

**UNIVERSITY OF NEW MEXICO
BEHAVIORAL HEALTH OPERATIONS**

**REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION**

JUNE 30, 2015 AND 2014

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
FISCAL YEAR 2015 OFFICIAL ROSTER**

Board of Trustees

Michael Olguin Socorro, NM	Chairperson (Term expires 6/30/18, Regent appointed)
William Lang Albuquerque, NM	Vice-Chairperson (Term expires 5/31/15, Regent appointed)
Michelle Coons Albuquerque, NM	Secretary (Term expires 6/30/18, Regent appointed)
Debbie Johnson Albuquerque, NM	Member (Term expires 6/30/18, Regent appointed)
Jerry McDowell Albuquerque, NM	Member (Term expires 7/31/16, Regent appointed)
Donna Sigl, MD, MS Albuquerque, NM	Member (Term expires 11/30/17, Regent appointed)
Raymond Loretto, DVM San Ysidro, NM	Member (Term expires 10/31/16, All Indian Pueblo Council – Regent appointed; term extended)
Nick Estes Albuquerque, NM	Member (Term expires 3/31/17, County appointed)
Christine Glidden Albuquerque, NM	Member (Term expires 4/30/17, County appointed)

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
FISCAL YEAR 2015 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 Chief Financial Officer – UNM Health System

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

TABLE OF CONTENTS

Report of Independent Auditors 1

Management’s Discussion and Analysis 4

Financial Statements:

 Statements of Net Position..... 15

 Statements of Revenues, Expenses and Changes in Net Position 16

 Statements of Cash Flows 17

Notes to Financial Statements..... 18

Supplementary Information:

 Schedule 1 – Comparison of Budgeted and Actual
 Revenues and Expenses..... 43

Required Supplementary Information:

 Schedule 2 – Postemployment Benefits Other than
 Pensions Schedule of Funding Progress..... 44

 Schedule 3 – Schedule of the Center’s Proportionate
 Share of the Net Pension Liability 45

 Schedule 4 – Schedule of Center Contributions 46

Other Information:

 Schedule 5 – Contracts Entered Into Greater Than \$60,000 47

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..... 50

Schedule of Findings and Responses..... 52

Exit Conference..... 53

REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of New Mexico Behavioral Health 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, 2015 and 2014, 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 Comparison of Budgeted and Actual Revenues and Expenses ("budget comparison") of the Center presented as supplementary information, as defined by the Governmental Accounting Standards Board, for the year ended June 30, 2015.

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 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.

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.

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

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

Opinion

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, 2015 and 2014, and the changes in its financial position and its cash flows for the years 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 of the Center for the year ended June 30, 2015 in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the Center adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective July 1, 2015. Upon adoption, accounting changes required by the Statement are required to be applied by restating the beginning net position for earliest period restated. Accordingly, the Center has restated the beginning net position as of July 1, 2015.

As discussed in Note 1 to the financial statements, the financial statements referred to above are intended to present only the activities and transactions attributable to the Center, a division of the University of New Mexico, not to the University of New Mexico as a whole.

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 to 14, the schedule of postemployment benefits other than pensions schedule of funding progress on page 44, the schedule of the Center's proportionate share of the net pension liability on page 45, and the schedule of Center contributions on page 46 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.

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

The accompanying vendor schedule of contracts entered into greater than \$60,000 on pages 47-49 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 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.

Mess Adams LLP

Albuquerque, New Mexico
October 29, 2015

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015 and 2014**

This section of the University of New Mexico (UNM) Behavioral Health 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, 2015 and 2014. 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 service or goods are received, 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 non-governmental hospitals and healthcare organizations.

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 and County mill levy received by the Center. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2015 and 2014**

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,			
	2015	2014	2013
Assets:			
Current assets	\$ 10,693,320	8,739,257	7,026,238
Capital assets	8,259,107	8,781,481	7,161,759
Noncurrent assets	11,217,487	9,507,505	13,151,881
Total assets	<u>30,169,914</u>	<u>27,028,243</u>	<u>27,339,878</u>
Deferred Outflows:			
Total deferred outflows of resources	178,603	—	—
Liabilities:			
Current liabilities	6,285,448	5,654,111	5,821,879
Noncurrent liabilities	3,679,051	586,223	543,378
Total liabilities	<u>9,964,499</u>	<u>6,240,334</u>	<u>6,365,257</u>
Deferred Inflows:			
Total deferred inflows of resources	655,095	—	—
Net position			
Net investment in capital assets	8,259,107	8,781,481	7,161,759
Restricted, expendable	175,603	226,856	143,798
Unrestricted	11,294,213	11,779,572	13,669,064
Total net position	<u>\$ 19,728,923</u>	<u>20,787,909</u>	<u>20,974,621</u>

At June 30, 2015, the Center's total assets were \$30.2 million, compared to \$27.0 million at June 30, 2014 and \$27.3 million at June 30, 2013. The Center's largest asset is the related-party receivable due from affiliate in the amount of \$11.2 million at June 30, 2015, \$9.5 million at June 30, 2014 and \$13.2 million at June 30, 2013 followed by the investment in capital assets of \$8.2 million at June 30, 2015, compared to \$8.8 million and \$7.2 million at June 30, 2014 and 2013, 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 increased by \$3.7 million from June 30, 2014 to June 30, 2015, and decreased by \$125,000 from June 30, 2013 to June 30, 2014. The increase during 2015 was primarily related to the addition of a \$3.1 million net pension liability related to implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) (Note 2). In 2015, accrued compensation and benefits increased \$340,000 to \$2.7 million, due to timing of bi-weekly payroll as it crossed the fiscal year end. Accrued compensation is the Center's largest current liability. Estimated third party payor settlements decreased by \$76,000 and

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2015 and 2014**

accounts payable increased by \$582,000 to \$1.7 million at June 30, 2015, compared to \$1.1 million in 2014 and \$1.5 million in 2013. Increase in accounts payable was primarily related to the accrual of costs associated with the implementation of the new billing system.

Total net position decreased by \$1.1 million to \$19.7 million at June 30, 2015, which reflects an operating loss of \$18.4 million, offset by nonoperating net revenues of \$20.9 million and a restatement to beginning net position of \$3.6 million related to GASB 68. Unrestricted net position totaled \$11.3 million at June 30, 2015.

Total net position decreased by \$187,000 to \$20.8 million at June 30, 2014, which reflects an operating loss of \$20.7 million, offset by nonoperating net revenues of \$20.5 million. Unrestricted net position totaled \$11.8 million at June 30, 2014.

**Condensed Summary of Revenues, Expenses, and Changes in Net Position
Year Ended June 30,**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total operating revenues	\$ 33,287,707	28,737,088	27,484,604
Total operating expenses	<u>(51,691,504)</u>	<u>(49,453,007)</u>	<u>(48,001,699)</u>
Operating loss	(18,403,797)	(20,715,919)	(20,517,095)
Nonoperating revenues and expenses and other revenues	<u>20,965,620</u>	<u>20,529,207</u>	<u>18,971,121</u>
Total increase (decrease) in net position	2,561,823	(186,712)	(1,545,974)
Net position, beginning of year	20,787,909	20,974,621	22,520,595
Impact of change in accounting pronouncement	<u>(3,620,809)</u>	—	—
Net position, beginning of year as restated	17,167,100	20,974,621	22,520,595
Net position, end of year	<u>\$ 19,728,923</u>	<u>20,787,909</u>	<u>20,974,621</u>

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 \$33.3 million, \$28.7 million, and \$27.5 million for the years ended June 30, 2015, 2014 and 2013, 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 \$31.8 million, \$26.4 million, and \$24.6 million for 2015, 2014 and 2013, respectively.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2015 and 2014**

The increased net patient service revenues in Fiscal Year 2015 were primarily a result of an increase in patient days of 2,085 (9.5%) and patient discharges by 244 (12%) from the prior year, in addition to an increase of \$1.7 million for Indirect Medical Education revenue, \$800,000 for Medicare Cost Report Settlements and the conversion of the Substance Abuse Prevention and Treatment contract to individual patient claims.

Net patient service revenues for 2014 increased \$1.8 million from \$24.6 million in 2013, to \$26.4 million, primarily as a result of the Affordable Care Act (ACA) midway through the fiscal year. Emergency visits increased by 1,556 from prior year, which represents a 26.7% increase, and Inpatient days increased by 409 from the prior year, which represents a 2% increase.

