6,134,400
Cigarette tax bond proceeds	—	58,886
State of New Mexico Land and Permanent Fund proceeds	801,333	800,098
Capital initiatives (note 19)	(21,369,000)	(23,000,000)
Investment income (interest, dividends, gains, and losses)	4,392,223	4,322,265
Equity in earnings of TriCore and TriCore Lab Service Corp.	1,027,450	925,838
Interest on capital asset-related debt	(8,294,894)	(8,462,763)
Bequests and contributions	356,463	53,236
Other nonoperating expense	(1,346,323)	(2,118,559)
Net nonoperating revenues	61,038,081	55,945,284
Income before other revenues, expenses, gains and losses	5,240,247	23,784,689
State general fund and other state fund capital appropriations	75,000	5,281,868
Capital grants and gifts	3,707,155	2,972,850
Total other revenues	3,782,155	8,254,718
Increase in net assets	9,022,402	32,039,407
Net assets, beginning of year	260,453,363	228,413,956
Net assets, end of year	$ 269,475,765	260,453,363

See accompanying notes to financial statements.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from Medicaid and Medicare	$ 352,841,789	353,791,118
Cash received from insurance and patients	220,257,463	205,010,071
Cash received from contracts and grants	1,428,184	1,631,009
Cash payments to suppliers	(216,426,291)	(208,035,657)
Cash payments to employees	(277,590,382)	(258,924,882)
Cash payments to University of New Mexico	(117,963,173)	(96,688,518)
Cash received from affiliates	918,416	4,029,962
Other receipts	7,208,075	5,880,578
Net cash provided by (used in) operating activities	(29,325,919)	6,693,681
Cash flows from noncapital financing activities:		
Cash received from Bernalillo County mill levy	79,726,748	76,976,192
Cash received from state general fund and other state fund appropriations	5,760,500	7,115,750
Cash received from State of New Mexico Land and Permanent Fund	778,491	801,477
Cash received from contributions for other-than-capital purposes	356,463	53,236
Net cash provided by noncapital financing activities	86,622,202	84,946,655
Cash flows from capital financing activities:		
Interest payments on bonds	(8,789,281)	(9,045,576)
Principal payments of bonds	(4,390,000)	(6,815,000)
Purchases of capital assets	(25,426,799)	(34,630,270)
Cash received from cigarette tax bonds	—	58,886
Cash payments to University of New Mexico	(24,000,000)	(12,000,000)
Cash received from state general fund and other state fund capital appropriations	75,000	5,281,868
Capital grants and gifts received	3,707,155	2,972,850
Cash receipts (payments) for mortgage-related activities	(876,019)	227,837
Net cash used in capital financing activities	(59,699,944)	(53,949,405)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	43,769,927	66,515,055
Purchase of investments	(46,282,492)	(57,508,672)
Interest and dividends on investments	2,704,201	1,328,129
Net cash provided by investing activities	191,636	10,334,512
Net increase (decrease) in cash and cash equivalents	(2,212,025)	48,025,443
Cash and cash equivalents, beginning of year	99,500,491	51,475,048
Cash and cash equivalents, end of year	$ 97,288,466	99,500,491

(Continued)

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	2010	2009
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (55,797,834)	(32,160,595)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	33,352,314	30,210,431
Provision for doubtful accounts	69,469,941	97,991,199
Reduction in laboratory expenses of TriCore Laboratory Service Corporation	(648,058)	(670,641)
Change in assets and liabilities:		
Patient receivables	(78,347,322)	(103,102,984)
Due from University of New Mexico	1,257,238	1,247,796
Estimated third-party payor settlements receivables	(10,150,228)	8,469,483
Other receivables and prepaid expenses	1,423,879	(417,087)
Inventories	(2,903,335)	(1,157,140)
Due to University of New Mexico	7,793,830	(681,319)
Estimated third-party payor settlements liabilities	(1,158,313)	(1,018,690)
Due to affiliates	918,416	4,029,962
Accrued expenses	4,417,773	6,902,677
Accounts payable	1,045,780	(2,949,411)
Net cash provided by (used in) operating activities	$ (29,325,919)	6,693,681

See accompanying notes to financial statements.

(1) Description of Business

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

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

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

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

CTH was created in 1989 by the legislature of the State of New Mexico to provide care and treatment for the physically challenged children of the State of New Mexico in need of long-term inpatient or outpatient care. A brief summary of CTH's financial results for the fiscal years 2010 and 2009 is as follows:

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

		2010	2009
Total operating revenues	$	10,388,683	10,397,924
Total operating expenses		16,708,443	16,711,953
Operating loss		(6,319,760)	(6,314,029)
Nonoperating revenues		6,240,838	6,323,518
Total (decrease) increase in net assets		(78,922)	9,489
Net assets, beginning of year		4,332,948	4,323,459
Net assets, end of year	$	4,254,026	4,332,948

(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 statements of net assets, statements of revenues, expenses, and changes in net assets, and statements of cash flows using the direct method for the Hospital as a whole
- Notes to financial statements

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

- *Invested in Capital Assets, Net of Related Debt* – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets
- *Restricted Net Assets – Expendable* – Net assets whose use by the Hospital is subject to externally imposed constraints that can be fulfilled by actions of the Hospital pursuant to those constraints or that expire by the passage of time
- *Unrestricted* – Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or the UNM Board of Regents or may otherwise be limited by contractual agreements with outside parties.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989.

(b) Use of Estimates

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

(c) Grants and Contracts

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

(d) Operating Revenues and Expenses

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

(e) Nonoperating Revenue and Expense

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as appropriations, gifts, investment income, and government levies. These revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Appropriations are recognized in the year they are appropriated, regardless of when actually received. Grants and gifts are recognized when all applicable eligibility requirements have been met. Investment income is recognized in the period when it is earned. The mill levy is recognized in the period it is collected by the County. Capital initiatives expense is recognized in the period in which the parties enter into an agreement as evidenced by executed Memorandum of Understanding (MOU) between UNM HSC and the Hospital.

