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

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2013 AND 2012

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

UNM BEHAVIORAL OPERATIONS
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
FISCAL YEAR 2013 OFFICIAL ROSTER

Board of Trustees

Michael Olguin Socorro, NM	Chairperson (Term expires 5/31/15, Regent appointed)
William Lang Albuquerque, NM	Vice-Chairperson (Term expires 5/31/15, Regent appointed)
Michelle Coons Albuquerque, NM	Secretary (Term expires 5/31/14, Regent appointed)
Debbie Johnson Albuquerque, NM	Member (Term expires 1/30/15, Regent appointed)
Jerry Geist Albuquerque, NM	Member (Term expires 3/31/12, Regent appointed)
Warren Laskey, MD Albuquerque, NM	Member (Term expires 1/31/14, Regent appointed)
Elizabeth Joyce Naseyowna-Chalan Albuquerque, NM	Member (Term expires 2/28/14, All Indian Pueblo Council – Regent appointed ; resigned 2/22/13)
Roxane Bly Albuquerque, NM	Member (Term expires 4/30/14, County appointed)
Jane Wishner Albuquerque, NM	Member (Term expires 3/22/14, County appointed)

UNM BEHAVIORAL OPERATIONS
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
FISCAL YEAR 2013 OFFICIAL ROSTER (CONTINUED)

Administrative Officers

Robert G. Frank, Ph.D.	President – University of New Mexico
Paul Roth, M.D.	Chancellor - UNM Health Sciences Center Dean, School of Medicine - UNM Health Sciences Center
Ava Lovell	Senior Executive Financial Officer - UNM Health Sciences Center
Steve McKernan	Chief Executive Officer - UNM Hospitals – Chief Operating Officer - UNM Health System
Ella Watt	Chief Financial Officer - UNM Hospitals

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

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of UNM Behavioral Operations (the "Center"), a division of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents. We have also audited the budget comparison (Schedule 1) presented as supplementary information for the year ended June 30, 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements and budget comparison in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements and budget comparison 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 General 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 from material misstatement.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the year*s* then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the budget comparison referred to above presents fairly, in all material respects, the budgetary comparison for the year ended June 30, 2013 in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4-16 and the schedule of postemployment benefits other than pensions schedule of funding progress for the year ended June 30, 2013 on page 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Moss Adams LLP

Albuquerque, New Mexico
October 18, 2013

UNM BEHAVIORAL OPERATIONS
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2013 and 2012

This section of the University of New Mexico (UNM) Behavioral Operations includes the UNM Psychiatric Center (Adult Center) and the UNM Children's Psychiatric Center (Children's Center), collectively, the Center. The annual financial report presents management's discussion and analysis of the financial performance of the Center during the fiscal years ended June 30, 2013 and 2012. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of the Center's management.

Using the Annual Financial Report

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

The financial statements prescribed by GASB 34 (the statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows) present financial information in a form similar to that used by commercial corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the product or service, regardless of when cash is exchanged.

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

The statements of revenues, expenses, and changes in net position 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 aid can result in an operating deficit since the financial reporting model classifies such aid as nonoperating revenues, which is the case with the state appropriation received by the Center. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

Condensed Summary of Net Position

		As of June 30		
		2013	**2012**	**2011**
Assets:				
Current assets	$	7,026,238	7,559,307	6,489,603
Capital assets		7,161,759	6,909,323	5,582,392
Noncurrent assets		13,151,881	14,705,626	19,137,097
Total assets	$	27,339,878	29,174,256	31,209,092
Liabilities:				
Current liabilities	$	5,821,879	6,154,537	8,131,383
Noncurrent liabilities		543,378	499,124	620,270
Total liabilities	$	6,365,257	6,653,661	8,751,653
Net position				
Net investment in capital assets	$	7,161,759	6,909,323	5,582,390
Restricted		143,798	156,199	194,127
Unrestricted		13,669,064	15,455,073	16,680,922
Total net position	$	20,974,621	22,520,595	22,457,439

At June 30, 2013, the Center's total assets were $27.3 million, compared to $29.2 million at June 30, 2012 and $31.2 million at June 30, 2011. The Center's largest asset is the related-party receivable due from affiliate in the amount of $13.2 million at June 30, 2013, $14.7 million at June 30, 2012 and $19.1 million at June 30, 2011 followed by the investment in capital assets of $7.2 million at June 30, 2013, compared to $6.9 million and $5.6 million at June 30, 2012 and 2011, respectively. The University of New Mexico Hospital (the Hospital) manages all cash receipts and disbursements on behalf of the Center. The noncurrent asset represents the related-party receivable between the Hospital and the Center for the intercompany cash transactions. For the three years presented, the Center's current assets have been sufficient to cover current liabilities.

The Center's liabilities decreased by $288 thousand from June 30, 2012 to June 30, 2013, and decreased by $2.1 million from June 30, 2011 to June 30, 2012. In 2013, accrued compensation and benefits increased $63,000 to $2.2 million and is the Center's largest liability. Estimated third party payor settlements increased by $1.0 million and accounts payable decreased by $1.3 million to $1.5 million at June 30, 2013, compared to $2.9 million in 2012 and $2.0 million in 2011.

Total net position decreased by $1.5 million to $21.0 million at June 30, 2013, which reflects an operating loss of $20.5 million, offset by nonoperating net revenues of $19.0 million. Unrestricted net position totaled $13.7 million at June 30, 2013.

Total net position increased by $63,000 to $22.5 million at June 30, 2012, which reflects an operating loss of $18.6 million, offset by nonoperating net revenues of $18.6 million. Unrestricted net position totaled $15.5 million at June 30, 2012.

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

		Year Ended June 30		
		2013	**2012**	**2011**
Total operating revenues	$	27,484,604	30,829,715	29,074,288
Total operating expenses		(48,001,699)	(49,381,288)	(48,990,686)
Operating loss		(20,517,095)	(18,551,573)	(19,916,398)
Nonoperating revenues and expenses and other revenues		18,971,121	18,614,729	19,257,488
Total increase (decrease) in net position		(1,545,974)	63,156	(658,910)
Net position, beginning of year		22,520,595	22,457,439	23,116,349
Net position, end of year	$	20,974,621	22,520,595	22,457,439

Operating Revenues

The sources of operating revenues for the Center are net patient service, contracts and grants, and other operating (ancillary services) revenues, with the most significant source being net patient service revenues. Operating revenues were $27.5 million, $30.8 million, and $29.1 million for 2013, 2012 and 2011, respectively.

Net patient service revenue is comprised of gross patient service revenue, net of contractual allowances, charity care, provision for doubtful accounts, and any third-party cost report settlements. Net patient service revenues were $24.6 million, $27.5 million, and $25.8 million for 2013, 2012 and 2011, respectively.

Net patient service revenues for 2013 decreased $2.9 million from $27.5 million in 2012, to $24.6 million as a result of decreased volumes for Medicaid and third-party payors.

Net patient service revenues for 2012 increased $1.7 million from $25.8 million in 2011 as a result of increased collection percentages, resulting in decreased contractual allowances in 2012.

Net patient service revenues for 2011 decreased $4.2 million from $29.9 million in 2010. This was a result of reduced volumes for Medicaid and other third-party payors and reduced reimbursement rates for Medicaid. Net patient service revenue also decreased as a result of services no longer covered by Medicaid.