The Center continues to offer a financial assistance program called UNM Care to which all eligible patients are encouraged to apply. This program assigns patients primary care providers and enables them to receive care throughout the Center and at all clinic locations. This program is available to Bernalillo County residents who also meet certain income and asset thresholds. Patients applying for coverage under UNM Care must apply for coverage under the New Mexico Health Insurance Exchange (the Exchange), if eligible. Patients may continue to receive UNM Care until they receive Medicaid eligibility or notification of coverage under the Exchange. Patients certified under Medicaid or the Exchange may continue to qualify for UNM Care as a secondary coverage for copays and deductibles if they meet the income guidelines. If a patient has access to insurance coverage under the Exchange, or through other coverage options, such as an employer or spouse the patient would be expected to obtain coverage through that source prior to eligibility for UNM Care. The Center uses the same sliding income scale as the ACA to determine if insurance coverage is considered affordable. If coverage is determined not affordable, patients may be granted a hardship waiver, and would not be required to pursue coverage under the exchange. These patients would qualify for UNM Care.

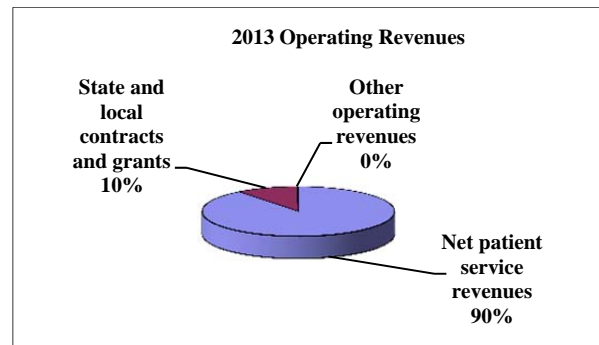
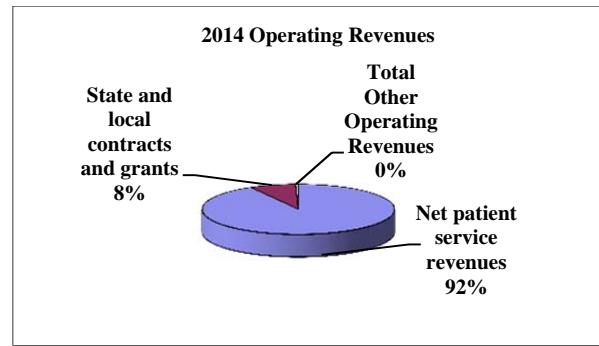
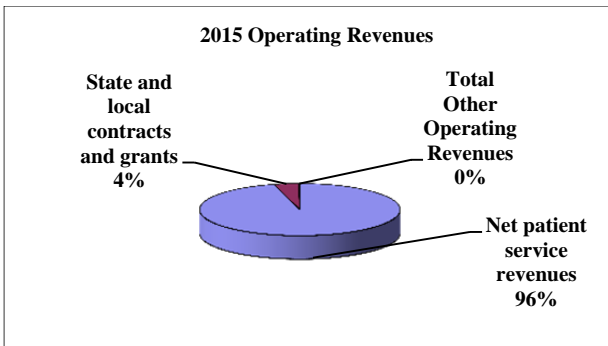
As of June 30, 2015, 2014, and 2013, there were approximately 7,000, 20,200, and 26,400 active enrollees, respectively, in UNM Care. The income threshold for UNM Care is 300% of the Federal Poverty Level (FPL), and patients may apply for this program at various locations throughout the Hospital and various community locations. The Center does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments.

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. 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 365 records every 45 days for the Adult

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2015 and 2014**

Center and 20 for the Children's Center. Claims can be requested for up to three (3) years after the payment date. The Center has received requests for 55 records in total, representing approximately \$677,000 in Medicare payments. A total of \$645,000 has been approved and \$33,000 were denied. Due to the actual experience rate of recoupments by the RAC being lower than initially anticipated, the reserve for RAC audits at June 30, 2014 of \$189,000 was reduced by \$150,000 during fiscal year ended June 30, 2015 which favorably impacted net patient revenue. There were no RAC requests during the fiscal year ended June 30, 2015.

The following pie charts depict the operating revenue mix for the years ended June 30, 2015, 2014 and 2013:

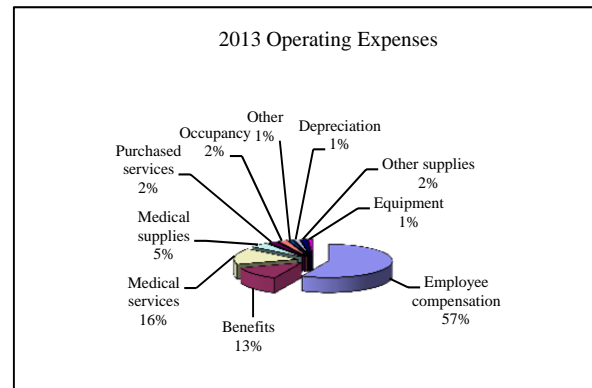
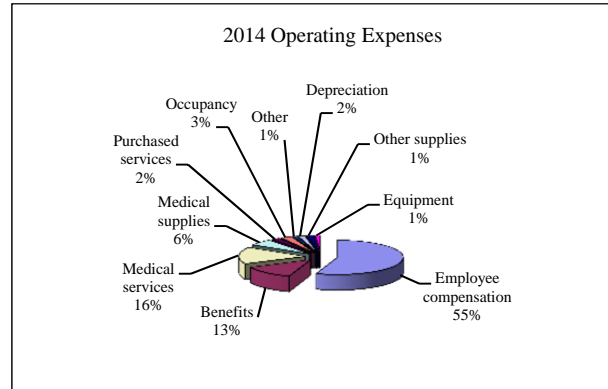
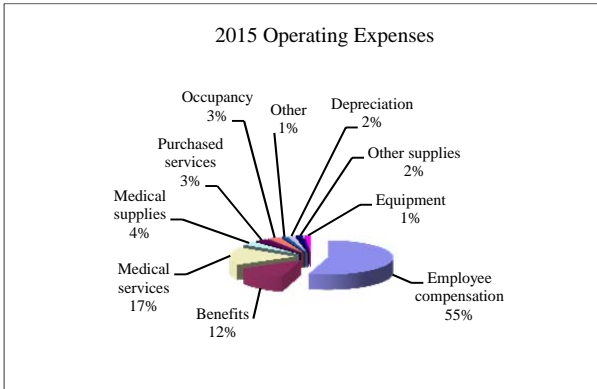


The decrease in Fiscal Year 2015 of the State and local contracts and grants amount was related primarily to discontinuation of Substance Abuse Prevention and Treatment contracts for \$1.1 million. These amounts were converted to Net Patient Service Revenue.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2015 and 2014**

Operating Expenses

The following pie charts depict the distribution of the operating expenses for the Center for the years ended June 30, 2015, 2014 and 2013:



Operating expenses for 2015, including depreciation of \$968,000 totaled \$51.7 million. Overall expenses increased 4.5% (\$2.2 million) from the prior year. Employee Compensation increased 4.0% (\$1,099,000), Medical Services increased 12.8% (\$999,000), Medical Supplies decreased 33.3% (-\$978,000), and Purchased Services increased 55.1% (\$535,000) from fiscal year 2014 to 2015. Employee compensation increased due to employee wage increases of 2.7% in July 2014 and 2.0% in May 2015. Medical services increased as a result of increased support of physician providers and resident programs for Psychiatric Emergency Services coverage. Medical supplies decreased due to more favorable pricing for laboratory screenings, coupled with a reduction in volumes. Purchased services increased as a result of conversion to new billing system in August 2015. The new billing system was necessary in order to comply with the requirement to implement ICD-10 by October 1, 2015. There were no other significant or unexpected changes in operating expenses.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2015 and 2014**

Operating expenses for 2014, including depreciation of \$848,000 totaled \$49.5 million. Overall expenses increased 3.0% (\$1.5 million) from the prior year. Medical Supplies increased 31.2% (\$698,000), Medical Services increased 4.3% (\$320,000), and Occupancy expenses increased 15.8% (\$190,000). Medical Supplies increased due to volume and pricing of lab send out fees. Medical Services increased as a result of increased support of physician providers and resident programs. Occupancy expenses increased from fiscal year 2013 to 2014 due to increased rent expense at the new Alcohol and Substance Abuse Program (ASAP) location. There were no other significant or unexpected changes in operating expenses.

ASAP was relocated during fiscal year 2014 in response to non-renewal of the previous lease by the landlord. The new location has provided patients with better access to public transportation in addition to being a larger, more updated facility.