(f) Cash and Cash Equivalents

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

(g) Investments and Investment Return

Investments are recorded at fair market value. At June 30, 2010 and 2009, investments consist of obligations of the U.S. government and government agencies. Investment income includes interest and realized and unrealized gains and losses on investments. Investment income is reported as nonoperating revenue when earned.

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

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

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

(i) Inventories

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

(j) Bond Issuance Costs

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

(k) Capital Assets

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

(l) Net Patient Service Revenues

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

Contractual adjustments resulting from agreements with various organizations to provide services for amounts that differ from billed charges, including services under Medicare, Medicaid, and certain managed care programs, are recorded as deductions from patient revenues. The Hospital is eligible for and receives additional Medicaid reimbursement for the gap between the amount that would be equal to the Medicare reimbursement per discharge compared to the Medicaid payment per discharge. This upper payment limit (UPL) is based on the reimbursement that would use Medicare reimbursement principles. This amount is recorded as an offset to contractual adjustments. With respect to SCI program, funding is modeled after a capitated payment program. Funds are remitted to the Hospital on a per member per month basis for all state-approved members. Therefore, contractual adjustments are recorded as deduction from patient revenue in its entirety. Capitated payments are received on a monthly basis and are recorded as an offset to contractual adjustments. Accounts, when determined to be uncollectible, are charged against the allowance for doubtful accounts.

(m) Charity Care

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

(n) Bernalillo County Taxes

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

(o) Cigarette Tax

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

(p) Bond Premium

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

(q) Income Taxes

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

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

Invested in capital assets, net of related debt, represents the Hospital's total investment in capital assets, net of outstanding debt related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. There are $13.5 million in unspent bond proceeds at June 30, 2010 and 2009, reserved for debt services as required by the trustee.

(s) Risk Management

The Hospital sponsors a self-insured health plan in which the Behavioral Operations Center of UNM Psychiatric Center and UNM Children's Psychiatric Center (collectively, the Center) also participate, as all employees are under the centralized umbrella of the Hospital. Blue Cross and Blue Shield of New Mexico and HMO New Mexico (BCBSNM and HMONM) provide administrative claim

payment services for the Hospital's plan. Liabilities are based on an estimate of claims that have been incurred but not reported and invoices received but not yet paid. At June 30, 2010 and 2009, the estimated amount of the Hospital's claims and accrued invoices was $2.9 million and $3.7 million, respectively, which is included in accrued payroll. As the Hospital receives all cash and pays all obligations of the Center, the estimated amount of the Center's claims and accrued invoices recorded in the Hospital's accrued payroll was approximately $287,000 and $358,000 at June 30, 2010 and 2009. The liability for claims incurred but not reported was based on an actuarial analysis calculated using information provided by BCBSNM. Changes in the reported liability since June 30, 2008 resulted from the following:

	Beginning of fiscal year liability	Current year claims and changes in estimates	Claim payments	Balance at fiscal year-end
2009 – 2010	$ 3,693,837	25,634,214	(26,428,626)	2,899,425
2008 – 2009	2,705,475	23,189,007	(22,200,645)	3,693,837

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

The Hospital and the Behavioral Operations Center provide other postemployment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes postemployment medical and dental healthcare provided separately from a benefit or pension plan. GASB Statement No. 45, *Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and required supplementary information (RSI) in the financial reports of state and local governmental employers.

In 2010 and 2009, the OPEB assumption was calculated individually for both entities (the Hospital and the Center) for which the liabilities and expenses were allocated to each reporting entity based on the applicable full-time equivalent (FTE).

(u) State Appropriation

The funding for the state appropriation is included in the General Appropriation Act, which is approved by the House and Senate of the State Legislature and signed by the governor before going into effect. Total funds appropriated for 2010 include $6,920,900 in the General Fund. Included in the General Fund is $1,160,000, Out-of-County Indigent funds, which are reported in net patient service revenue. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4. Sub-section J. Higher Education. Other State Funds are defined as nonreverting in House Bill 2, Section 2, Sub-section I Definitions.

(v) Capital Appropriation

The funding for the capital appropriation includes $5,000,000 in the General Appropriation Act. This General Fund amount is designated as a reverting fund, per House Bill 2, Section 5, Special Appropriations. The following amounts are also included in Capital Appropriations, per House Bill 622, 2006, $39,444, Senate Bill 827, 2007, $147,425, Senate Bill 471, 2008, $95,000, and House Bill 2, 2009, $75,000. The funds are designated as reverting in each bill, per Section 2, General Fund and Other Fund Appropriations, Limitations and Reversions.

(w) Classification

Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

(3) Accounting Polices and Statements Effective in 2010

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), was issued June 2007 and is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies in treatment, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. Hospital management has evaluated GASB 51 and concluded that it does not have a material impact to the Hospital.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), was issued June 2008 and is effective for financial statements for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. The Hospital does not utilize derivative financial instruments; therefore, GASB 53 does not have an impact on the Hospital's financial statements.

(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, 2010 and 2009 are $97,288,466 and $99,500,491, 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, 2010 and 2009.

Bank balances are categorized as follows:

	2010	2009
Amount insured by the Federal Deposit Insurance Corporation (FDIC)	$ 250,000	250,000
Repurchase agreements	1,638,574	1,638,572
Amount collateralized with securities held in the Hospital's name	112,305,143	117,102,514
Other cash	16,914	16,916
	$ 114,210,631	119,008,002

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

Cash in excess of FDIC insurance is collateralized at June 30, 2010 and 2009 by a U.S. government agency security held by the financial institution in the Hospital's name.

Custodial credit risk is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. The Hospital has a custodial risk policy for deposits that requires collateral in an amount greater than or equal to 50% of the deposit not insured by the FDIC. A greater amount of collateral is required when the Hospital determines it is prudent. As of June 30, 2010 and 2009, 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.