On November 1, 2010, the State of New Mexico Human Services Department, Medical Assistance Division (MAD) implemented the Outpatient Prospective Payment System (OPPS) for Medicaid outpatient payment rates. The payment rate became 100% of the Medicare standard rate. The Managed Care Organizations (MCOs) also implemented OPPS during fiscal year 2011. On January 10, 2012, the Human Services Department (HSD) announced approval of the UNMHSC patient-centered medical home (PCMH) pilot project. The PCMH pilot program provides a specific management model of care that focuses on improving significant, chronic conditions including diabetes, depression, hypertension, hyperlipidemia, obesity, and metabolic syndrome. Enrollment in the pilot program began April 1, 2012 with patients that were on a waiting list with HSD. Enrollment increased to 10,214 by January 2013. HSD froze new enrollment effective November 2012. Enrollment in the SCI program has declined since February 2013. HSD eliminated the 30-day grace period for re-enrollment under the SCI program effective July 1, 2010. This resulted in consistent declines in enrollment from July 2010 forward until the January 2012 PCMH pilot. The SCI Program will be eliminated with New Mexico's Centennial Care, beginning January 2014.

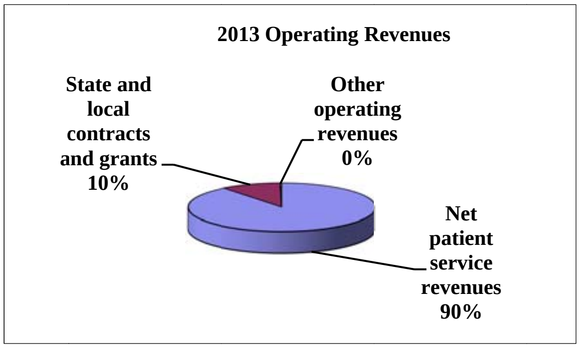
On July 1, 2009, payment received for services provided to patients under the Behavioral Health Services Division (BHSD) converted from a monthly drawdown of a fixed amount to fee for service. Funding under the BHSD contract was capped at $4,540,213, $4,542,805, and $4,550,103 for 2013, 2012 and 2011, respectively.

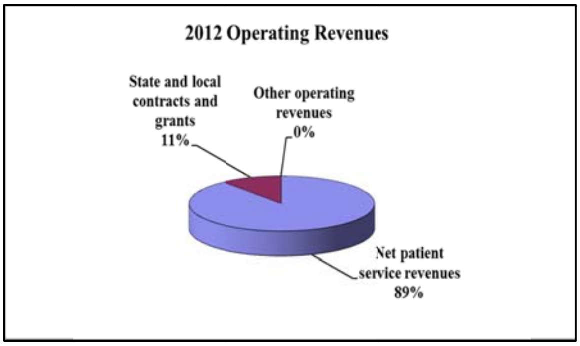
The Center encourages all patients to apply for financial assistance. The Center offers a financial assistance program called UNM Care. This program assigns patients primary care providers and allows them to receive care throughout the Center and at all clinic locations. This program is available to Bernalillo County residents who meet certain income thresholds. The income threshold is 300% of the Federal Poverty Level (FPL). Patients may apply for this program at various locations throughout the Health Sciences Center (HSC) and various community locations. As of June 30, 2013, 2012 and 2011, there were approximately 26,408, 32,500, and 30,500 active enrollees, respectively. The Center does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments.

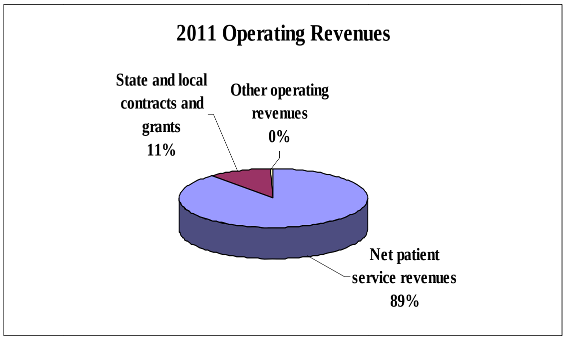
The Center provides care to patients who are either uninsured or under-insured and who do not meet the criteria for financial assistance. The Center encourages patients to meet with a financial counselor to develop payment arrangements. Although the Center pursues collection of these accounts usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, liens are not placed on property or assets, and judgments are not filed against the patients. These accounts are fully reserved and recorded as provision for doubtful accounts. Provision expense recorded for fiscal years 2013, 2012 and 2011 was $1.3 million, $1.1 million, and $1.1 million, respectively.

The Medicare Recovery Audit Contract (RAC) program was created through the Medicare Modernization Act of 2003 (MMA). This is a program to review healthcare claims in order to identify and recover inappropriate payments made to providers for fee-for-service Medicare. In 2006, Congress mandated expansion of the RAC program to all 50 states. The RAC program encompassing New Mexico became effective in March 2009, with Connolly Consulting Associates, Inc. as the contractor. The RAC contractor can request up to 348 records every 45 days for the adult behavioral hospital and 20 for the children's behavioral hospital. Claims can be requested up to 3 years from payment date. In June 2013, the Adult Behavioral Hospital received its first complex RAC request to review 4 accounts for $48 thousand in Medicare payments. These records are still being reviewed by the RAC contractor.

The following pie charts depict the operating revenue mix for the years ended June 30, 2013, 2012 and 2011:

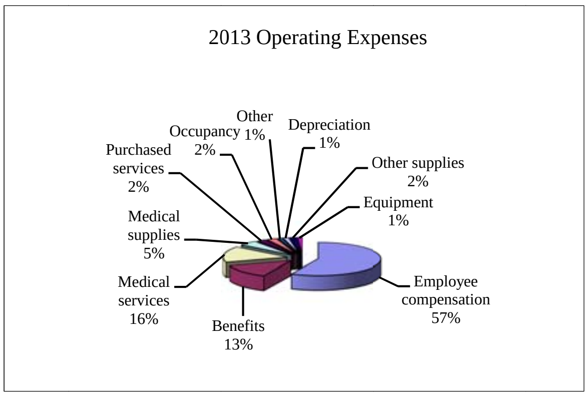


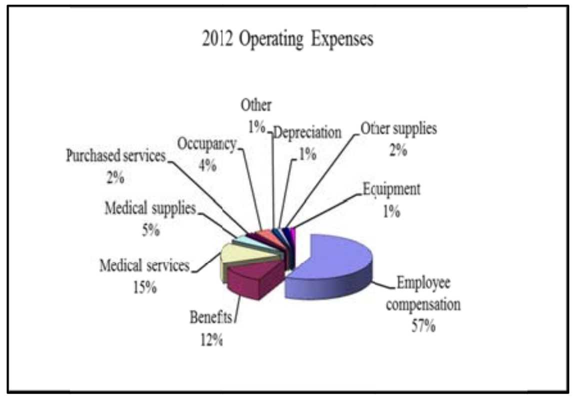


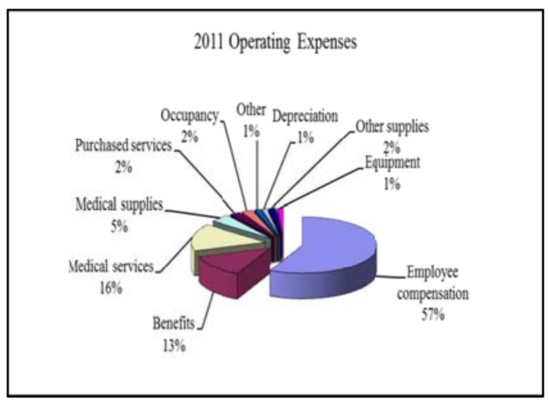


Operating Expenses

The following pie charts depict the distribution of the operating expenses for the Center for the years ended June 30, 2013, 2012 and 2011:







Operating expenses for 2013, including depreciation of $684,000 totaled $48.0 million. Overall expenses decreased 2.8% ($1.4 million) from the prior year. Occupancy expenses decreased 43.3% ($920,000) from fiscal year 2012 to 2013. Occupancy Expense had increased by $908,000 in 2012 as a result of repairs and facilities work for safety and security purposes. These expenditures did not re-occur in 2013. Employee Compensation also decreased 2.7% ($762,000) due to a decrease in FTEs. There were no other significant or unexpected changes in operating expenses.