Nonoperating Revenues and Expenses

Revenue from the Bernalillo County mill levy was the most significant source of nonoperating revenue, totaling \$14.0 million in 2015, \$13.8 million in 2014 and \$12.8 million in 2013. The MOU with Bernalillo County stipulates at least twelve percent (12%) and up to fifteen percent (15%) of the Mill Levy revenue will be allocated to the operation and maintenance of the Mental Health Center and associated behavioral health and substance abuse treatment services that are offered by the Hospital and the Mental Health Center. During the fiscal year ended June 30, 2015, the percentage allocated to the Center was the maximum of 15% which was the same percentage as 2014. The state appropriation was the next most significant nonoperating revenue source totaling \$7.3 million in 2015, \$7.0 million in 2014, and \$6.5 million in 2013. 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 2015 was increased by \$318,000 (4.6%) during the regular session of the New Mexico legislature for the Education Retirement Funding and salary increases. The state appropriation for 2014 was increased from the original appropriation by \$470,000 (7.2%) during the regular session of the New Mexico legislature.

Nonoperating revenue for fiscal year ended June 30, 2015 included \$10,000 in bequests and contributions. Nonoperating revenue for fiscal year ended June 30, 2014 included \$82,000 in bequests and contributions.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2015 and 2014**

Capital Assets

At June 30, 2015, the Center had \$21.0 million invested in capital assets, less accumulated depreciation of \$12.8 million. Depreciation charges for the year totaled \$968,000 compared to \$848,000 and \$684,000 in 2014 and 2013, respectively.

	Year ended June 30,		
	2015	2014	2013
Land and improvements	\$ 1,185,024	1,117,908	953,031
Building and improvements	12,809,919	12,400,673	11,764,600
Building service equipment	4,201,384	3,694,361	3,449,706
Major moveable equipment	1,992,445	1,958,044	1,919,237
Fixed equipment	554,679	554,679	298,466
Construction in progress	281,290	962,684	1,272,875
	<u>21,024,741</u>	<u>20,688,349</u>	<u>19,657,915</u>
Less accumulated depreciation	<u>(12,765,634)</u>	<u>(11,906,868)</u>	<u>(12,496,156)</u>
Net property and equipment	<u>\$ 8,259,107</u>	<u>8,781,481</u>	<u>7,161,759</u>

During the year ended June 30, 2015, the Center's capital expenditures included improvements to the adult and children's inpatient areas, elevator replacements, and lighting and fire sprinkler upgrades. Due to the age of the facilities, building service equipment projects included plumbing replacements, sewer line replacements and electrical upgrades. The majority of the improvements were directly related to patient safety and quality needs.

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 \$1.1 million in 2015 and a net decrease of \$187,000 in 2014.

Factors Impacting Future Periods

On July 31, 2015, Centers for Medicare & Medicaid Services (CMS) released the fiscal year 2016 Inpatient Psychiatric Facilities Prospective Payment System (IPF) Final Rule. The IPF rates will increase by a market basket increase of 2.4%, less a 0.5% productivity reduction and an additional market basket reduction of 0.2% as mandated under the ACA, and a decrease of 0.2% resulting from an updated outlier

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2015 and 2014**

threshold. The estimated impact of these changes in Medicare IPF reimbursement for the Center is an increase of \$60,000.

For Medicare wage index, CMS uses the inpatient prospective payment system (IPPS) wage index for the labor market area in which an IPF is located. In fiscal year 2015, CMS used the most recent labor market delineations for determining area wage index as issued by the Office of Management and Budget on February 28, 2013 that included an updated list of core-based statistical areas (CBSAs). CMS bases the IPF IPPS wage index on the IPPS wage index from the prior year. As such, the fiscal year 2015 IPF IPPS wage indices did not reflect the new OMB labor markets. These labor market changes have been adopted for the fiscal year 2016 IPF IPPS wage index. For IPFs experiencing a decrease in wage index exclusively due to the new labor market delineations, CMS will use a blended wage index for fiscal year 2015 that is 50% of the fiscal year 2015 CBSA value and 50% of the fiscal year 2014 CBSA value. The estimated impact to Medicare IPF reimbursement is a decrease of approximately \$13,000.

On July 20, 2015, CMS issued the proposed calendar year 2016 Outpatient Prospective Payment rule. CMS proposed to raise the base outpatient prospective system (OPPS) payment rate by a market basket increase of 2.7%, less a productivity adjustment of 0.6% and 0.2% for reductions required under the ACA. For hospitals that do not report the required quality measures identified by CMS, the update will be decreased by 2.0 percentage points, to -0.1%. CMS has also proposed a 2.0% reduction to correct for the Office of the Actuary's prior year overestimation of the amount of packaged laboratory payments in the OPPS for laboratory tests. These laboratory tests were packaged beginning with the calendar year 2014 OPPS final rule. CMS alleges that instead these tests were paid separately under the Clinical Laboratory Fee Schedule. This proposed reduction would result in a negative payment update for hospital outpatient services for all hospitals.

CMS has proposed adding nine comprehensive ambulatory payment classifications (APCs), which package related items and services into a single payment for the comprehensive primary service. Included is a new comprehensive observation services APC for non-surgical encounters with a high level visit and eight or more hours of observation.

The RAC program encompassing New Mexico became effective in March 2009, with Connolly Consulting Associates, Inc. as the contractor. CMS is currently in the procurement process for the next round of RAC contractors. The RAC regions 1, 2 and 4 remain under pre-award protest. Region 2 encompasses New Mexico. On August 4, 2014, due to delays in awarding RAC contracts, CMS initiated contract modifications to current RAC contracts to allow a restart of some reviews. CMS stated that most reviews will be on an automated basis, with a limited number of complex reviews of topics selected by CMS. During the extension of the current contracts, RACs will not review claims to determine if the care was delivered in the

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2015 and 2014**

appropriate setting. Claims can be requested up to three (3) years from the payment date. There have been no RAC requests for claims paid to the Center for the period ended June 30, 2015.

In January 2009, the Department of Health and Human Services (HHS) published final rules on the adoption of International Classification of Diseases, 10th Revision, Clinical Modification (ICD-10) as the Health Insurance Portability and Accountability Act of 1996 (HIPAA) standard code set to replace ICD-9. The effective date for implementation of the ICD-10 standard has been delayed multiple times; however, on July 31, 2014, HHS issued a final rule establishing October 1, 2015 as the compliance date for ICD-10. The Center upgraded its patient financial billing systems in August 2015 in order to prepare for ICD-10. The Center is also implementing computer assisted coding software in preparation for ICD-10.

The Bernalillo County mill levy the Center receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially decrease as a result of reduced property values and slowdowns in the building construction industry. The voters approved the renewal of the mill levy in the November 2008 election. The mill levy is subject to approval by the Bernalillo County voters every eight years, and it will be up for renewal in the November 2016 election.

The Center's facilities are leased from Bernalillo County (the County) by UNM under the 1999 lease agreement, as described under Note 1 to the financial statements. Section IV of this agreement provides for either party to the lease to reopen the terms and conditions by giving notices in the first three months of 2006, 2014, 2022, 2030 and 2038. On March 25, 2014, the County Commission approved Administrative Resolution AR 2014-21 to open negotiations with UNM on the lease agreement and to establish a taskforce to provide healthcare expertise to the County in support of the negotiations. The County received recommendations from the taskforce in September 2014. The County continues to review these recommendations and has engaged a consultant to make recommendations for a behavioral health system in Bernalillo County. The Center is working closely with the County and the consultant to develop and review these recommendations.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2015 and 2014**

In August 2015, the State communicated during a Medicaid Advisory Committee meeting that the State had a \$45 million dollar shortfall in the Medicaid budget. The State indicated that they will be meeting with the Managed Medicaid payers and the Hospitals to discuss strategies on how to balance the budget. The Hospital may experience payment reductions from the Managed Medicaid payers as well as reductions in other Medicaid funding received directly from the State including Indirect Medical Education. In addition, the State is proposing language changes to the section of the regulation in regards to how Disproportionate share hospital payments will be made. Currently, the Center is eligible for (a) 56% of the total pool as a teaching PPS hospital plus (b) the DSH reserve pool of 20%. The change would be (a) 70% for teaching PPS hospital, (b) 28.125% nonteaching PPS and (c) 1.875% to PPS exempt hospitals. This amounts to an estimated reduction of approximately \$135,000 to the Center.