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

	June 30, 2010		
	Fair value	Less than 1 year	1 – 5 years
Items not subject to interest rate risk:			
Money market deposits	$ 7,550	7,550	—
Items subject to interest rate risk:			
Money market funds	653,947	653,947	—
U.S. Treasury securities:			
Treasury notes	21,333,995	—	21,333,995
Treasury STRIPS	1,695,359	—	1,695,359
U.S. government agency obligations:			
FHLMC	5,163,342	1,328,740	3,834,602
FNMA	4,505,623	1,517,975	2,987,648
Total items subject to interest rate risk	33,352,266	3,500,662	29,851,604
Total marketable securities	$ 33,359,816	3,508,212	29,851,604

(Continued)

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

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral that is in the possession of an outside party at June 30, 2010. Marketable securities of $32,698,319 and $31,156,183 at 2010 and 2009, respectively, are insured, registered, and held by the counterparty's agent in the Hospital's name.

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

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

A summary of the marketable securities at June 30, 2010 and 2009 and their exposure to credit risk is as follows:

	2010		2009	
	Rating	**Fair value**	**Rating**	**Fair value**
Items not subject to credit risk:				
U.S. Treasury securities:				
Treasury notes	N/A	$ 21,333,995	N/A	$ 22,723,458
Treasury STRIPS	N/A	1,695,359	N/A	4,026,681
Items subject to credit risk:				
Money market deposits	Not rated	7,550	Not rated	15,375
Money market funds	Not rated	653,947	Not rated	1,400,502
U.S. government agency obligations:				
FHLMC	Fitch – AAA	5,163,342	Fitch – AAA	2,853,180
FNMA	Fitch – AAA	4,505,623	Fitch – AAA	1,552,864
Total items subject to credit risk		10,330,462		5,821,921
Total marketable securities		$ 33,359,816		$ 32,572,060

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

The Hospital's exposure to concentrated credit risk is as follows: $5,163,342, which is invested in Federal Home Loan Mortgage Corporation (FHLMC) securities and equates to 8.8% of marketable securities held at June 30, 2010. An additional $4,505,623 is invested in Federal National Mortgage Association (FNMA) securities, which equates to 4.8% of marketable securities held, and falls just below the disclosure requirement threshold.

(c) Short-Term Investments

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

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

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

	June 30, 2010	
	Fair value	Less than 1 year
Items not subject to interest rate risk:		
Money market deposits	$ 1,399,156	1,399,156
Items subject to interest rate risk:		
Money market fund	3,652,993	3,652,993
U.S. government agency obligations:		
U.S. Treasury	1,060,551	1,060,551
FFCB	1,051,952	1,051,952
FHLMC	1,061,441	1,061,441
Total items subject to interest rate risk	6,826,937	6,826,937
Total short-term investments	$ 8,226,093	8,226,093

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

The fair values of U.S. Treasury and U.S. government agency obligations are based on quoted market prices.

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2010

and 2009, the short-term investments of $3,173,944 and $3,184,415, respectively, 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 has a policy that restricts short-term investments to specific investment ratings issued by nationally recognized statistical rating organizations. The policy states that cash equivalent reserves shall consist of interest-bearing or discount instruments of the U.S. government or agencies thereof.

A summary of the short-term investments at June 30, 2010 and 2009 and their exposure to credit risk is as follows:

	2010		2009	
	Rating	**Fair value**	**Rating**	**Fair value**
Items not subject to credit risk:				
U.S. Treasury notes	N/A	$ 1,060,551	—	$ —
Items subject to credit risk:				
Money market deposits	Not rated	1,399,156	Not rated	1,407,375
Money market fund	Not rated	3,652,993	Not rated	3,486,056
U.S. government agency obligations:				
FFCB	Fitch – AAA	1,051,952	—	—
FNMA	Fitch – AAA	—	Fitch – AAA	3,184,415
FHLMC	Fitch – AAA	1,061,441	—	—
Total items subject to credit risk		7,165,542		8,077,846
Total short-term investments		$ 8,226,093		$ 8,077,846

The fair values of U.S. Treasury and U.S. government agency obligations are based on quoted market prices.

(d) Long-Term Investments

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

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

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

	June 30, 2010	
	Fair value	**Less than 1 year**
Items not subject to interest rate risk:		
Equity securities*	$ 13,741,493	—
Money market deposits	2,547	2,547
Items subject to interest rate risk:		
Money market fund	11,167,422	11,167,422
Repurchase agreements	13,438,588	13,438,588
Items subject to interest rate risk	24,606,010	24,606,010
Total long-term investments	$ 38,350,050	24,608,557

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

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

(Continued)

Custodial Credit Risk – Debt Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of June 30, 2010 and 2009, the Hospital held no U.S. government obligations for long-term investment purposes.

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

The State of New Mexico requires that securities underlying repurchase agreements have a market value of at least 102% of the cost of the repurchase agreement. The market value of the securities underlying the repurchase agreements was at or above the required level during the years ended June 30, 2010 and 2009.

The repurchase agreement for the Reserve Account was $13,438,588 and $13,443,513 at June 30, 2010 and 2009, respectively. This is an American International Group (AIG) Matched Funding Corporation agreement collateralized by five FHLMC securities held by the Trustee in the Hospital's name. As of August 31, 2010, the market value of the repurchase agreement was $1,045,000 in excess of the investment principal resulting in a security ratio of 107.7% collateralization.