Operating expenses for 2012, including depreciation of $610,000, totaled $49.4 million. Overall expenses increased 0.8% ($400,000) from 2011. Occupancy expenses increased 75.5% ($908,000) due to HVAC repairs, replacement of grills, doors, frames, stucco work, fire alarms, anchoring patient beds, replacing bathroom fixtures, and patching ceilings to maintain aging facilities as well as installing access panels, card readers and cameras for safety and security purposes. The occupancy expense increase was partially offset by decreased benefits expense of $364,000 associated with a change in estimate of 2011 Other Post-Employment Benefits (OPEB) and decreases of $250,000 for reduction in medical services for the Assertive Community Treatment Program. There were no other significant or unexpected changes in operating expenses.

Nonoperating Revenues and Expenses

Revenue from the Bernalillo County mill levy was the most significant source of nonoperating revenue, totaling $12.8 million in 2013, $12.6 million in 2012 and $12.5 million in 2011. The state appropriation was the next significant nonoperating revenue source totaling $6.5 million in 2013, $6.3 million in 2012, and $6.9 million in 2011. The state appropriation is provided to the Center to fulfill its mission to the State of New Mexico. In 1975, the Center was created by state statute under the authority of the State of New Mexico to supply what were deemed as necessary services to improve the mental health and well-being of New Mexico's children and adolescents through inpatient services at the Center, at school sites, and at patients' homes. The appropriation also funds the operation of the Mimbres School, a state-supported, on-site school. The state appropriation for 2013 was increased by $229,000 (3.6%) during the regular session of the New Mexico legislature for the Education Retirement Shift. The state appropriation for 2012 was reduced from the original appropriation by $310,000 (5%) during the special session of the New Mexico legislature. The state appropriation for 2011 was reduced from the original appropriation by $345,000 (5%) during the special session of the New Mexico legislature.

Nonoperating revenue for 2013 included $18,000 in bequests and contributions. Nonoperating revenue for 2012 included $25,000 in bequests and contributions.

Capital Assets

At June 30, 2013, the Center had $19.7 million invested in capital assets, less accumulated depreciation of $12.5 million. Depreciation charges for the year totaled $684,000 compared to $610,000 and $536,000 in 2012 and 2011, respectively.

		June 30		
		2013	**2012**	**2011**
Land and improvements	$	953,031	933,461	769,496
Building and improvements		11,764,600	11,565,230	10,833,312
Building service equipment		3,449,706	3,186,569	2,421,672
Equipment		2,217,703	2,233,836	2,324,052
Construction in progress		1,272,875	890,508	712,908
		19,657,915	18,809,604	17,061,440
Less accumulated depreciation		(12,496,156)	(11,900,281)	(11,479,048)
Net property and equipment	$	7,161,759	6,909,323	5,582,392

During the year ended June 30, 2013, the Center's capital expenditures included an air cooled chiller, a ropes course, and a fiber optics infrastructure improvement project. During the year ended June 30, 2012, the Center's capital expenditures included roof replacements, inpatient unit and residential treatment center renovations, chiller replacement, and boiler replacement. During the year ended June 30, 2011, the Center's capital expenditures included roof replacements, restroom remodels, landscaping, patient storage and sound panel installation.

Change in Net Position

Total net position (assets plus deferred outflows minus liabilities minus deferred inflows) are classified by the Center's ability to use these assets to meet operating needs. Total net position can be unrestricted or restricted. Unrestricted net position for the Center may be used to meet all operating needs of the Center. Restricted net position is generated by donations and gifts and is further classified as to the purpose for which it must be used. The Center's total change in net position reflected a net decrease of approximately $1.5 million in 2013 and a net increase of $63,000 in 2012.

Factors Impacting Future Periods

On August 2, 2013, the CMS released the FFY2014 Inpatient Prospective Payment (IPPS) Final Rule. The IPPS rates will increase by a market basket increase of 2.5%, less a 0.8% market basket reduction mandated under the Patient Protection and Affordable Care Act (PPACA), less a 0.8% documentation and coding reduction mandated by the American Taxpayer Relief Act of 2012, and less a 0.2% reduction to offset projected increases associated with new admission and medical review criteria for inpatient services. The impact of this reduction is expected to be minimal. The IPPS Final Rule implements PPACA changes to Medicare Disproportionate share hospital (DSH) payments. In FY 2014, the Hospital will continue to receive 25% of the DSH payment previously received using the traditional formula. This 25% will be included in the "base" DRG payments for each Medicare inpatient discharge. The remaining DSH funding will be redistributed based on each DSH-eligible hospital's ratio of uncompensated care relative to the total for all DSH-eligible hospitals. Low-income patient days will be used to determine the uncompensated care ratios. This portion of the Medicare DSH funding will be paid as a flat amount on each Medicare inpatient discharge. The Hospital expects Medicare DSH funding to increase by approximately $8 million. The IPPS Final Rule also allows hospitals to bill Medicare Part B, after receiving a claim denial, for hospital services that were previously billed under Part A. Hospitals have one year from the date of admission to bill Part B for admission on or after October 1, 2013.

On July 8, 2013, CMS issued the proposed calendar year 2014 Outpatient Prospective Payment rule. CMS proposed to raise the base OPPS Payment rate by a market basket increase of 2.5%, less a productivity adjustment of 0.4% and reductions required under PPACA. The proposed rule includes packaging certain of services and supplies into payment for other supportive services. These include packaging of drugs, biologicals and radiopharmaceuticals that function as supplies when used in diagnostic tests or procedures; drugs and biologicals that function as supplies or devices in a surgical procedure; laboratory tests; procedures described by add-on codes; certain ancillary services and device removal procedures. CMS also proposes to collapse the current five levels of evaluation and management (E&M) codes for outpatient visits into a single code. The impact of the E&M coding change on the Hospital is estimated at $1.4 million.

PPACA was enacted on March 23, 2010. PPACA expands Medicaid eligibility provisions, Medicare and Medicaid 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), (with the 5% income disregard allowed in section 2002 of PPACA, the effective rate is 138% FPL), eliminating other non-income-based criteria (such as age, disability, or asset testing). The population most impacted by the new optional 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 beginning in 2014.

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.

On June 28, 2012, the U.S. Supreme Court ruled on certain provisions of PPACA. They declared that the "individual mandate" requiring individuals to buy insurance or to pay a fine amounted to a tax and that the government has the ability to impose such a tax. The ruling also declared that states have the ability to not participate in Medicaid expansion and to avoid the penalties described in PPACA. PPACA also reduced the annual market basket increase for Medicare inpatient and outpatient hospital services for services rendered on or after October 1, 2010.

The New Mexico Health and Human Services Department (NMHSD) will implement the revised New Mexico Medicaid program "Centennial Care" beginning January 1, 2014. New Mexico will provide coverage based on household size with income below 138% of the federal poverty limits (FPL). NMHSD projects approximately 170,000 people will be eligible for this expanded coverage. UNM Hospitals estimates that 75% of its current UNM Care enrollment and 90% of UNM SCI patients will be eligible for Medicaid under Centennial Care. The State's SCI program will be eliminated with Centennial Care and enrollees are expected to enroll in Centennial Care or purchase insurance on the New Mexico Health Insurance Exchange. The Medicaid expansion will provide coverage for patients that are currently provided care by UNM Hospitals under financial assistance or as selfpay. However, there are likely to be implementation risks associated with Centennial Care that could cause delays in Medicaid eligibility. The NMHSD is implementing new eligibility software that will not be fully functional until January 2014, which may cause a backlog in patient enrollment for the first half of calendar year 2014. Centennial Care will blend long term care, acute care services, and behavioral health into a single delivery system. The managed care organizations participating in Centennial Care will be reduced to four that will cover all services covered under Centennial Care. There may be delays in coverage as this change in participating MCOs may cause delays in enrollment and patient to physician assignment.