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.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
STATEMENTS OF NET POSITION
June 30, 2015 and 2014

Assets	2015	2014
Current Assets		
Cash and cash equivalents	\$ 3,067	3,217
Receivables		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately \$13,115,000 in 2015 and \$11,091,000 in 2014)	4,527,006	3,733,931
Contracts and grants	67,325	12,027
Estimated third-party payor settlements	5,654,092	4,584,336
Bernalillo County mill levy	250,164	232,103
Other	-	43,666
Total net receivables	<u>10,498,587</u>	<u>8,606,063</u>
Inventories	163,673	128,144
Prepaid expenses	27,993	1,833
Total current assets	<u>10,693,320</u>	<u>8,739,257</u>
Noncurrent assets		
Due from affiliates	11,217,487	9,507,505
Capital assets, net	8,259,107	8,781,481
Total noncurrent assets	<u>19,476,594</u>	<u>18,288,986</u>
Total assets	<u>30,169,914</u>	<u>27,028,243</u>
Deferred Outflows		
Total deferred outflows related to pensions	<u>178,603</u>	-
Liabilities		
Current liabilities		
Accounts payable	1,708,245	1,126,376
Due to University of New Mexico	272,055	486,302
Accrued compensation and benefits	2,732,813	2,392,607
Estimated third-party payor settlements	1,572,335	1,648,826
Total current liabilities	<u>6,285,448</u>	<u>5,654,111</u>
Noncurrent liabilities		
Net OPEB obligation	616,219	586,223
Net pension liability	3,062,832	-
Total noncurrent liabilities	<u>3,679,051</u>	<u>586,223</u>
Total liabilities	<u>9,964,499</u>	<u>6,240,334</u>
Deferred Inflows		
Total deferred inflows related to pensions	<u>655,095</u>	-
Net Position		
Net investment in capital assets	8,259,107	8,781,481
Restricted, expendable grants, bequests, and contributions	175,603	226,856
Unrestricted	11,294,213	11,779,572
Total net position	<u>\$ 19,728,923</u>	<u>20,787,909</u>

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues		
Net patient service	\$ 31,834,269	26,381,539
State and local contracts and grants	1,393,643	2,215,567
Other operating revenues	59,795	139,982
Total operating revenues	<u>33,287,707</u>	<u>28,737,088</u>
Operating Expenses		
Employee compensation	28,394,939	27,296,072
Benefits	6,316,830	6,302,189
Medical services	8,806,683	7,807,226
Medical supplies	1,955,697	2,934,122
Occupancy	1,640,596	1,393,749
Purchased services	1,506,168	970,985
Depreciation	968,438	848,422
Other supplies	825,551	840,293
Equipment	768,718	653,859
Other	507,884	406,090
Total operating expenses	<u>51,691,504</u>	<u>49,453,007</u>
Operating loss	<u>(18,403,797)</u>	<u>(20,715,919)</u>
Nonoperating revenues (expenses):		
Bernalillo County mill levy	13,987,396	13,803,040
State general fund and other state fund appropriations	7,292,900	6,974,936
Bequests and contributions	9,574	81,602
Other nonoperating expense	(324,250)	(330,371)
Net nonoperating revenues	<u>20,965,620</u>	<u>20,529,207</u>
Increase (decrease) in net position	<u>2,561,823</u>	<u>(186,712)</u>
Net position, beginning of year	20,787,909	20,974,621
Impact of change in accounting pronouncement	(3,620,809)	-
Net position, beginning of year as restated	17,167,100	-
Net position, end of year	<u>\$ 19,728,923</u>	<u>20,787,909</u>

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
STATEMENTS OF CASH FLOWS
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Cash received from Medicaid and Medicare	\$ 20,594,442	17,711,141
Cash received from insurance and patients	9,300,505	6,883,397
Cash received from contracts and grants	1,338,345	2,362,233
Cash payments to suppliers	(12,578,277)	(12,397,018)
Cash payments to employees	(28,106,222)	(27,102,521)
Cash payments to University of New Mexico	(9,374,091)	(9,276,108)
Cash received from (payments to) affiliates	(1,709,982)	3,644,376
Other cash receipts	33,635	139,909
Net cash used in operating activities	<u>(20,501,645)</u>	<u>(18,034,591)</u>
Cash flows from noncapital financing activities		
Cash received from state general fund and other state fund appropriations	7,292,900	6,974,936
Cash received from Bernalillo County mill levy	13,969,335	13,776,307
Cash payment for nonoperating sources	(324,250)	(330,371)
Cash received from contributions for other-than-capital purposes	9,574	9,978
Net cash provided by noncapital financing activities	<u>20,947,559</u>	<u>20,430,850</u>
Cash flows from capital activities		
Purchases of capital assets	(446,064)	(2,468,153)
Capital grants and gifts received	-	71,624
Net cash used in capital activities	<u>(446,064)</u>	<u>(2,396,529)</u>
Net decrease in cash and cash equivalents	(150)	(270)
Cash and cash equivalents, beginning of year	<u>3,217</u>	<u>3,487</u>
Cash and cash equivalents, end of year	<u>\$ 3,067</u>	<u>3,217</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (18,403,797)	(20,715,919)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	968,438	848,422
Provision for doubtful accounts	4,084,866	1,010,777
Deferred outflow of resources related to pensions	(81,486)	-
Change in assets and liabilities		
Patient receivables, net	(4,877,941)	(1,986,238)
Due from affiliates	(1,709,982)	3,644,376
Contracts and grants receivables	(55,298)	146,666
Estimated third-party payor settlements receivables	(1,069,756)	(890,488)
Other assets and prepaid expenses	17,506	(1,829)
Inventories	(35,529)	34,564
Due to University of New Mexico	(214,247)	23,645
Accounts payable and accrued expenses	952,072	(227,515)
Estimated third-party payor settlements liabilities	(76,491)	78,948
Net cash used in operating activities	<u>\$ (20,501,645)</u>	<u>(18,034,591)</u>

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 1. DESCRIPTION OF BUSINESS

The University of New Mexico Behavioral Health Operations include the UNM Psychiatric Center and the UNM Children's Psychiatric Center (collectively, the Center).

The 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 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 University of New Mexico Behavioral Health 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 University of New Mexico Behavioral Health 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 University of New Mexico Behavioral Health Operations, but has delegated certain oversight responsibilities to the UNM Health Sciences Center's Board of Trustees, which consists of nine members, including six members appointed by the UNM Board of Regents. One is nominated by the All Indian Pueblo Council and the two remaining members are appointed by the County Commission.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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 and subsequent amendments including GASB Statement No. 63 as discussed below, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- *Net investment in capital assets:* Capital assets, net of accumulated depreciation.
- *Restricted, 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.

Recent Accounting Pronouncement. The GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (“GASB No. 68”)*, which is effective for financial statements for periods beginning after June 15, 2014. GASB No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

that are not covered by the scope of GASB No. 68. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, GASB No. 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. The impact of this statement to the Center is the requirement of net pension liability associated with the defined benefit pension to be reflected in its Statements of Net Position. In accordance with GASB Statement No. 68, the Center restated the Net Position as of July 1, 2015 to reflect the net pension liability.

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.

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 health 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.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the NM Education Retirement Board (ERB) plan and additions to/deductions from ERB's fiduciary net position have been determined on the same basis as they are reported by ERB. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

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 2013 Edition published by the American Hospital Association. Repairs and maintenance costs are charged to expense as incurred. On a quarterly basis, the Center assesses long-lived assets in order to determine whether or not it is necessary to retire, replace, or impair on condition of the assets and their intended use.

The buildings occupied by the Center are 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.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The Center participated in the State Coverage Initiative (SCI) program which was modeled after a capitated payment program. The SCI program was terminated effective December 31, 2014 with the implementation of the Medicaid Centennial Care program on January 1, 2014. Revenue with respect to SCI was recognized in the period in which the Center was obligated to provide care to the enrolled members. Capitated payments were received on a monthly basis and were recorded as an offset to contractual adjustments in the amount of approximately \$514,000 for the year ended June 30, 2014.

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.

Bernalillo County Taxes. The amount of the property tax levy is assessed annually on November 1 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 June 30, 2015 and 2014 are approximately \$7,293,000 and \$6,975,000, 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.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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). During the years ended June 30, 2015 and 2014, there was no income generated from unrelated activities.

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 (IBNR) and claims received but not yet paid. At June 30, 2015 and 2014, the estimated amount of the Center's IBNR and accrued claims was \$314,000 and \$268,000, 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:

	<u>Beginning Balance</u>	<u>Estimates</u>	<u>Payments</u>	<u>Ending Balance</u>
2014-2015	\$ 267,998	3,034,474	(2,988,828)	313,644
2013-2014	\$ 280,000	2,889,986	(2,901,988)	267,998

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.