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

A summary of the investments at June 30, 2010 and 2009 and their exposure to credit risk is as follows:

	2010		2009	
	Rating	**Fair value**	**Rating**	**Fair value**
Items not subject to credit risk:				
Equity securities*	N/A	$ 13,741,493	N/A	$ 12,065,985
Items subject to credit risk:				
Money market deposits	Not rated	2,547	Not rated	4,502
Money market fund	Not rated	11,167,422	Not rated	8,685,709
Repurchase agreements	Moody's – Aa3	13,438,588	Moody's – Aa3	13,443,513
Total items subject to credit risk		24,608,557		22,133,724
Total long-term investments		$ 38,350,050		$ 34,199,709

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

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

(Continued)

(5) Concentration of Risk

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

	2010		2009	
Medicare and Medicaid	$ 97,928,696	44%	$ 77,101,210	40%
Other third-party payors	90,844,078	40	83,920,463	44
Others	35,398,716	16	31,027,980	16
Total patient accounts receivable	224,171,490	100%	192,049,653	100%
Less allowance for uncollectible accounts and contractual adjustments	(158,146,401)		(134,901,945)	
Patient accounts receivable, net	$ 66,025,089		$ 57,147,708	

(6) Estimated Third-Party Payor Settlements

The Hospital is reimbursed by the Medicare and Medicaid programs for certain reimbursable items at an interim rate with final settlement determined after submission of annual cost reports by the Hospital (note 12). The annual cost reports are subject to audit by the Medicare intermediary and the Medicaid audit agent. Cost reports through 2005 have been final settled for the Medicaid programs. Cost reports through 2004, and 2006 and 2007 have been final settled for the Medicare program. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(7) Assets Whose Use is Limited

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

		2010	2009
Current:			
Held by trustee for debt service	$	8,226,093	8,077,846
Noncurrent:			
Held by trustee for mortgage reserve fund		7,265,372	4,774,116
Held by trustee for debt service reserve		13,513,150	13,513,150
Held by trustee for collateral		3,828,031	3,844,454
Held by trustee for redemption fund		2,004	2,004
By UNM Hospital Board of Trustees		13,741,493	12,065,985
	$	46,576,143	42,277,555

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

As of June 30, 2010, $4.3 million of the $8.2 million balance in the held by trustee for debt service account represents the bond interest payment due July 1, 2010. As of June 30, 2009, $4.4 million of the $8.1 million balance in the held by trustee for debt service account represents the bond interest payment due July 1, 2009.

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

The Hospital has established a “Debt Service Reserve Fund” (consists of noncurrent assets held by trustee for debt service reserve and held by trustee for collateral accounts) and has agreed to maintain this fund for as long as any of the bonds are outstanding. The amount of the Debt Service Reserve Fund is $17.3 million and is closely related to the total annual obligation under the bond repayment schedule for the fiscal years 2011 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.

(Continued)

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

UNM, through the Hospital, has a 50% interest in TriCore totaling $5,707,000 and $4,920,000 at June 30, 2010 and 2009, respectively, which is being accounted for using the equity method.

The Hospital has a 50% interest in TLSC totaling $5,422,000 and $4,534,000 at June 30, 2010 and 2009, respectively. Approximately 34% of the net earnings of TLSC in fiscal years 2010 and 2009 is recorded as a reduction to laboratory expense in each year. This is based on the estimated ratio of the Hospital's volume of total laboratory services provided by TLSC to its members. The remaining 16% is accounted for under the equity method in fiscal years 2010 and 2009. The Hospital recorded laboratory expenses of approximately $26,600,000, net of the 34% reduction in laboratory expense, which totaled $648,000 in 2010. The Hospital recorded laboratory expenses of approximately $24,200,000, net of the 34% reduction in laboratory expense, which totaled $671,000 in 2009.

(Continued)

(8) Capital Assets

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

	Year ended June 30, 2010				
	Beginning balance	**Additions**	**Transfers**	**Retirements**	**Ending balance**
UNM Hospital capital assets not being depreciated:					
Land	$ 1,747,245	—	—	—	1,747,245
Construction in progress	18,922,530	8,151,866	(21,767,239)	—	5,307,157
	$ 20,669,775	8,151,866	(21,767,239)	—	7,054,402
UNM Hospital depreciable capital assets:					
Land improvements	$ 10,930,497	—	200,094	—	11,130,591
Buildings and building improvements	165,074,562	17,895	554,038	(493,659)	165,152,836
Building service equipment	129,645,949	120,182	12,150,681	(398,109)	141,518,703
Fixed equipment	14,283,545	805,643	33,003	(22,271)	15,099,920
Major movable equipment	194,352,813	16,331,213	8,829,423	(347,945)	219,165,504
Total depreciable capital assets	514,287,366	17,274,933	21,767,239	(1,261,984)	552,067,554
Less accumulated depreciation for:					
Land improvements	(2,543,628)	(923,238)	—	—	(3,466,866)
Buildings and building improvements	(52,331,216)	(5,668,401)	—	493,659	(57,505,958)
Building service equipment	(30,407,925)	(8,173,541)	—	388,806	(38,192,660)
Fixed equipment	(8,181,580)	(617,719)	—	22,271	(8,777,028)
Major movable equipment	(141,298,557)	(17,969,415)	—	324,270	(158,943,702)
Total accumulated depreciation	(234,762,906)	(33,352,314)	—	1,229,006	(266,886,214)
UNM Hospital depreciable capital assets, net	$ 279,524,460	(16,077,381)	21,767,239	(32,978)	285,181,340

(Continued)

	Year ended June 30, 2010				
	Beginning balance	**Additions**	**Transfers**	**Retirements**	**Ending balance**
UNM Hospital capital assets not being depreciated	$ 20,669,775	8,151,866	(21,767,239)	—	7,054,402
UNM Hospital depreciable capital assets, at cost	514,287,366	17,274,933	21,767,239	(1,261,984)	552,067,554
UNM Hospital total cost of capital assets	534,957,141	25,426,799	—	(1,261,984)	559,121,956
Less accumulated depreciation	(234,762,906)	(33,352,314)	—	1,229,006	(266,886,214)
UNM Hospital capital assets, net	$ 300,194,235	(7,925,515)	—	(32,978)	292,235,742

(Continued)

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

(Continued)

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

(9) Compensated Absences

Qualified hospital employees are entitled to accrue sick leave and annual leave based on their 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, 2010 and 2009 of $1,960,000 and $1,847,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued. The increase of $114,000 was primarily attributed to wage increases.

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 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, 2010 and 2009 of $13,135,000 and $12,165,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued. The increase of $970,000 was primarily attributed to wage increases.