The New Mexico Health Insurance Exchange (NMHIX) will be available to people with incomes above 138% FPL and will provide subsidized health insurance up to 400% FPL. NMHIX estimates approximately 187,000 adults will qualify for exchange coverage, with 58,000 of those residing in Bernalillo County. UNMH estimates 25% of UNM Care enrollees and 10% of current UNM SCI enrollees will qualify for coverage under the exchange. The NMHIX has established a target enrollment of 16,000 new members in Bernalillo County by July 2014. Exchange enrollment will begin in October 2013. UNM Hospitals is designated as a site for enrollment with a direct connection to NMHIX. Due to the costs of health insurance offered, individuals may choose to opt out of coverage. There is also the risk that employer groups may reduce or eliminate existing coverage in favor of sending employees to the exchange to purchase health insurance.

The Medicaid Supplemental Upper Payment Limit (UPL) funding will be eliminated effective January 1, 2014. The FY 2014 UPL payment is estimated to be $26.4 million. This will paid in two payments to cover July through December 2013. The Hospital expects to enter into Memorandums of Understanding with the State of New Mexico for UPL, under which UNM Hospital agrees to an intergovernmental transfer in the amount of $8.1 million to fund the non-federal share of Medicaid payment pursuant to federal Medicaid regulations at 42 CFR 433.51. As the largest safety net hospital in New Mexico, the Hospital is in working closely with NMHSD to replace this supplemental funding with enhanced Medicaid fee-for-service and MCO base rates. The outcome of these discussions has not been determined.

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 received the results in October 2012 and refunded $34,660 to the State. There have been no further requests for records.

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.

Contacting the Center's Financial Management

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

UNM BEHAVIORAL OPERATIONS
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
STATEMENTS OF NET POSITION
June 30, 2013 and 2012

ASSETS		**2013**	2012
Current Assets			
Cash and cash equivalents	$	**3,487**	3,337
Receivables			
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $8,790,000 in 2013 and $10,405,000 in 2012)		**2,758,470**	3,433,786
Contracts and grants		**158,693**	404,312
Estimated third-party payor settlements		**3,693,848**	3,192,278
Bernalillo County mill levy		**205,370**	212,650
Other		**41,902**	64,765
Total net receivables		**6,858,283**	7,307,791
Inventories		**162,708**	218,135
Prepaid expenses		**1,760**	30,044
Total current assets		**7,026,238**	7,559,307
Noncurrent assets			
Due from affiliates		**13,151,881**	14,705,626
Capital assets			
Nondepreciable assets			
Land		**111,000**	111,000
Construction in progress		**1,272,875**	890,508
Depreciable capital assets, net		**5,777,884**	5,907,815
Total capital assets, net		**7,161,759**	6,909,323
Total noncurrent assets		**20,313,640**	21,614,949
Total assets	$	**27,339,878**	29,174,256
LIABILITIES			
Current liabilities			
Accounts payable	$	**1,547,442**	2,895,300
Due to University of New Mexico		**462,657**	512,036
Accrued compensation and benefits		**2,241,902**	2,178,829
Estimated third-party payor settlements		**1,569,878**	568,372
Total current liabilities		**5,821,879**	6,154,537
Noncurrent liabilities			
Net OPEB obligation		**543,378**	499,124
Total noncurrent liabilities		**543,378**	499,124
Total liabilities	$	**6,365,257**	6,653,661
NET POSITION			
Invested in capital assets	$	**7,161,759**	6,909,323
Restricted for expendable grants, bequests, and contributions		**143,798**	156,199
Unrestricted		**13,669,064**	15,455,073
Total net position	$	**20,974,621**	22,520,595

See Notes to Financial Statements.

UNM BEHAVIORAL OPERATIONS
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient service	$ **24,577,690**	27,462,694
State and local contracts and grants	**2,838,373**	3,306,911
Other operating revenues	**68,541**	60,110
Total operating revenues	**27,484,604**	30,829,715
Operating Expenses		
Employee compensation	**27,307,784**	28,070,099
Benefits	**6,298,977**	6,055,999
Medical services	**7,486,766**	7,338,897
Medical supplies	**2,235,819**	2,191,726
Other supplies	**741,764**	817,355
Purchased services	**1,027,602**	1,039,107
Equipment	**532,382**	655,976
Occupancy	**1,203,939**	2,123,664
Depreciation	**683,770**	609,644
Other	**482,896**	478,821
Total operating expenses	**48,001,699**	49,381,288
Operating loss	**(20,517,095)**	(18,551,573)
Nonoperating revenues (expenses)		
Bernalillo County mill levy	**12,772,080**	12,623,286
State general fund and other state fund appropriations	**6,505,100**	6,276,100
Bequests and contributions	**18,421**	25,458
Other nonoperating expense	**(324,480)**	(310,115)
Net nonoperating revenues	**18,971,121**	18,614,729
(Decrease) increase in net position	**(1,545,974)**	63,156
Net position, beginning of year	**22,520,595**	22,457,439
Net position, end of year	$ **20,974,621**	22,520,595

See Notes to Financial Statements.

UNM BEHAVIORAL OPERATIONS
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Cash received from Medicaid and Medicare	$ **20,200,212**	19,031,528
Cash received from insurance and patients	**5,552,730**	5,293,516
Cash received from contracts and grants	**3,083,992**	3,228,921
Cash payments to suppliers	**(12,033,183)**	(11,191,333)
Cash payments to employees	**(27,200,456)**	(29,078,012)
Cash payments to University of New Mexico	**(9,295,909)**	(8,628,209)
Cash received from affiliates	**1,553,745**	4,431,471
Other cash receipts	**96,825**	275,487
Net cash used in operating activities	**(18,042,044)**	(16,636,631)
Cash flows from noncapital financing activities		
Cash received from state general fund and other state fund appropriations	**6,505,100**	6,276,100
Cash received from Bernalillo County mill levy	**12,779,360**	12,581,853
Cash payment for nonoperating sources	**(324,480)**	(310,115)
Cash received from contributions for other-than-capital purposes	**18,421**	25,458
Net cash provided by noncapital financing activities	**18,978,401**	18,573,296
Cash flows from capital activities		
Purchases of capital assets	**(936,207)**	(1,936,575)
Net cash used in capital activities	**(936,207)**	(1,936,575)
Net increase in cash and cash equivalents	**150**	90
Cash and cash equivalents, beginning of year	**3,337**	3,247
Cash and cash equivalents, end of year	$ **3,487**	3,337
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ **(20,517,095)**	(18,551,573)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	**683,770**	609,644
Provision for doubtful accounts	**1,319,624**	1,138,853
Change in assets and liabilities		
Patient receivables, net	**(644,308)**	(1,204,208)
Due from affiliates	**1,553,745**	4,431,471
Due from the University of New Mexico	**-**	250
Contracts and grants receivables	**245,619**	(77,990)
Estimated third-party payor settlements receivables	**(501,570)**	(1,059,140)
Other assets and prepaid expenses	**51,147**	197,615
Inventories	**55,427**	(23,562)
Due to University of New Mexico	**(49,379)**	76,095
Accounts payable and accrued expenses	**(1,240,530)**	(160,931)
Estimated third-party payor settlements liabilities	**1,001,506**	(2,013,155)
Net cash used in operating activities	$ **(18,042,044)**	(16,636,631)

See Notes to Financial Statements.

NOTE 1. DESCRIPTION OF BUSINESS

UNM Behavioral Operations include the UNM Psychiatric Center and the UNM Children's Psychiatric Center (collectively, the Center).