Estimates for 2015 were based upon the 2014 actuarial calculations, as permitted by GASB 45. The OPEB obligation estimate was actuarially determined for the combined operations (the Hospital and the Center), and the liabilities and expenses were allocated to each reporting entity based on the applicable full-time equivalent (FTE) based on the information from the 2010 report.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification. Certain 2014 amounts have been reclassified to conform to the 2015 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 other payor category includes United States Public Health Service, self-pay, counties and other government agencies. The following table summarizes patient accounts receivable and the percentage of gross accounts receivable from all payors as of June 30:

	<u>2015</u>		<u>2014</u>	
Patients and their insurance carriers	\$ 3,510,096	20%	\$ 3,159,198	21%
Medicare	2,698,784	15	2,693,424	18
Medicaid	<u>11,432,924</u>	<u>65</u>	<u>8,971,975</u>	<u>61</u>
Total patient accounts receivable	17,641,804	<u>100%</u>	14,824,597	<u>100%</u>
Less allowance for uncollectible accounts and contractual adjustments	<u>(13,114,798)</u>		<u>(11,090,666)</u>	
Patient accounts receivable, net	<u>\$ 4,527,006</u>		<u>\$ 3,733,931</u>	

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 4. 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, 2015				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Center capital assets not being depreciated:					
Land	\$ 111,000	—	—	—	111,000
Construction in progress	962,684	284,513	(965,907)	—	281,290
	<u>\$ 1,073,684</u>	<u>284,513</u>	<u>(965,907)</u>	<u>—</u>	<u>392,290</u>
Center depreciable capital assets:					
Land and improvements	\$ 1,006,908	—	67,116	—	1,074,024
Buildings and building improvements	12,400,673	—	409,246	—	12,809,919
Building service equipment	3,694,361	—	507,023	—	4,201,384
Major Moveable equipment	1,958,044	161,546	(19,604)	(107,541)	1,992,445
Fixed equipment	554,679	—	—	—	554,679
Total depreciable capital assets	<u>19,614,665</u>	<u>161,546</u>	<u>963,781</u>	<u>(107,541)</u>	<u>20,632,451</u>
Less accumulated depreciation for:					
Land improvements	(384,072)	(82,956)	—	—	(467,028)
Buildings and building improvements	(8,716,308)	(485,827)	—	—	(9,202,135)
Building service equipment	(944,537)	(289,126)	—	—	(1,233,663)
Major Moveable equipment	(1,762,490)	(66,094)	2,126	107,541	(1,718,917)
Fixed Equipment	(99,461)	(44,430)	—	—	(143,891)
Total accumulated depreciation	<u>(11,906,868)</u>	<u>(968,433)</u>	<u>2,126</u>	<u>107,541</u>	<u>(12,765,634)</u>
Center depreciable capital assets, net	<u>\$ 7,707,797</u>	<u>(806,887)</u>	<u>965,907</u>	<u>—</u>	<u>7,866,817</u>
Capital asset summary:					
Center capital assets not being depreciated	\$ 1,073,684	284,513	(965,907)	—	392,290
Center depreciable capital assets, at cost	19,614,665	161,546	963,781	(107,541)	20,632,451
Center total cost of capital assets	20,688,349	446,059	(2,126)	(107,541)	21,024,741
Less accumulated depreciation	<u>(11,906,868)</u>	<u>(968,433)</u>	<u>2,126</u>	<u>107,541</u>	<u>(12,765,634)</u>
Center capital assets, net	<u>\$ 8,781,481</u>	<u>(522,374)</u>	<u>—</u>	<u>—</u>	<u>8,259,107</u>

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 4. CAPITAL ASSETS (CONTINUED)

	Year Ended June 30, 2014				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Center capital assets not being depreciated:					
Land	\$ 111,000	—	—	—	111,000
Construction in progress	1,272,875	2,417,271	(2,727,462)	—	962,684
	<u>\$ 1,383,875</u>	<u>2,417,271</u>	<u>(2,727,462)</u>	<u>—</u>	<u>1,073,684</u>
Center depreciable capital assets:					
Land and improvements	\$ 842,031	—	164,877	-	1,006,908
Buildings and building improvements	11,764,600	—	1,211,320	(575,247)	12,400,673
Building service equipment	3,449,706	—	1,082,134	(837,479)	3,694,361
Major moveable equipment	1,919,238	43,465	25,542	(30,201)	1,958,044
Equipment	298,465	12,625	243,589	-	554,679
Total depreciable capital assets	<u>18,274,040</u>	<u>56,090</u>	<u>2,727,462</u>	<u>(1,442,927)</u>	<u>19,614,665</u>
Less accumulated depreciation for:					
Land improvements	(314,076)	(69,996)	—	—	(384,072)
Buildings and building improvements	(8,833,443)	(458,112)	—	575,247	(8,716,308)
Building service equipment	(1,532,659)	(244,141)	—	832,263	(944,537)
Major moveable equipment	(1,755,589)	(37,102)	—	30,201	(1,762,490)
Equipment	(60,389)	(39,072)	—	—	(99,461)
Total accumulated depreciation	<u>(12,496,156)</u>	<u>(848,423)</u>	<u>—</u>	<u>1,437,711</u>	<u>(11,906,868)</u>
Center depreciable capital assets, net	<u>\$ 5,777,884</u>	<u>(792,333)</u>	<u>2,727,462</u>	<u>(5,216)</u>	<u>7,707,797</u>
Capital asset summary:					
Center capital assets not being depreciated	\$ 1,383,875	2,417,271	(2,727,462)	—	1,073,684
Center depreciable capital assets, at cost	18,274,040	56,090	2,727,462	(1,442,927)	19,614,665
Center total cost of capital assets	19,657,915	2,473,361	—	(1,442,927)	20,688,349
Less accumulated depreciation	<u>(12,496,156)</u>	<u>(848,423)</u>	<u>—</u>	<u>1,437,711</u>	<u>(11,906,868)</u>
Center capital assets, net	<u>\$ 7,161,759</u>	<u>1,624,938</u>	<u>—</u>	<u>(5,216)</u>	<u>8,781,481</u>

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 5. 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 1,064 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, 2015 and 2014 approximates \$420,200 and \$189,400, 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. Under the UNM plan, only employees hired prior to July 1, 1984 were eligible to accrue major sick leave. Eligible employees accrued sick leave each pay period at an hourly rate, which was based on their date of hire and employment status.

The excess minor sick leave hours carried over from UNM were converted to cash in December 2000, at a rate equal to 50% of the employee's hourly wage, multiplied by the number of hours converted. Upon retirement, all minor 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.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 5. COMPENSATED ABSENCES (CONTINUED)

Annual Leave. Full-time employees accrue annual leave based on their length of employment up to a maximum of 480 hours. Part-time employees who are at least 0.5 FTE earn annual leave on a pro-rata basis each pay period. At June 30 of each year, employees have the opportunity to exchange for cash up to 80 annual leave hours accumulated in excess of 240 hours. At termination, employees are eligible for payment of unused accumulated hours, not to exceed 480 hours. Accrued annual leave as of June 30, 2015 and 2014 approximates \$1,332,000 and \$1,297,000, 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, 2015 and 2014, the following changes occurred in accrued compensated absences:

<u>Balance</u> <u>July 1, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2015</u>
\$ 1,513,509	2,387,914	(2,121,627)	1,779,796
<u>Balance</u> <u>July 1, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2014</u>
\$ 1,567,754	2,125,436	(2,179,681)	1,513,509

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 \$27,600 and \$27,500 in fiscal years 2015 and 2014, respectively. The portion of accrued compensated absences due after one year is not material and, therefore, is not presented separately.

NOTE 6. 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 74% and 66%, respectively, of the Center’s gross patient revenues for the fiscal years ended 2015 and 2014 were derived from the Medicare and Medicaid programs, the continuations of which are dependent upon governmental policies. Laws and regulations governing the

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 6. NET PATIENT SERVICE REVENUES (CONTINUED)

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 had previously participated in a reimbursement agreement for the State Coverage Insurance (SCI) Program. This program was part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico Human Services Department (HSD) and was modeled after a capitated payment program. Funds were remitted to the Hospital on a per member per month basis for all state approved members. The Center received 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 year ended June 30, 2014 was \$514,400, and was included in net patient service revenue. This amount represented SCI payments for July through December only, as the program ended December 31, 2013.

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

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 6. NET PATIENT SERVICE REVENUES (CONTINUED)

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

	<u>2015</u>	<u>2014</u>
Charges at established rates	\$ 66,939,342	67,449,097
Charity care	(3,937,363)	(6,863,212)
Contractual adjustments	(27,082,844)	(33,193,569)
Provision for doubtful accounts	(4,084,866)	(1,010,777)
Net patient service revenues	<u>\$ 31,834,269</u>	<u>26,381,539</u>

Estimated Third-Party Payor Settlements – Effective July 1, 2005, acute inpatient services provided under the Medicaid Managed Care program are paid at negotiated rates and are not subject to retroactive settlement.

Through June 30, 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 2011. 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.

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 2010, excluding 2005, have been final settled for the Medicare program.