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

During the years ended June 30, 2010 and 2009, the following changes occurred in accrued compensated absences:

	Balance July 1, 2009	Increase	Decrease	Balance July 30, 2010
$	14,444,942	23,959,174	(22,953,242)	15,450,874

	Balance July 1, 2008	Increase	Decrease	Balance July 30, 2009
$	12,075,313	24,884,243	(22,514,614)	14,444,942

The balances above include annual leave and sick leave, disclosed above, in addition to compensatory time and holiday, totaling $356,000 and $433,000 in fiscal years 2010 and 2009, 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:

	2010	2009
Deferred revenue	$ 1,466,543	648,914
Deferred rent	147,883	426,296
Other	207,666	298,309
	$ 1,822,092	1,373,519

(11) Bonds Payable

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

In conjunction with this construction project, the U.S. HUD, under Section 242 CFDA No. 14.128, issued a loan guarantee for the mortgage amount of $183,399,000. The loan guarantee is considered federal assistance subject to the requirements of Office of Management and Budget (OMB) Circular A-133 and the Single Audit Act. Accordingly, the loan guarantee has been audited as a major program included in the June 30, 2010 and 2009 UNM financial statements.

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

Interest expense associated with the bonds payable was $8,701,000 and $8,905,000, net of amortization of bond premium totaling $406,000 and $442,000 for the years ended June 30, 2010 and 2009, respectively. Interest income earned from the investment of the bond proceeds was $800,000 and $905,000 for the years ended June 30, 2010 and 2009, respectively.

Bonds payable consist of the following:

	Year ended June 30, 2010				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
FHA Insured Hospital Mortgage Revenue:					
Bonds Series 2004	$ 183,395,000	—	(4,390,000)	179,005,000	4,570,000
Bond premium	2,648,140	—	(405,987)	2,242,153	—
	$ 186,043,140	—	(4,795,987)	181,247,153	4,570,000

	Year ended June 30, 2009				
	Beginning balance	Additions	Deductions	Ending balance	Amounts due within one year
FHA Insured Hospital Mortgage Revenue:					
Bonds Series 2004	$ 190,210,000	—	(6,815,000)	183,395,000	4,390,000
Bond premium	3,089,678	—	(441,538)	2,648,140	—
	$ 193,299,678	—	(7,256,538)	186,043,140	4,390,000

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

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

Future debt service (not including sinking fund redemptions) as of June 30, 2010 for the bonds follows:

	Principal	Interest	Total
2011	$ 4,570,000	8,501,938	13,071,938
2012	4,790,000	8,287,309	13,077,309
2013	4,985,000	8,085,213	13,070,213
2014	5,240,000	7,871,938	13,111,938
2015	5,495,000	7,617,650	13,112,650
2016 – 2020	31,935,000	33,512,625	65,447,625
2021 – 2025	40,880,000	24,351,791	65,231,791
2026 – 2030	35,305,000	13,869,831	49,174,831
2031 – 2033	45,805,000	3,189,500	48,994,500
	$ 179,005,000	115,287,795	294,292,795

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
2011	$ 2,621,545
2012	2,728,351
2013	2,325,566
2014	2,420,313
2015	2,518,921
2016 – 2017	5,349,896
	$ 17,964,592

(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 44% of the Hospital's gross patient revenue for the years ended June 30, 2010 and 2009, 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 Medical Severity Diagnosis Related Group (MS-DRG) rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Most Medicare outpatient services are paid through Medicare's Outpatient Prospective Payment system (OPPS). Services excluded from the OPPS and paid under separate fee schedules include: clinical lab, some rehabilitation services, durable medical equipment, renal dialysis treatments, ambulance services, and professional fees of nonphysician practitioners.

Medicaid – Inpatient acute care services rendered to Medicaid Fee-for-Service (FFS) program beneficiaries are paid at prospectively determined rates per discharge based upon the MS-DRG system. These rates vary according to clinical factors and patient diagnosis. The Hospital is eligible for and receives additional Medicaid reimbursement (UPL) for the gap between the Medicaid reimbursement per discharge and the Medicare reimbursement per discharge. The Hospitals recorded UPL for the years ended June 30, 2010 and 2009 in the amounts of $39.0 million and $21.3 million, respectively. For outpatients, payments are made at an interim rate that is then settled by the cost report.

In addition, the Hospital has reimbursement agreements with certain Managed Care Organizations (MCOs) that have contracted with the State of New Mexico SALUD! program to administer services to enrolled Medicaid beneficiaries. The basis for reimbursement under these agreements includes prospectively determined rates (MS-DRG) or per diem for inpatient services, and percentage of charge for outpatient services, except for lab and radiology, for which payments are based upon predetermined fee schedules.

The Hospital entered into a reimbursement agreement for the SCI program during fiscal year 2007. This program is part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico HSD. Funding is modeled after a capitated payment program. Funds are remitted to the Hospital on a per-member-per-month basis for all state-approved members. The Hospital's funding under the SCI program for the years ended June 30, 2010 and 2009 was $42.8 million and $37.7 million, respectively.

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

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

	2010	2009
Charges at established rates	$ 1,297,047,522	1,206,624,223
Charity care	(214,120,664)	(183,220,345)
Contractual adjustments	(420,171,743)	(368,950,498)
Provision for doubtful accounts	(69,469,941)	(97,991,199)
Net patient revenues	$ 593,285,174	556,462,181

(Continued)

Contractual adjustments for the years ended June 30, 2010 and 2009 were increased by third-party payor original settlement estimates and revisions to settlement estimates of $4,851,000 and $1,287,000, respectively. During the fiscal year ended June 30, 2010, for Medicare and Medicaid, $3,362,000 and $4,777,000, respectively, were for original settlement estimates related to the fiscal year 2010 cost report November 2010 filing. During fiscal year 2010, subsequent estimate revisions, including final settlements offset the current year original settlement estimates by $3,288,000 for cost reporting periods ending June 30, 2004 through 2009. During the fiscal year ended June 30, 2009, for Medicare and Medicaid, $2,941,000 and $4,774,000, respectively, were for original settlement estimates related to the fiscal year 2009 cost report November 2009 filing. Also recognized during fiscal year 2009, subsequent estimate revisions, including final settlements offset the current year original settlement estimates by $6,428,000 for cost reporting periods ending June 30, 2001 through 2008.