The UNM Psychiatric Center (Adult Center) is a psychiatric center operated by the University of New Mexico Health Sciences Center, and was organized under a joint powers agreement between the University of New Mexico (UNM), a state institution of higher education created by the New Mexico Constitution, and Bernalillo County (the County) for the purpose of providing mental health services and for the advancement of human knowledge and education in the mental health field. The UNM Board of Regents and the Board of County Commissioners entered into a lease agreement for operation and lease of county healthcare facilities, effective July 1, 1999 and terminating June 30, 2020. The purpose of the original lease is to operate and maintain the Center in accordance with the provisions of the Hospital Funding Act for the term of the agreement. This agreement continues in force until rescinded or terminated by either party. Effective November 18, 2004, the UNM Board of Regents and the Board of County Commissioners entered into a First Amendment to the Original Lease, under which, among other things, extended the term of the Original Lease until June 30, 2055.

The UNM Children's Psychiatric Center (Children's Center), a psychiatric center operated by the University of New Mexico (UNM) Health Sciences Center, is certified as a short-term, acute care provider. The Center provides intensive treatment for children and adolescents through its acute inpatient, residential, and outpatient therapy programs. The Children's Center is the state's only comprehensive psychiatric facility dedicated solely to the treatment of seriously emotionally disturbed children and adolescents.

The accompanying financial statements of the UNM Behavioral Operations are intended to present the financial position and changes in financial position and cash flows of only that portion of the business-type activities of UNM, which are attributable to the transactions of the Center. The UNM Behavioral Operations are not a legally separate entity and are, therefore, reported as a division of UNM and included in the basic financial statements of UNM. The Center as a division of UNM is not legally separate and has no component units.

The UNM Board of Regents is the ultimate governing authority of the UNM Behavioral Operations, but has delegated certain oversight responsibilities to the UNM Health Sciences Center's Board of Trustees, which consists of nine

NOTE 1. DESCRIPTION OF BUSINESS (CONTINUED)

members, including seven members appointed by the UNM Regents, one of whom is nominated by the All Indian Pueblo Council. The other two members are appointed by the Bernalillo County Commission.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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*; GASB Statement No. 38, *Certain Financial Statement Note Disclosure; and* GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. The Center follows the business-type activities requirements of GASB Statement No. 34 and No. 63. This approach requires the following components of the Center's financial statements:

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effective July 1, 2012, the Center adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. This statement had minimal impact to the Center's financial statements or related accounting and financial reporting. The primary effects of implementing this statement was to change all previous references from "net assets" to "net position," change the line item for "invested in capital assets, net of related debt" to "net investment in capital assets," and to classify certain assets and liabilities as "deferred inflows" and "deferred outflows." At June 30, 2013, the Center had no items meeting the criteria of "deferred inflows" or "deferred outflows."

Recent Accounting Pronouncement. GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, is required to be implemented effective July 1, 2013, and thus will be adopted by the Center next fiscal year. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Changes required by this statement are required to be applied retroactively by restating financial statements for all periods presented. Management is currently evaluating the impacts of this standard on the Center's financial statements.

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

Contracts and Grants. Revenue from contracts and grants is recognized to the extent of direct costs and allowable indirect expenses incurred under the terms of each agreement. Funds restricted by grantors for operating purposes are recognized as revenues when the terms of the grant have been met. All reimbursable costs for which reimbursement has not been received are reflected in the accompanying statements of net assets as contracts and grants receivable.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating Revenues and Expenses. The Center's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues, such as patient services revenues, result from exchange transactions associated with providing healthcare services, the behavioral operations' 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.

Nonoperating Revenue. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as appropriations, gifts, investment income, and government levies. Nonexchange 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. Bequests and contributions are recognized when all applicable eligibility requirements have been met. The Mill Levy is recognized in the period it is collected by Bernalillo County.

Cash and Cash Equivalents. The Center 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.

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 inventories.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Contractual adjustments resulting from agreements with various organizations to provide services for amounts that differ from billed charges, including services under Medicare and Medicaid, are recorded as deductions from patient revenues. Accounts, when determined to be uncollectible, are charged against the allowance for doubtful accounts. With respect to State Coverage Insurance (SCI) 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 and then allocated to the Center based on the Center's percentage of adjudicated claims. Contractual adjustments are recorded as deductions from patient revenue in its entirety. Allocated payments are recorded on a monthly basis as an offset to contractual adjustments in the amount of approximately $1,074,000 and $1,128,000 for years ended June 30, 2013 and 2012, respectively.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 years ended 2013 and 2012 are $6,505,100 and $6,276,100, respectively. These funds are appropriated in the General Fund. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4. Sub-section J. Higher Education.

Income Taxes. As part of a state institution of higher education, the income of the Center is generally excluded from federal and state income taxes under Section 115(1) of the Internal Revenue Code. However, income generated from activities unrelated to the Center's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B). The Center generated no such revenue during fiscal years ended June 30, 2013 and 2012.

Risk Management. The Hospital sponsors a self-insured health plan in which the Center's employees participate, as all employees of the Center 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, 2013 and 2012, the estimated amount of the Center's claims and accrued invoices was $280,000 and $409,749, respectively. The liability balance for the self-insurance plan is included in accrued payroll of the Hospital, which is reflected in the net due from affiliate account of the Center. The incurred but not reported liability was based on an actuarial analysis calculated using information provided by BCBSNM. Changes in the reported liability were as follows:

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

		Fiscal Year	Estimates	Payments	Year-end
2012 – 2013	$	409,749	2,628,346	(2,758,095)	280,000
2011 – 2012	$	411,553	2,499,053	(2,500,857)	409,749

Financial Reporting by Employers for Postemployment Benefits Other than Pensions. The Hospital and the 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 Employers for Postemployment Benefits Other Than Pensions, establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, required supplementary information (RSI) in the financial reports of state and local governmental employers.

Classification. Certain 2012 amounts have been reclassified to conform to the 2013 presentation.

NOTE 3. CONCENTRATION OF RISK

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

	2013		2012	
Patients and their insurance carriers	$ 3,072,424	26%	$ 6,161,165	44%
Medicare	2,748,013	24	2,578,240	19
Medicaid	5,727,711	50	5,099,747	37
Total patient accounts receivable	11,548,148	100%	13,839,152	100%
Less allowance for uncollectible accounts and contractual adjustments	(8,789,678)		(10,405,366)	
Patient accounts receivable, net	$ 2,758,470		$ 3,433,786	

NOTE 4. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

Effective July 1, 2005, acute inpatient services provided under the Medicaid Managed Care program are paid at negotiated rates and are not subject to retroactive settlement.

NOTE 4. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS (CONTINUED)

Through June 30, 2010, services rendered to the Medicaid beneficiaries that were covered under the Medicaid fee-for-service (FFS) program were paid under a cost-reimbursement methodology subject to a cost-per-discharge limitation. The Center was reimbursed at tentative rates throughout the year with final settlement determined after submission of the annual cost report and audit thereof by the Medicaid audit agent. Medicaid cost reports have been final settled for all fiscal years through 2010. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined for service periods through June 30, 2010.

The Center is reimbursed from the Medicare programs for certain reimbursable items at prospectively established rates with final settlement determined after submission of annual cost reports by the Center (see Note 7). The annual cost reports are subject to audit by the Medicare intermediary. Cost reports through 2008, excluding 2005, have been final settled for the Medicare program.