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 \$1,428,000 and \$653,000 for the years ended June 30, 2015 and 2014, respectively. During the fiscal year ended June 30, 2015, \$910,036 was accrued for Medicare as an estimate for the fiscal year 2015 cost report. During the fiscal year ended June 30, 2014, \$633,707 was accrued for Medicare as an estimate for the fiscal year 2014 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

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 6. NET PATIENT SERVICE REVENUES (CONTINUED)

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 7. 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. The following information measures the level of charity care provided during the years ended June 30:

	<u>2015</u>	<u>2014</u>
Charges foregone, based on established rates	\$ 3,937,000	6,863,000
Estimated costs and expenses incurred to provide charity care	2,935,000	4,713,000
Equivalent percentage of charity care charges foregone to total gross revenue	6%	10%

NOTE 8. MALPRACTICE INSURANCE

As a part of UNM, the Center has immunity from 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 Center's immunity from liability for claims arising out of negligence out of the operation of the Center, the treatment of the Center's patients, and the healthcare services provided by Center employees. In addition, the NMTCA limits, as an integral part of this waiver of sovereign immunity, the amount of damages that can be assessed against the Center 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 loss of consortium. As a result, if loss of consortium claims are presented, those claims cannot exceed \$350,000 in the aggregate. Thus, it appears that 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 Center.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

NOTE 8. MALPRACTICE INSURANCE (CONTINUED)

The NMTCA requires the State Risk Management Division (RMD) to provide coverage to the Center for those torts where the Legislature has waived the State's immunity from liability 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 Center. As a result of the foregoing, the Center is fully covered for claims and/or lawsuits relating to medical malpractice or professional liability occurring at the Center.

NOTE 9. 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, 2015 and 2014 amounted to approximately \$8,528,000 and \$9,148,000, 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 10. DEFINED CONTRIBUTION BENEFIT PLANS

A small portion (approximately 20) of the Center's full-time employees participates in an educational employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978) (Note 11). 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, other employees of state public school districts, colleges and universities, and some state agency employees) 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.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 10. DEFINED CONTRIBUTION BENEFIT PLANS (CONTINUED)

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: 10.1% of their gross salary in fiscal year 2014; and 10.7% of their gross salary in fiscal year 2015 and thereafter. The Center contributed 13.15% of gross covered salary in fiscal year 2014. In fiscal year 2015 the Center will contribute 13.9% of gross covered salary. The contribution requirements of plan members and the Center are established in State statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Center's contributions to ERB for the fiscal years ended June 30, 2015 and 2014 were \$180,000 and \$206,000, 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 and \$922,000 for the fiscal years ended June 30, 2015 and 2014, respectively. Total employee contributions under this plan were \$1,045,000 and \$1,005,000 in fiscal years 2015 and 2014, 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 2015 and 2014, respectively, as the Center does not contribute to this plan. Total employee contributions under this plan were \$115,000 and \$152,000 in fiscal years 2015 and 2014, 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.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

NOTE 10. DEFINED CONTRIBUTION BENEFIT PLANS (CONTINUED)

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.

The expense for the 401(a) defined contribution plan was \$6,000 and \$10,000 in fiscal years 2015 and 2014, respectively. Only the Center contributes to this plan.

NOTE 11. DEFINED BENEFIT PENSION PLAN

A small portion (approximately 21) of the Center's full-time employees participate in a public employee retirement system authorized under the Educational Retirement Act.

Plan description. ERB was created by the State's Educational Retirement Act, Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the New Mexico Educational Employees' Retirement Plan (Plan). The Plan is a cost-sharing, multiple employer plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and agencies providing educational programs. The Plan is a pension trust fund of the State of New Mexico. The New Mexico legislature has the authority to set or amend contribution rates.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmerb.org.

Benefits Provided. The Plan provides retirement and disability benefits. Retirement benefits are determined 2.35 percent of the employee's final average annual salary multiplied by the employee's years of service. Employees employed before July, 1, 2010 are eligible to retire when one of the following events occur: the employee's age and earned service credit sum to 75 or more; the employee is at least sixty-five years of age and has five or more years of earned service credit; or the employee has service credit totaling 25 years or more. For employees hired on or after July 2, 2010 are eligible to retire when one of the following events occur: the employee's age and earned service credit sum to 80 or more; the employee is at least sixty-seven years of age and has five or more years of earned service credit; or the employee has service credit totaling 30 years or more. Employees are eligible for service-related disability benefits provided he or she has credit for at least 10 years of service and the disability is approved by the Plan.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 11. DEFINED BENEFIT PENSION PLAN (CONTINUED)

Contributions. For the fiscal year ended June 30, 2015 employers contributed 13.90% of employees' gross annual salary to the Plan, and 10.70% of participating employees' gross annual salary for those earning more than \$20,000. Employees earning \$20,000 or less contributed 7.90%. For fiscal year ending June 30, 2016, employers will continue to contribute 13.90%, and employees earning more than \$20,000 will contribute 10.70% of the gross annual salary. Employees earning \$20,000 or less will continue to contribute 7.9%.

At June 30, 2015, the Center reported a liability of \$3,063,000 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Center's proportion of the net pension liability was based on a projection of the Center's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2014, the Center's proportion was 0.05368 percent, was a decrease of 0.005 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Center recognized pension expense of \$97,000. At June 30, 2015, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	45,627
Net difference between projected and actual earning on pension plan investments	—	278,434
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	—	331,034
Hospital contributions subsequent to the measurement date	178,603	—
	<u>\$ 178,603</u>	<u>655,095</u>

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 11. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The \$179,000 reported as deferred outflows of resources related to pensions resulting from Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30:	
2016	\$ 152,764
2017	152,764
2018	152,764
2019	141,115
2020	55,688
	\$ <u>655,095</u>

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3 percent
Salary increases	3 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period of July 1, 2012 through June 30, 2013.

The long-term expected rate of return on pension plan investments is determined annually using a building-block approach that includes the following: rate of return projections are the sum of current yield plus projected changes in price (valuation, defaults, etc.); application of key economic projections (inflation, real growth, dividends, etc.); and structural themes (supply and demand imbalances, capital flows, etc.). These items are developed for each major asset class.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 11. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Expected Real Rate of Return
Equities - Domestic	20%	6.25%
Equities - International	15%	8.08%
Fixed Income	28%	3.07%
Alternatives	36%	6.68%
Cash	1%	1.50%
	100%	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Center's proportionate share of the net pension liability to changes in the discount rate. The following presents the Center's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
Center's proportionate share of the net pension liability	4,167,337	3,062,832	2,140,337

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Plan financial report available at www.nmerb.org.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014**

NOTE 12. OTHER POSTEMPLOYMENT BENEFIT PLAN

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, 2014, for the Center, there were a total of one retiree receiving benefits, 47 active employees fully eligible to receive benefits, and 396 active employees currently not fully eligible to receive benefits.

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

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 12. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

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

Rate tier:	Retiree (coverage extension/compensated absence accrual period)			Retiree (after coverage extension)		
	Standard	Extended	Delta	Standard	Extended	Delta
	Network	Network	Dental	Network	Network	Dental
Retiree only	\$ —	448.00	30.68	730.00	1,938.00	30.68
Retiree + Spouse/DP	285.00	1,200.00	65.68	1,497.00	3,968.00	65.68
Retiree + Children	136.00	805.00	—	1,095.00	2,903.00	—
Retiree + family	312.00	1,273.00	97.68	1,571.00	4,165.00	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, 2014 to June 30, 2015 is \$0 as the employer contribution for the one retiree 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.

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 4.0% 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, 2014 actuarial valuation considers an annual healthcare cost trend on a select and ultimate basis: medical benefits at select (8%) and ultimate (4.5%). Select rates 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.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 12. OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

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, 2014. It is assumed that 30% of future pre-Medicare retirees participate in the Hospital's postretirement health plan and that none continue coverage once attaining Medicare eligibility.

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, 2014. 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 2015 and 2014 is equal to \$616,219 and \$586,223, respectively, which was determined based on the applicable FTE of the entity as of June 30, 2015. The plan is funded on a pay-as-you-go basis; the NOO follows as of June 30:

	2015	2014
	Unfunded	Unfunded
NOO - beginning of year	\$ 586,223	543,378
ARC	37,000	45,000
Interest on prior year NOO	19,910	22,503
Adjustment to ARC	(23,058)	(24,658)
Annual OPEB cost	33,852	42,845
Employer contributions	(3,856)	-
Increase in NOO	29,996	42,845
NOO - end of year	\$ 616,219	586,223

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$ 33,852	—%	\$ 616,219
June 30, 2014	42,845	—	586,223

Funding Status and Progress. As of July 1, 2014, 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 \$296,560 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$296,560. The UAAL is applicable to all reporting entities based on the percentage noted above.