(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:

	2010	2009
Charges foregone, based on established rates	$ 214,120,664	183,220,345
Estimated costs and expenses incurred to provide charity care	109,415,659	94,358,478
Equivalent percentage of charity care charges forgone to total gross revenue	17%	15%

(14) Malpractice Insurance

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

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

the State RMD to provide coverage to the Hospital for those torts where the Legislature has waived the State's sovereign immunity up to the damages limits of the New Mexico Tort Claims Act plus the cost incurred in defending any claims and/or lawsuits (including attorney's fees and expenses), with no deductible and with no self-insured retention by the Hospital. As a result of the foregoing, the Hospital is fully covered for claims and/or lawsuits relating to medical malpractice or professional liability.

(15) Related-Party Transactions

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

	2010	2009
UNM Health Sciences Center	$ 6,255,774	9,958,435
UNM Cancer Center	22,009	102,523
	$ 6,277,783	10,060,958

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:

	2010	2009
UNM	$ 13,776,814	14,234,135
UNM Health Sciences Center	113,237,427	93,377,363
	$ 127,014,241	107,611,498

(16) Benefit Plans

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

The Hospital also has a deferred compensation plan, called the UNM Hospital 457(b) Deferred Compensation Plan, which provides employees with additional retirement savings plan. The Hospital does not contribute to this plan. Employees can make voluntary contributions to this plan. The plan was

established by the UNM Hospital Board of Trustees and can be amended at its discretion. The plan is administered by the Hospital's Human Resources Department.

In addition, the Hospital has a 401(a) defined contribution plan, called the UNM Hospital 401(a) Plan, which was established for the purpose of providing retirement benefits for eligible participants and their beneficiaries. The 401(a) plan allows for tax-deferred employer contributions on a percentage-of-salary basis. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. All assets of the plan are held in a trust fund, are not considered hospital assets, and are under the direction of a Plan Administrator.

The 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 115 participants included in this plan. Actuarial pension data for this plan may be obtained by writing to UNM Hospital's Human Resources Department, P.O. Box 80600, Albuquerque, NM 87198-0600.

A small portion (approximately 35) of the Hospital's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members (certified teachers and other employees of state public school districts, colleges, and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and RSI 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 Web site at www.nmerb.org.

Funding Policy

The expense for the defined contribution plan was $10,307,000, $8,853,500, and $7,526,500 in fiscal years 2010, 2009, and 2008, respectively. Total employee contributions under this plan were $11,358,000, $10,505,000, and $9,413,000 in fiscal years 2010, 2009, and 2008, respectively.

There was no expense for the deferred compensation plan in 2010, 2009, and 2008, respectively, as the Hospital does not contribute to this plan. Total employee contributions under this plan were $1,923,000, $1,929,000, and $1,727,000 in 2010, 2009, and 2008, respectively.

The expense for the 401(a) defined contribution plan was $250,000, $228,500, and $212,500 in fiscal years 2010, 2009, and 2008, respectively. Only the Hospital contributes to this plan.

Effective July 1, 2008, plan members of the public employee retirement system are required to contribute 9.40% of their gross salary. The Hospital is required to contribute 10.90% of the gross covered salary. The contribution requirements of plan members and the Hospital are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Hospital's contributions to ERB for the fiscal years ended June 30, 2010, 2009, and 2008 were $202,000,

$217,000, and $195,000, respectively, which equal the amount of the required contributions for each fiscal year.

(17) Other Postemployment Benefit Plan

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

Employees are eligible to retire from the Hospital and receive these post-employment benefits when:

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

At the date of valuation, July 1, 2009, there were a total of 18 Hospital and 3 Behavioral Operation retirees receiving benefits, 363 active employees fully eligible to receive benefits, and 4,166 active employees currently not fully eligible to receive benefits.

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

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

	Retiree (coverage extension/ compensated absence accrual period)			Retiree (after coverage extension)		
	Standard network	Extended network	Delta dental	Standard network	Extended network	Delta dental
Rate tier:						
Retiree only	$ —	240.50	—	441.80	682.30	30.68
Retiree + Spouse/DP	463.80	956.70	35.67	905.60	1,398.50	65.68
Retiree + Children	220.80	581.50	—	662.60	1,023.30	—
Retiree + family	508.00	1,024.90	67.00	949.80	1,466.70	97.68

The Hospital does not use a trust fund to administer the financing and payment of benefits. Instead, the Hospital funds the plan on a pay-as-you-go basis. The pay-as-you-go expense is the net expected cost of providing retiree benefits. This expense includes all expected claims and related expenses and is offset by the retiree contribution. Expected monthly claim costs were developed from a combination of historical claim experience and manual claim cost developed using a representative database. Nonclaim expenses are based on the current amounts charged to employees. The Hospital's and Center's pay-as-you-go expense for the period of July 1, 2009 to June 30, 2010 is $132,000. 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 (AALs) and the actuarial value of assets. The actuarial method used is the Unit Credit method, as the Unit Credit method provides a logical correlation between accruing and expensing of retirees' benefits.

A 4.5% annual discount rate was used assuming the Hospital will fund the postemployment benefit on a pay-as-you-go basis. For an unfunded plan, the investment return assumption is based on the expected return on employer assets that generally consist of short-term liquid investments.

The July 1, 2009 actuarial valuation considers an annual healthcare cost trend on a select (10.5%) and ultimate (5%) basis. Select rates are reduced 0.5% each year until reaching the ultimate rate. The unfunded AAL is amortized over the maximum acceptable period of 30 years. It is calculated assuming a level percentage of projected payroll, with a 3.5% per annum salary increase.

Annual retirement probabilities and the rate of withdrawal for reasons other than death and retirement have been determined based on the New Mexico Educational Retirement Board Actuarial Valuation as of June 30, 2008. It is assumed that 15% of future preretirees and postretirees participate in the Hospital's post/retirement health program.

Annual OPEB Cost and Net OPEB Obligation – The annual 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 (UAALs) over a 30-year period.