NOTE 5. CAPITAL ASSETS

The major classes of capital assets at June 30 and activity for the year then ended are as follows:

	Year Ended June 30, 2013				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Center capital assets not being depreciated:					
Land	$ 111,000	—	—	—	111,000
Construction in progress	890,508	821,916	(584,391)	144,842	1,272,875
	$ 1,001,508	821,916	(584,391)	144,842	1,383,875
Center depreciable capital assets:					
Land and improvements	$ 822,461	22,820	5,600	(8,850)	842,031
Buildings and building improvements	11,565,230	—	199,370	—	11,764,600
Building service equipment	3,186,569	—	394,784	(131,647)	3,449,706
Equipment	2,233,836	16,670	(2,336)	(30,467)	2,217,703
Total depreciable capital assets	17,808,096	39,490	597,418	(170,964)	18,274,040
Less accumulated depreciation for:					
Land improvements	(255,446)	(67,480)	—	8,850	(314,076)
Buildings and building improvements	(8,443,317)	(390,126)	—	—	(8,833,443)
Building service equipment	(1,365,983)	(167,408)	—	732	(1,532,659)
Equipment	(1,835,535)	(58,756)	60,968	17,345	(1,815,978)
Total accumulated depreciation	(11,900,281)	(683,770)	60,968	26,927	(12,496,156)
Center depreciable capital assets, net	$ 5,907,815	(644,280)	658,386	(144,037)	5,777,884
Capital asset summary:					
Center capital assets not being depreciated	$ 1,001,508	821,916	(584,391)	144,842	1,383,875
Center depreciable capital assets, at cost	17,808,096	39,490	597,418	(170,964)	18,274,040
Center total cost of capital assets	18,809,604	861,406	13,027	(26,122)	19,657,915
Less accumulated depreciation	(11,900,281)	(683,770)	60,968	26,927	(12,496,156)
Center capital assets, net	$ 6,909,323	177,636	73,995	805	7,161,759

NOTE 5. CAPITAL ASSETS (CONTINUED)

	Year Ended June 30, 2012				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Center capital assets not being depreciated:					
Land	$ 111,000	—	—	—	111,000
Construction in progress	712,908	1,810,769	(1,633,169)	—	890,508
	$ 823,908	1,810,769	(1,633,169)	—	1,001,508
Center depreciable capital assets:					
Land and improvements	$ 658,496	41,310	122,655	—	822,461
Buildings and building improvements	10,833,312	9,406	722,512	—	11,565,230
Building service equipment	2,421,672	98,110	666,787	—	3,186,569
Equipment	2,324,052	6,470	76,582	(173,268)	2,233,836
Total depreciable capital assets	16,237,532	155,296	1,588,536	(173,268)	17,808,096
Less accumulated depreciation for:					
Land improvements	(197,478)	(57,968)	—	—	(255,446)
Buildings and building improvements	(8,080,450)	(366,558)	3,691	—	(8,443,317)
Building service equipment	(1,263,571)	(108,348)	5,936	—	(1,365,983)
Equipment	(1,937,549)	(76,770)	5,516	173,268	(1,835,535)
Total accumulated depreciation	(11,479,048)	(609,644)	15,143	173,268	(11,900,281)
Center depreciable capital assets, net	$ 4,758,484	(454,348)	1,603,679	—	5,907,815
Capital asset summary:					
Center capital assets not being depreciated	$ 823,908	1,810,769	(1,633,169)	—	1,001,508
Center depreciable capital assets, at cost	16,237,532	155,296	1,588,536	(173,268)	17,808,096
Center total cost of capital assets	17,061,440	1,966,065	(44,633)	(173,268)	18,809,604
Less accumulated depreciation	(11,479,048)	(609,644)	15,143	173,268	(11,900,281)
Center capital assets, net	$ 5,582,392	1,356,421	(29,490)	—	6,909,323

NOTE 6. COMPENSATED ABSENCES

Qualified Center employees are entitled to accrue sick leave and annual leave based on their Full Time Equivalent (FTE) status.

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 minor sick leave for annual leave or major sick leave, or cash all hours accumulated in excess of 24 hours of minor sick leave and 1,040 hours of major sick leave on an hour-for-hour basis. At termination, only employees who retire from the Center and qualify under Center policy or estates of employees who die as the result of a compensable occupational illness or injury are eligible for payment of unused accumulated hours earned under the Center's plan. Accrued sick leave as of June 30, 2013 and 2012 approximates $224,000 and $244,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

Major and minor sick leave balances earned by the consolidated employees (personnel employed by UNM prior to July 2000, employed by the Center thereafter) under the UNM plan were transferred to the Center.

Upon retirement, all minor sick leave hours in excess of 600 are paid at a rate equal to 50% of the employee's hourly wage multiplied by the number of hours in excess of 600 unused minor 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.

Annual Leave. Full-time employees accrue annual leave based on their length of employment up to a maximum of 480 hours. Part-time employees who are at least 0.5 FTE earn annual leave on a pro-rata basis each pay period. At June 30 of each year, employees have the opportunity to exchange for cash up to 80 annual leave hours accumulated in excess of 240 hours. At termination, employees are eligible for payment of unused accumulated hours, not to exceed 480 hours. Accrued annual

NOTE 6. COMPENSATED ABSENCES (CONTINUED)

leave as of June 30, 2013 and 2012 approximates $1,319,000 and $1,288,000, respectively. This amount is computed by multiplying each employee's current hourly rate by the number of hours accrued.

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

During the years ended June 30, 2013 and 2012, the following changes occurred in accrued compensated absences:

Balance July 1, 2012	Increase	Decrease	Balance June 30, 2013
$ 1,559,073	2,168,521	(2,159,840)	1,567,754

Balance July 1, 2011	Increase	Decrease	Balance June 30, 2012
$ 1,390,956	2,419,341	(2,251,224)	1,559,073

Accrued compensated absences are included in "Accrued compensation and benefits" in the accompanying financial statements. The balances above include annual leave and sick leave, disclosed above, in addition to compensatory time (accrued time) and holiday, totaling approximately $25,000 and $27,000 in fiscal years 2013 and 2012, respectively. The portion of accrued compensated absences due after one year is not material and, therefore, is not presented separately.

NOTE 7. NET PATIENT SERVICE REVENUES

The majority of the Center's revenue is generated through agreements with third-party payors that provide for reimbursement to the Center at amounts different from its established rates. Approximately 61% and 58%, respectively, of the Center's gross patient revenues for the fiscal years ended 2013 and 2012 were derived from the Medicare and Medicaid programs, the continuations of which are dependent upon governmental policies. With the implementation of Medicare

NOTE 7. NET PATIENT SERVICE REVENUES (CONTINUED)

Part C, the Center experienced a decline in Medicare Fee for Service (FFS) revenues with an associated increase in Managed Medicare revenues as patients elected coverage under a Medicare HMO. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the Center's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from major third-party payors follows:

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

Medicaid – The Center has reimbursement agreements with certain healthcare contractors that have contracted to provide services to Medicaid beneficiaries enrolled under the State of New Mexico (managed care) program. The basis for reimbursement under these agreements is a per-diem rate that includes both acute inpatient and partial hospital. For outpatient services, charges are paid based on a fee schedule determined by CPT codes, or a percentage of billed charges. The Hospital has also entered into a reimbursement agreement for the State Coverage Insurance (SCI) Program. This program is part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico Human Services Department (HSD). Funding is modeled after a capitated payment program. Funds are remitted to the Hospital on a per member per month basis for all state approved members. The Center receives a portion of the capitated payment portion of the capitated payment remitted to the Hospital, with rate of reimbursement to the Center determined by an internally developed methodology based on percentage of the total Hospital services provided to members specifically by the Center. The Center's funding under the SCI program for the years ended June 30, 2013 and 2012 was $1,074,000 and $1,128,000, respectively, and is included in net patient service revenue.

Other – The Center has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred

NOTE 7. NET PATIENT SERVICE REVENUES (CONTINUED)

provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates-per-discharge, discounts from established charges, and prospectively determined per-diem rates.

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

		2013	2012
Charges at established rates	$	59,032,325	58,687,212
Charity care		(5,223,604)	(3,093,192)
Contractual adjustments		(27,911,407)	(26,992,473)
Provision for doubtful accounts		(1,319,624)	(1,138,853)
Net patient service revenues	$	24,577,690	27,462,694

Current year estimates, settlements of prior-year cost reports, and changes in prior - year estimates resulted in net increases to net patient service revenue of approximately $609,192 and $779,801 for the years ended June 30, 2013 and 2012, respectively. During the fiscal year ended June 30, 2013, $667,940 was accrued for Medicare as an estimate for the fiscal year 2013 cost report. During the fiscal year ended June 30, 2012, $689,211 was accrued for Medicare as an estimate for the fiscal year 2012 cost report.