	<u>Unit Credit Method Unfunded Plan June 30, 2015</u>
AAL	\$ 296,560
Actuarial value of plan assets	—
UAAL	296,560
Funded ratio (actuarial value of plan assets/AAL)	—%
Covered payroll (active plan members)	\$ 18,938,403
UAAL as a percentage of covered payroll	1.57%

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

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 13. COMMITMENTS

The Center has operating leases, primarily for office space. Rental expenses under operating leases amounted to approximately \$359,000 and \$360,000 in 2015 and 2014, respectively.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2015 under non-cancelable operating leases and memorandums of understanding are as follows:

	<u>Amount</u>
Year ending June 30,	
2016	\$ 363,529
2017	371,206
2018	<u>377,546</u>
	<u>\$ 1,112,281</u>

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
COMPARISON OF BUDGETED AND ACTUAL REVENUES AND EXPENSES
Years Ended June 30, 2015 and 2014

SCHEDULE 1

	<u>Budgeted (Original)</u>	<u>Budgeted (Final)</u>	<u>Actual</u>	<u>Budget Variance</u>
Operating revenues				
Net patient service	\$ 26,710,613	30,196,897	31,834,269	1,637,372
Other operating revenues	921,629	1,143,657	1,453,438	309,781
Total operating revenues	<u>27,632,242</u>	<u>31,340,554</u>	<u>33,287,707</u>	<u>1,947,153</u>
Operating expenses	<u>(50,790,791)</u>	<u>(52,169,988)</u>	<u>(51,691,504)</u>	<u>478,484</u>
Operating loss	<u>(23,158,549)</u>	<u>(20,829,434)</u>	<u>(18,403,797)</u>	<u>2,425,637</u>
Nonoperating revenues	20,893,650	20,893,371	20,965,620	72,249
(Decrease) increase in net assets	<u>\$ (2,264,899)</u>	<u>63,937</u>	<u>2,561,823</u>	<u>2,497,886</u>

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 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, and such revisions are made at the total revenue and expense level. The budget is controlled at the major administrative functional area. There is no carryover of budgeted amounts from one year to the next.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS
 SCHEDULE OF FUNDING PROGRESS
 Years Ended June 30, 2015 and 2014**

SCHEDULE 2

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, 2014	\$ -	296,560	296,560	—	\$ 18,938,403	1.57%
July 1, 2013	-	335,250	335,250	—	20,528,181	1.63%
July 1, 2012	-	321,000	321,000	—	20,050,507	1.60%
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.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
SCHEDULE OF THE CENTER'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY**

SCHEDULE 3

	<u>2015</u>
Center's proportion of the net pension liability	0.05368%
Center's proportionate share of the net pension liability	\$ 3,062,832
Center's covered-employee payroll	\$ 1,479,662
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	207%
Plan fiduciary net position as a percentage of the total pension liability	66.54%

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
SCHEDULE OF CENTER CONTRIBUTIONS**

SCHEDULE 4

	<u>2015</u>
Contractually required contribution	\$ <u>178,603</u>
Contributions in relation to the contractually required contribution	<u>178,603</u>
Contribution deficiency (excess)	\$ <u><u>—</u></u>
Center's covered-employee payroll	\$ 1,479,662
Contributions as a percentage of covered-employee payroll	12.07%

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
CONTRACTS ENTERED INTO GREATER THAN \$60,000**

SCHEDULE 5

Procurement Type	Vendors that responded	In-State	Out-of-State	Residential Preference	In-state vs Veteran Preference	Scope of Work	Vendor(s) Awarded	Amount of Contract
P253-13	1. Health Business Systems 2. Cerner 3. QS/1	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	Retail Pharmacy Management System Software/Hardware	1. QS1 Data Systems	\$704,136
P255-13	1. Medtronic 2. Boston Scientific 3. St Jude 4. Depuy	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	Spinal Cord Stimulation and Pain Management Products	1. Medtronic 2. Boston Scientific 3. St Jude	1. \$378,720 2. \$559,930 3. \$420,000
P256-13	1. Cardinal Health 2. UNM TRP	1. No 2. Yes	1. Yes 2. No	1. No 2. Yes	1. NA 2. NA	Radioactive Pharmaceutical Supplies and Reporting and Tracking Solution	1. Cardinal Health 2. UNM TRP	\$2,400,000
P269-13	1. Zimmer 2. Biomet 3. Depuy 4. Stryker 5. Microport Ortho 6. Smith & Nephew	1. No 2. No 3. No 4. No 5. No 6. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. No 4. No 5. No 6. No	1. NA 2. NA 3. NA 4. NA 5. NA 6. NA	Hip and Knee Implants	1. Zimmer 2. Biomet 3. Depuy 4. Stryker 5. Microport Ortho 6. Smith & Nephew	1. \$224,567 4. \$2,120,000 5. \$26,175
P278-13	1. Catapult Health 2. Quest Diagnostics 3. Humana 4. Maxim Healthcare 5. Mobile Health Exams 6. ReLectix	1. No 2. No 3. No 4. No 5. No 6. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. No 4. No 5. No 6. No	1. NA 2. NA 3. NA 4. NA 5. NA 6. NA	Employee Health Plan Biometrics Screening Services	Humana	\$600,000
P280-14	1. Cook Medical 2. W. L. Gore	1. No 2. No	1. Yes 2. Yes	1. No 2. No	1. NA 2. NA	Abdominal and Thoracic Intervention	1. Cook Medical Inc. 2. W. L. Gore	\$358,420
P281-14	1. Biomet 2. Skeletal Dynamics 3. Smith & Nephew 4. Accumed 5. Stryker	1. No 2. No 3. No 4. No 5. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes	1. No 2. No 3. No 4. No 5. No	1. NA 2. NA 3. NA 4. NA 5. NA	Distal Radius System	1. Biomet 2. Skeletal Dynamics 3. Smith & Nephew 4. Accumed 5. Stryker	3. \$6,051 4. \$125,851 5. \$90,000
P285-14	1. Cook Medical	1. No	1. Yes	1. No	1. NA	Cook Radiology Products	Cook Medical Inc.	
P286-14	1. Smiths Medical 2. Teleflex 3. Bbraun	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	Epidural Kits	Arrow International	
P287-14	1. Welter Kluwer 2. Cerner 3. Pitts Management 4. SPI Healthcare 5. Altegra Health 6. The Advisory Board Company 7. Xerox, 8. Healthstream Inc., 9. HCRS, 10. Kforce Healthcare 11. Navigant Consulting 12. Alvarez & Marsal 13. Code Smart Group	1. No 2. No 3. No 4. No 5. No 6. No 7. No 8. No 9. No 10. No 11. No 12. No 13. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes 7. Yes 8. Yes 9. Yes 10. Yes 11. Yes 12. Yes 13. Yes	1. No 2. No 3. No 4. No 5. No 6. No 7. No 8. No 9. No 10. No 11. No 12. No 13. No	1. NA 2. NA 3. NA 4. NA 5. NA 6. NA 7. NA 8. NA 9. NA 10. NA 11. NA 12. NA 13. NA	ICD-10 Provider Documentation Training	Healthstream Inc	\$178,580
P288-14	1. Cascade 2. SPS Southern Pros Sup	1. No 2. No	1. Yes 2. Yes	1. No 2. No	1. NA 2. NA	UNMH CTH Orthotic and Prosthetic Supplies and Services	Cascade Orthopedic	\$732,753
P292-14	1. Redwood Toxicology Laboratory 2. American Screening Corp 3. Drug Testing Corporation	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	Drug Screen Dipcard with and without Adulteration Tests	Redwood Toxicology Laboratory	\$172,437
P293-14	1. AAA Pest Control 2. Preventive Pest Control	1. Yes 2. Yes	1. No 2. No	1. Yes 2. Yes	1. NA 2. NA	Pest Control Services	AAA Organic Pest Control	\$142,500

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
CONTRACTS ENTERED INTO GREATER THAN \$60,000**