The Hospital's postemployment benefit plan includes employees from the Center. The OPEB cost and net OPEB obligation (NOO) were calculated and allocated to each reporting entity based on the Hospital's and Center's employee data as of June 30, 2009. The allocation is as follows: the Hospital – 91% and the Center – 9%. The OPEB cost and NOO information presented below are the Hospital's calculated portion.

The NOO is the cumulative difference between the ARC and the employer's contribution to the plan. The Hospital's NOO as of July 1, 2009 is equal to $1,034,730, which was determined based on the applicable FTE of the entity as of June 30, 2009. The plan is funded on a pay-as-you-go basis; the NOO at June 30, 2010 and 2009 is as follows:

		June 30, 2010 Unfunded	June 30, 2009 Unfunded
NOO – beginning of year	$	1,034,730	427,000
ARC		2,793,444	714,000
Interest on prior year NOO		43,240	20,020
Adjustment to ARC		(36,800)	(17,290)
Annual OPEB cost		2,799,884	716,730
Employer contributions		(131,884)	(109,000)
Increase in NOO		2,668,000	607,730
NOO – end of year	$	3,702,730	1,034,730

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the NOO for fiscal years ended June 30, 2010 and 2009 are as follows:

Fiscal year ended		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
June 30, 2010	$	2,799,884	4.7%	$	3,702,730
June 30, 2009		716,730	15.2		1,034,730

Funding Status and Progress – As of July 1, 2009, the most recent actuarial valuation date, the plan was not funded. The plan AAL (the present value of all future expected postretirement medical payments and administrative cost, which are attributable to past service) is $18,899,000 and the actuarial value of assets

was $0, resulting in an UAAL of $18,899,000. The UAAL is applicable to all reporting entities based on the percentage noted above.

	Unit credit method unfunded plan June 30, 2010
AAL	$ 18,899,000
Actuarial value of plan assets	—
UAAL	18,899,000
Funded ratio (actuarial value of plan assets/AAL)	—
Covered payroll (active plan members)	213,670,546
UAAL as a percentage of covered payroll	8.8%

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 ARCs of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress (schedule 4), presented as RSI following the notes to the financial statement, presents information about the actuarial value of plan assets relative to the AALs for benefits.

(18) Commitments and Contingencies

(a) Lease Commitments

The Hospital is committed under various leases for building and office space and data processing equipment. Rental expenses on operating leases and other nonlease equipment amounted to $9,302,000 in 2010 and $10,042,000 in 2009.

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

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2010, under noncancelable operating leases and memorandums of understanding, are as follows:

	Amount
Fiscal year:	
2011	$ 4,864,732
2012	4,376,606
2013	4,017,221
2014	3,938,784
2015	2,701,885
2016 – 2020	6,877,765
2021 – 2025	1,254,442
2026 – 2030	1,254,442
2031 – 2035	1,205,090
2036 – 2040	1,131,064
	$ 31,622,031

(b) Contingencies

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

(19) Capital Initiatives

The Hospital and the UNM HSC entered into an MOU, for a fifth year, to collaborate on strategic capital projects. Per the agreement, the Hospital recorded a nonoperating expense of $21.4 million and $23.0 million in 2010 and 2009, respectively, to provide for the development of clinical facilities pursuant to the agreement. All capital facilities are owned by UNM HSC for use by the Hospital. Capital project disbursements in 2010 and 2009 were $5.0 million and $8.0 million, respectively. The ending balance for the strategic capital initiatives account at UNM HSC was $61.8 million at June 30, 2010.

(20) Risks and Uncertainties

The Hospital's investments are exposed to various risks, such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements 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, 2010

	Budget (original)	Budget (final)	Actual	Budget variance
Operating revenues:				
Net patient service	$ 534,841,317	564,126,881	593,285,174	29,158,293
Other operating revenue	6,572,334	6,925,919	7,212,378	286,459
Total operating revenues	541,413,651	571,052,800	600,497,552	29,444,752
Operating expenses	619,368,416	651,963,449	656,295,386	4,331,937
Operating loss	(77,954,765)	(80,910,649)	(55,797,834)	25,112,815
Nonoperating revenues and other revenues, net	77,980,860	83,622,223	64,820,236	(18,801,987)
Increase in net assets	$ 26,095	2,711,574	9,022,402	6,310,828

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

See accompanying independent auditors' report.

Schedule 2

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Pledged Collateral by Banks

Year ended June 30, 2010

	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				$ 114,193,717	16,914	114,210,631
Less repurchase agreements at cost 102% collateralized by	Bank of America Charlotte, NC	U.S. FHLMC	3128E4ZD7	(1,638,574)	—	(1,638,574)
FDIC insurance				(250,000)	(16,914)	(266,914)
Total uninsured public funds				$ 112,305,143	—	112,305,143
50% collateral requirement per Section 6-10-17 NMSA				$ 56,152,572	—	56,152,572
Pledged collateral	Bank of America Charlotte, NC	U.S. FNMA	31385XAZ0	141,628,788	—	141,628,788
Total pledged collateral				141,628,788	—	141,628,788
Excess of pledged collateral over the required amount				$ (85,476,216)	—	(85,476,216)