Management believes that these estimates are adequate. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Estimates are continually monitored and reviewed, and as settlements are made or more information is available to improve estimates, differences are reflected in current operations.

NOTE 8. CHARITY CARE

The Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. Charges foregone, based on established rates, under the Center's charity policy amounted to approximately $5,224,000 in 2013 and $3,093,000 in 2012.

NOTE 9. 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 (NMTCA), 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 NMTCA 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, professional or general liability claims.

The NMTCA provides that total liability for all claims that arise out of a single occurrence shall not exceed $700,000 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. While the language of the NMTCA does not expressly provide for third party claims such as loss of consortium, the New Mexico appellate court decisions have allowed claimants to seek consortium. As a result, if loss of consortium claims is presented, those claims cannot exceed $350,000 in the aggregate. Thus, if a claim presents both direct claims and third party claims, the maximum exposure of the Public Liability Fund, and therefore UNM Hospitals, cannot exceed $1,050,000. The NMTCA prohibits the award of punitive or exemplary damages against the Hospital.

The NMTCA requires the State Risk Management Division (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 NMTCA, as described above, 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 occurring at the Hospital.

NOTE 10. RELATED-PARTY TRANSACTIONS

UNM provides certain administrative and medical support services for the Center, and the Center provides the use of the Center's facilities and administrative services to UNM's teaching personnel. The Center's expenses for services rendered during the years ended June 30, 2013 and 2012 amounted to approximately $8,959,000 and $8,705,000, respectively. The Hospital also provides administrative services, which primarily include accounting functions such as payroll and accounts payable processing as well as cash management activities. In addition, the Hospital provides medical support services and goods for the Center including laboratory, radiology, and pharmaceuticals, which is reflected in the revenues/expenses of the Center. This activity is reflected net in due to/from affiliates.

NOTE 11. BENEFIT PLANS

A small portion (approximately 40) of the Center's full-time employees participates in a public employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978). The Educational Retirement Board (ERB) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost-of-living adjustments to plan members (certified teachers and other employees of state public school districts, colleges, and universities) and beneficiaries. ERB issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. This financial report may be obtained by writing to ERB, P.O. Box 26129, Santa Fe, NM 87502. The report is also available on ERB's Web site at www.nmerb.org.

Funding Policy. Plan members of the public ERB whose annual salary is $20,000 or less are required by statute to contribute 7.9% of their gross salary. Plan members whose annual salary is over $20,000 are required to make the following contributions to the Plan: 9.40% of their gross salary in fiscal year 2013; 10.1% of their gross salary in fiscal year 2014; and 10.7% of their gross salary in fiscal year 2015 and thereafter. In fiscal year 2013, the Center was required to contribute 12.4% of the gross covered salary for employees whose annual salary is $20,000 or less, and 10.9% of the gross covered salary for employees whose annual salary is more than $20,000. In the future, the Center will contribute the following percentages of the gross covered salary of employees: 13.15% of gross covered

NOTE 11. BENEFIT PLANS (CONTINUED)

salary in fiscal year 2014; and 13.9% of gross covered salary in fiscal year 2015. The contribution requirements of plan members and the Center are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Center's contributions to ERB for the fiscal years ending June 30, 2013, 2012 and 2011, were $206,000, $206,000, and $286,000, respectively, which equal the amount of the required contributions for each fiscal year.

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

The expense for the defined contribution plan was $1,019,000, $1,040,000 and $778,000, in fiscal years 2013, 2012 and 2011, respectively. Total employee contributions under this plan were $1,020,000, $1,051,000 and $986,000, in fiscal years 2013, 2012, and 2011, respectively.

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

There was no expense for the deferred compensation plan in fiscal years 2013, 2012 and 2011, respectively, as the Center does not contribute to this plan. Total employee contributions under this plan were $155,000, $142,000 and $132,000, in fiscal years 2013, 2012 and 2011, respectively.

In addition, the Center 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 the 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 UNMH 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.

NOTE 11. BENEFIT PLANS (CONTINUED)

The expense for the 401(a) defined contribution plan was $10,000, $5,000 and $10,000 in fiscal years 2013, 2012 and 2011, respectively. Only the Center contributes to this plan.

NOTE 12. OTHER POSTEMPLOYMENT BENEFIT PLAN

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

Beginning July 1, 2009, the actuarial valuations are prepared biennially for the Center as allowed under GASB Statement No. 45. An exception was made in fiscal year 2013 when a valuation was done at the request of the University of New Mexico.

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

- The employee reaches the minimum age of fifty (50);
- The employee has at least five years of continuous employment; and
- The employee has a combined age plus year of service sum of at least seventy (70) (hire date prior to July 1, 2009), seventy-five (75) (hire date after July 1, 2009) and eighty (80) (hire date after July 1, 2011).

At the date of valuation July 1, 2012, for the Center, there were a total of 4 retiree receiving benefits, 59 active employees fully eligible to receive benefits, and 365 active employees currently not fully eligible to receive benefits.

NOTE 12. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

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

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

	Retiree (coverage extension/compensated absence accrual period)			Retiree (after coverage extension)		
Rate tier	Standard Network	Extended Network	Delta Dental	Standard Network	Extended Network	Delta Dental
Retiree only	$ —	369.50	30.68	650.00	1,573.00	30.68
Retiree + Spouse/DP	273.00	1,029.00	65.65	1,332.00	3,222.00	65.68
Retiree + Children	130.00	683.00	—	975.00	2,357.00	—
Retiree + family	299.50	1,093.00	97.68	1,390.00	3,382.00	97.68

The Hospital does not use a trust fund to administer the financing and payment of benefits. Instead, the Hospital funds the plan on a pay-as-you-go basis. The pay-as-you-go expense is the net expected cost of providing retiree benefits. This expense includes all expected claims and related expenses and is offset by the retiree contribution. Expected monthly claim costs were developed from a combination of historical claim experience and manual claim cost developed using a representative database. Nonclaim expenses are based on the current amounts charged to employees. The Center's pay-as-you-go expense for the period of July 1, 2012 to June 30, 2013 is $0 as the employer contribution for the four retirees is carried on the Hospital's financials. The pay-as-you-go expense includes the medical and dental claims, administration expenses, and implicit subsidy and is net of any retiree contributions.

NOTE 12. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

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, which generally consist of short-term liquid investments.

The July 1, 2012 actuarial valuation considers an annual healthcare cost trend on a select and ultimate basis: medical benefits at select (9%) and ultimate (5%), dental benefits at select (5%) and ultimate (5%). Select rare are reduced 0.5% each year until reaching the ultimate rate. The unfunded actuarial accrued liability (UAAL) is amortized over the maximum acceptable period of 30 years. It is calculated assuming a level percentage of projected payroll, with a 1.5% 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, 2012. It is assumed that 30% of future pre retirees participate in the Hospital's postretirement health plan and that none continue coverage once attaining Medicare eligibility.

The following changes in assumptions have occurred since the valuation date of July 1, 2009. These assumptions include both the Hospital and the Center as reported at the valuation date of July 1, 2011. The prior valuations were based upon the NMERB assumptions; however, when comparing the actual number of retirements to the expected retirements it was found that hospital employees do not retire as early as the NMERB assumptions would suggest. The NMERB was adjusted to reflect the Hospital's experience rate. The impact of this adjustment was a reduction totaled $2.8 million of which $246,000 was allocated to the Center in the AAL. Another factor impacting the reduction in AAL was that the per capita claim cost did not increase as much as expected, thus causing a slower rate of increase in retiree contributions resulting in a net reduction in AAL totaled approximately $950,000 of which $67,000 was allocated to the Center. Final key factors lowering

NOTE 12. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

the AAL are the valuation of the explicit subsidy and updated demographic information. The Hospital provides two months of subsidy rather than one year as assumed in the valuation dated July 1, 2009. These factors reduced the AAL by another $800,000.