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, 2010

Name of bank/broker	Account type	Balance per bank statement	Reconciled balance per financial statement
UNM Hospital cash:			
Bank of America:			
Operating	Checking	$ 112,555,143	95,603,655
Consolidated Automated Overnight Investment	Repurchase agreement	1,638,574	1,638,572
First Community Bank:			
UNM Hospital Change Campaign	Checking	16,914	16,914
Petty Cash	Cash on hand	—	29,325
Total UNM Hospital cash		$ 114,210,631	97,288,466
UNM Hospital short-term investments:			
Morgan Stanley Smith Barney	Money market deposits	$ 7,550	7,550
Wells Fargo	Money market deposits	332,128	1,399,156
Morgan Stanley Smith Barney	Money market funds	653,947	653,947
Wells Fargo	Money market funds	3,652,993	3,652,993
Morgan Stanley Smith Barney	FNMA	4,505,623	4,505,623
Wells Fargo	FFCB	1,051,952	1,051,952
Morgan Stanley Smith Barney	FHLMC	5,163,342	5,163,342
Wells Fargo	FHLMC	1,061,441	1,061,441
Morgan Stanley Smith Barney	U.S. Treasury notes	21,333,995	21,333,995
Wells Fargo	U.S. Treasury notes	1,060,551	1,060,551
Morgan Stanley Smith Barney	U.S. Treasury STRIPS	1,695,359	1,695,359
Total UNM Hospital short-term investments		$ 40,518,881	41,585,909
UNM Hospital long-term investments:			
Wells Fargo	Money market deposits	$ 2,456	2,547
Wells Fargo	Money market funds	11,167,422	11,167,422
Wells Fargo	Collateralized repurchase agreement	13,438,588	13,438,588
Investment in TriWest	Equity securities	2,612,500	2,612,500
Investment in TRL (TriCore)	Equity securities	5,707,274	5,707,274
Investment in TLSC	Equity securities	5,421,719	5,421,719
Total UNM Hospital long-term investments		$ 38,349,959	38,350,050

See accompanying independent auditors' report.

Schedule 4

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Postemployment Benefits Other than Pension Schedule of Funding Progress

Years ended June 30, 2010 and 2009

(Unaudited)

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, 2009	$ —	18,899,000	18,899,000	—	$ 213,670,546	8.8%
July 1, 2008	—	5,305,000	5,305,000	—	227,182,132	2.3
July 1, 2007	—	3,830,640	3,830,640	—	194,841,644	2.0

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

See accompanying independent auditors' report.

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

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

We have audited the financial statements of the UNM Hospital (the Hospital) and the budgetary comparison presented as supplemental information as of and for the year ended June 30, 2010, and have issued our report thereon dated November 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, 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 are required to be reported under *Government Auditing Standards*.

We noted certain matters that are required to be reported per Section 12-6-5 NMSA 1978 that we have described in the accompanying schedule of findings and responses as item 2010-01.

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

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

KPMG LLP

November 4, 2010

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Summary Schedule of Prior Year Audit Findings

Year ended June 30, 2010

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

2009-01 Physical Inventory and Disposition of Property

The finding has been resolved as of June 30, 2010.

(Continued)

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Schedule of Findings and Responses

Year ended June 30, 2010

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

2010-01 – Cerner and Siemens Systems Edit/Exception/Error Report Review

Condition

In performing the internal control testwork over 15 daily edit/exception/error reports, we noted the following errors not corrected or addressed: 1) four charges did not transfer from a pre-admit code (labs, office visits, etc.) to an admission code and therefore the pre-admit charges were not recorded to revenue, 2) two instances of incorrect codes recorded resulting in no charge being generated, and 3) one instance where a pre-admit code was charged twice.

Criteria

The Hospital's clinical staff uses the Millennium (Cerner) System for the patient management (treatment/procedure coding and ordering). The Hospital's patient financial services (PFS) group uses the Siemens Invision application for the accounts receivable subsidiary ledger and revenue recognition. These two systems interface to transfer patient treatment/procedure data to the accounts receivable subsidiary ledger. The treatment/procedure codes per the Cerner System link to the Charge Master Codes in the Siemens System.

The Systems' interface has a function of producing daily edit/error reports for interface problems. The PFS department reviews this report to address the errors for possible duplication of charges, missing (nontransferred charges) or unallowable charges. The daily reports can have dozens of edits/exceptions/errors so the report is disbursed to multiple PFS personnel to resolve items.

Cause

The review of the Edit/Exception/Error Reports by the PFS department is not being thoroughly monitored resulting in certain errors not being timely addressed or corrected.

Effect

If there is an error in the interface (duplicate coding, incorrect coding, etc.), patient revenue and receivables could be inaccurate.

The Hospital and KPMG reviewed each error that was not timely corrected to determine the financial reporting impact.

The pre-admit charges are for inpatient services of which the hospital will only receive a contractual per diem or DRG case rate for the treatment/procedures from the insurance payor; therefore the pre-admit charges that did not transfer and the duplicate pre-admit charge would have been contractually adjusted to the net revenue. The effects of these errors only have an impact on the gross revenue and receivable balances and not the net financial reporting balances.

(Continued)

The two incorrect codes were due to human error (transposing of numbers). One error was originally addressed by PFS department and changed to another incorrect code. The other error was not addressed. As a result, no charge was generated and therefore no revenue was earned for the two incorrect codes. The impact of the two incorrect codes was approximately $2,000 out of approximately $50 million of transactions in the 15 days tested.

Recommendation

We recommend that the Hospital consider the cost benefit of refining the current procedure to assure the PFS department is addressing all Cerner and SMS system edit/exceptions/errors promptly. In addition, after the disbursing of the report to applicable personnel, the full report should be monitored by a supervisor or manager to assure all staff addressed their assigned report sections.

Hospital Response

The Hospital will develop a process to track and resolve all Cerner and SMS system edits, exceptions, and errors. Management will monitor the process.

UNM HOSPITAL
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS

Exit Conference

Year ended June 30, 2010

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

An exit conference was conducted on November 4, 2010 with the Finance and Audit Committee of the Board of Trustees and members of the Hospital's management. During this meeting, the contents of this report were discussed with the following committee members, management personnel, and KPMG representatives present:

Steve McKernan	Chief Executive Officer
Ella Watt	Chief Financial Officer
Louise Campbell-Tolber	Member, Finance and Audit Committee
Michael Olguin	Chair, Finance and Audit Committee
Raymond Loretto	Member, Finance and Audit Committee
Robert Fondino	Chief Finance and Budget Officer
JoAnn Woolrich	Executive Director, Compliance and Internal Audit
Shawna Gonzales	Finance Director
Sandra Long Mendoza	Finance Director
Roberta Reinhardt	Finance Director
John Kennedy	Engagement Partner, KPMG LLP
Jaime Clark	Senior Manager, KPMG LLP