Annual OPEB Cost and Net OPEB Obligation. The annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a 30-year period.

The Hospital's postemployment benefit plan includes employees from the 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 July 1, 2012. The allocation is as follows: the Hospital – 92% and the Center – 8%. The OPEB cost and NOO information presented below are the Center's calculated portion.

The NOO is the cumulative difference between the ARC and the employer's contribution to the plan. The Center's NOO for the fiscal years ended 2013 and 2012 is equal to $543,378 and $499,125, respectively, which was determined based on the applicable FTE of the entity as of June 30, 2013. The plan is funded on a pay-as-you-go basis; the NOO follows as of June 30:

		2013 Unfunded	2012 Unfunded
NOO – beginning of year	$	499,124	620,270
ARC		46,000	128,443
Interest on prior year NOO		18,142	37,811
Adjustment to ARC		(19,888)	(41,399)
Annual OPEB cost		44,254	124,855
Employer contributions		-	-
Increase in NOO		44,254	124,855
Adjustment to 2011 estimate		-	(246,001)
NOO – end of year	$	543,378	499,124

NOTE 12. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the NOO are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	$ 44,254	—%	$ 543,378
June 30, 2012	124,855	—	499,124

Funding Status and Progress. As of July 1, 2012, the most recent actuarial valuation date, the plan was not funded. The plan's actuarial accrued liability (AAL) (the present value of all future expected postretirement medical payments and administrative cost which are attributable to past service) for the Center is $296,000 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $296,000. The UAAL is applicable to all reporting entities based on the percentage noted above.

	Unit Credit Method Unfunded Plan June 30, 2010
AAL	$ 296,000
Actuarial value of plan assets	—
UAAL	296,000
Funded ratio (actuarial value of plan assets/AAL)	—%
Covered payroll (active plan members)	$ 20,050,507
UAAL as a percentage of covered payroll	1.48%

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 dependents, 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 2), presented as required supplementary

NOTE 12. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

information following the notes to the financial statement, presents information about the actuarial value of plan assets relative to the AALs for benefits.

NOTE 13. COMMITMENTS

The Center has operating leases, primarily for office space. Rental expenses under operating leases amounted to approximately $373,000 and $352,000 in 2013 and 2012, respectively.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2013 under non-cancelable operating leases and memorandums of understanding are as follows:

	Amount
Fiscal year:	
2014	$ 289,763
2015	279,160
2016	277,169
	$ 846,092

UNM BEHAVIORAL OPERATIONS **Schedule 1**
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
COMPARISON OF BUDGETED AND ACTUAL REVENUES AND EXPENSES
Year Ended June 30, 2013

	Budgeted (Original)	Budgeted (Final)	Actual	Budget Variance
Operating revenues				
Net patient service	$ 27,608,514	23,567,335	24,577,690	1,010,355
Other operating revenues	2,763,808	2,894,019	2,906,914	12,895
Total operating revenues	30,372,322	26,461,354	27,484,604	1,023,250
Operating expenses	(49,211,506)	(47,933,875)	(48,001,699)	(67,824)
Operating loss	(18,839,184)	(21,472,521)	(20,517,095)	955,426
Nonoperating revenues other revenues	18,839,337	18,854,408	18,971,121	116,713
(Decrease) increase in net assets	$ 153	(2,618,113)	(1,545,974)	1,072,139

Note A: The Center prepares a budget for each 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 Center'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 which is reported at the UNM level. There is no carryover of budgeted amounts from one year to the next.

UNM BEHAVIORAL OPERATIONS **Schedule 2**
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS SCHEDULE OF FUNDING PROGRESS
Years Ended June 30, 2013 and 2012
(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, 2012	$ -	296,000	296,000	—	$ 20,050,507	1.48%
July 1, 2011	-	187,000	187,000	—	18,353,770	1.02%
July 1, 2009	-	1,388,000	1,388,000	—	21,038,014	6.60%
July 1, 2008	-	462,000	462,000	—	22,366,207	2.07%
July 1, 2007	-	522,360	522,360	—	18,445,036	2.83%

Note A: The above AAL and covered payroll balances represent only the Center's portion of the plan.
Note B: For fiscal years beginning July 1, 2009, the Center's actuarial valuations are prepared biennially with the exception of fiscal year 2013.

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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, in accordance with the 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, the financial statements of UNM Behavioral Operations (the "Center"), as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Center's basic financial statements and the budget comparison, presented as supplementary information, for the year ended June 30, 2013 and have issued our report thereon dated October 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A *deficiency in internal control* 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 a combination of deficiencies, in internal control 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2013-01.

The Center's Response to Finding

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

Albuquerque, New Mexico
October 18, 2013

UNM BEHAVIORAL OPERATIONS
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2013

2013 – 01 – Charity Care

Condition
In testing a sample of five patients included in the charity care disclosure during fiscal year 2013, we noted one instance where the patient was classified as UNM Care (one of UNM Behavioral Operations' charity care programs), however the patient did not meet the eligibility requirements as they were not a legal resident at the time the eligibility determination was made.

Also, our testing identified approximately $3,100,000 in charity care charges that represented non-covered charges for services provided to patients whose primary payor was Medicaid, and the secondary payor was BHSD (a federally funded program that covers medically necessary services). However, we noted the patients were not registered for UNM Care as the tertiary payor.

Criteria

- Pursuant to UNM Behavioral Operations' (BHO) policy, to be eligible for UNM Care, patients:
    - Must be a resident of Bernalillo County, NM
    - Must not have gross monthly household income in excess of 300% of Federal Poverty Level
    - Must not have assets in excess of $15,000
    - Provide names, dates of birth and social security numbers of household members
- Pursuant to BHO's policy, to the extent Medicaid or BHSD payments are not sufficient to cover medically necessary services, the patient should have been registered for UNM Care as the tertiary payor, thus providing support for inclusion of the non-covered charges as charity care.

Cause
Both conditions were the result of BHO staff not following established policies and procedures.

Effect
In the first exception, the patient should have been qualified for the self-pay discount program, rather than UNM Care. The self-pay discount program offers a discount of 45% for both hospital and physician charges. While this does not have a significant impact to recorded balances, it did result in an overstatement of approximately $20,000 of the charity care disclosed in the footnotes to the financial statements.

2013 – 01 – Charity Care (Continued)

Effect (continued)
In the second exception, while the effect of the misclassification of the non-covered charges as self pay versus UNM Care does not have a significant impact to recorded balances, the amounts included in the charity care disclosures should generally be limited to patients who were technically qualified under one of the BHO's charity care programs. Although not registered under one of the BHO's charity care programs, given any patient who qualified for Medicaid would also qualify for UNM Care, we believe it is reasonable that the charity care disclosure included these non-covered charges.

Recommendation
Management should ensure staff involved in the process of qualifying and registering patients for charity care are properly trained, and should implement management review procedures to ensure patients are being properly qualified and classified for charity care.

Response
Management has provided training to staff about the use of appropriate adjustment codes. Additionally, training has been provided to staff regarding the proper review procedures over adjustment codes to ensure that codes are utilized correctly.

BHO staff will update and correct current registrations to reflect the appropriate tertiary payor. Management has provided training to staff concerning the correct registration hierarchy for payors.

UNM BEHAVIORAL OPERATIONS
UNIVERSITY OF NEW MEXICO HEALTH SCIENCES CENTER
CLINICAL OPERATIONS
EXIT CONFERENCE
Year Ended June 30, 2013

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

An exit conference was conducted on November 8, 2013 with a member of the Finance and Audit Committee of the Board of Trustees and a member of the Center's management. During this meeting, the contents of this report were discussed.

Ella Watt	Chief Financial Officer
Michelle Coons	Chair, Finance and Audit Committee
Brandon Fryar	Engagement Partner, Moss Adams LLP