SCHEDULE 5

Procurement Type	Vendors that responded	In-State	Out-of-State	Residential Preference	In-state vs Veteran Preference	Scope of Work	Vendor(s) Awarded	Amount of Contract
P295-14	1. Xerox 2. DSI 3. POA 4. TIG 5. CDWG 6. MicroAge 7. Ricoh	1. No 2. Yes 3. No 4. No 5. No 6. No 7. No	1. Yes 2. No 3. Yes 4. Yes 5. Yes 6. Yes 7. Yes	1. Yes 2. No 3. No 4. No 5. No 6. No 7. No	1. NA 2. NA 3. NA 4. NA 5. NA 6. NA 7. NA	Printer Hardware Purchase Only	1. TIG 2. POA	
P297-14	1. NurseWise 2. NurseAdvise	1. No 2. Yes	1. Yes 2. No	1. Yes 2. No	1. NA 2. NA	Nurse Advice Line aka Telephone Nurse Triage	Nurse Advise New Mexico	\$945,750
P298-14	1. Vistar Technologies 2. Cactus Software	1. No 2. No	1. Yes 2. Yes	1. No 2. No	1. NA 2. NA	Credentialing Software	Cactus Software	\$346,919
P299-14	1. Nuance 2. 3M 3. Optum 4. Dolbey 5. Cerner	1. No 2. No 3. No 4. No 5. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes	1. No 2. No 3. No 4. No 5. No	1. NA 2. NA 3. NA 4. NA 5. NA	Computer Assisted Coding, Charge Capture and Provider Documentation Improvement (CAC, CC, and CDI) Software	3M	\$843,350
P300-14	1. MedInt Holdings, LLC 2. Bayer HealthCare	1. No 2. No	1. Yes 2. Yes	1. No 2. No	1. NA 2. NA	UNMH Dose Monitoring Software	Bayer Healthcare	\$181,239
P301-14	1. Jani King 2. Sparkle 3. Adelante 4. Kleen Tech	1. Yes 2. Yes 3. Yes 4. Yes	1. No 2. No 3. No 4. No	1. Yes 2. Yes 3. Yes 4. Yes	1. NA 2. NA 3. NA 4. NA	Custodial Services at 1650 University Building (1650 Building)	Adelante	\$260,163
P303-14	1. Ambercare 2. Advantage	1. Yes 2. Yes	1. No 2. No	1. Yes 2. Yes	1. NA 2. NA	UNM Home Healthcare Program for UNM Care (Indigent)	Ambercare	\$218,160
P304-14	1. Turnkey Pharmacy 2. Visante Inc 3. Deloitte & Touche LLP 4. Ponaman Healthcare Consulting 5. Rx/X Consulting	1. No 2. No 3. No 4. No 5. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes	1. No 2. No 3. No 4. No 5. No	1. NA 2. NA 3. NA 4. NA 5. NA	UNMH 340B Review and Support Services	Turnkey Pharmacy Solutions	\$60,000
P306-15	1. Core Med Imaging, Inc	1. No	1. Yes	1. No	1. NA	Gastrointestinal (GI) Specific Fluoroscopy	Core Med Imagine	\$486,500
P307-14	1. Oticon Medical LLC	1. No	1. Yes	1. No	1. NA	Only Osseo-Integrated (Bone-Anchored) Aids Products and Accessories	Oticon Medical	\$422,769
P309-14	1. Veolia 2. ACT 3. Clean Harbors 4. Stericycle	1. No 2. No 3. No 4. No	1. Yes 2. Yes 3. Yes 4. Yes	1. No 2. No 3. No 4. No	1. NA 2. NA 3. NA 4. NA	Disposal of 1) Laboratory Chemical and Pathological, 2) Pharmaceutical/RCRA and Chemotherapy Hazardous Waste Transport and, 3) Universal Disposal and Treatment.	Clean Harbors	\$375,000
P312-15	1. Maxxim 2. Precyse 3. Harmony 4. 3M 5. Med Partners 6. United Audit Systems 7. GeBBs 8. Navigant 9. Coding Aid 10. Himagine 11. Peak 12. Edibe	1. No 2. No 3. No 4. No 5. No 6. No 7. No 8. No 9. No 10. No 11. No 12. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes 7. Yes 8. Yes 9. Yes 10. Yes 11. Yes 12. Yes	1. No 2. No 3. No 4. No 5. No 6. No 7. No 8. No 9. No 10. No 11. No 12. No	1. NA 2. NA 3. NA 4. NA 5. NA 6. NA 7. NA 8. NA 9. NA 10. NA 11. NA 12. NA	ICD and CPT Coding Overflow Services	3M	
P316-15	1. Healthcare Source 2. Infor 3. Talent Plus	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	Pre-Employment Assessment Software	HealthcareSource HR Inc	\$204,000
P321-15	1. Angiodynamics 2. Convidien 3. Healthtronics	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	1. NA 2. NA 3. NA	UNMH Microwave System	Covidien Sales LLC	\$79,425
Sole Source	Cerner Corp.	No	Yes	No	NA	EMR Software/Hardware Maintenance and Support	Cerner Corp.	\$3,000,360
Emergency Procurement	Jaynes Corp	Yes	No	No	NA	Repair damage cause by PHI Helicopter crash on roof of BBRP	Jaynes Corp	\$510,490
RFP 1579-13	1. Beaudin Ganze 2. Bridgers & Paxton 3. Coupland-Moran 4. Assurance Engineering					A/E Services for HVAC inside the Adult Psychiatric Center (UPC)	Bridgers & Paxton	\$170,582
RFP 1658-14	1. Donner Plumbing	Yes	No	No	NA	Construction services for the replacement of selected domestic water and sewer risers at the main hospital	Donner Plumbing	\$2,173,230
IFB 144-14	1. Tryco 2. SuperDimension/Covidien	1. No 2. No	1. Yes 2. Yes	No	NA	Purchase of the Electromagnetic Navigational Bronchoscopy System	Tryco	\$172,350
RFP 1681-14	1. Richardson & Richardson 2. Klinger Constructors 3. HB Construction 4. Gerald Martin 5. Enterprise Builders Corporation 6. Jaynes Corporation	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. No 4. No 5. No 6. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. Yes 4. Yes 5. No 6. No	New construction of the UNM Hospitals- North Valley Center for Family and Community Health (North 4th Street Clinic)	Richardson & Richardson	\$3,784,000
RFP 1688-14	1. Consolidated Builders	Yes	No	Yes	NA	UH Main IR CT Renovation	Consolidated Builders	\$518,623

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
CONTRACTS ENTERED INTO GREATER THAN \$60,000**

SCHEDULE 5

Procurement Type	Vendors that responded	In-State	Out-of-State	Residential Preference	In-state vs Veteran Preference	Scope of Work	Vendor(s) Awarded	Amount of Contract
RFP 1630-14	1. SW Architects 2. Design Group 3. Smith Group JJR 4. SMPC Architects 5. FBT Architects 6. Integrated Design & Architects	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. No 4. No 5. No 6. No	1. Yes 2. Yes 3. Yes 4. Yes 5. Yes 6. Yes	1. No 2. No 3. No 4. No 5. No 6. No	Architectural Design Services for UNM Hospitals CPC Inpatient Units	FBT Architects	\$469,024
SPD Contract 50-000-14-00033	1. Don Chalmers Ford 2. Reliable Chevrolet	1. Yes 2. Yes	1. No 2. No	No	NA	Cargo Vans	Don Chalmers	\$67,443
Sole Source		Yes	No	No	NA	Power switch equipment and preventative maintenance	ASCO Services	\$60,000 per yr
Sole Source		No	Yes	No	NA	RT 600 Functional Electrical Stimulation Stepping System	Restorative Therapies, Inc.	\$97,000
Sole Source		No	Yes	No	NA	Software upgrade of Aquarius iNtuition i3-6000	TeraRecon Inc.	\$235,548
Sole Source		No	Yes	No	NA	Selenia Dimensions 3D with AWS 8000 Mammography	Hologic, Inc.	\$1,112,500
Sole Source		No	Yes	No	NA	Automatic scrub distribution and service	IPA One	\$114,000 per yr
Invitation for Bid	Zimmer US, Inc.	No	Yes	No	NA	Dermatone and Skin Graft Mesher	Zimmer US, Inc.	\$5,000 per year
Sole Source		No	Yes	No	NA	Ophthalmic Surgery Products and Equipment	Alcon Laboratories, Inc.	\$257,000
Sole Source		No	Yes	No	NA	Gammacell 3000 Elan Blood Irradiator	Best Theratronics, Ltd.	\$568,000
Invitation for Bid	Stryker Surgical	No	Yes	No	NA	Neptune and Docking Station	Stryker Surgical	\$190,000
Emergency Procurement		No	Yes	No	NA	Radiology products	Bard Peripheral Vascular, Inc.	n/a
Emergency Procurement		Yes	No	No	NA	Exit and egress Light Testing Services	Systems Engineering Services	\$61,000 per yr
RFP P174-11	1. True North 2. NCO 3. UCB	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	NA	Outsourcing and Management of Accounts Receivable	United Collection Bureau, Inc.	
RFP P189-11	1. Emboider- ISM 2. We've Got Scrubs 3. Standard Textile 4. Ameri-Pride 5. Staples 6. Scrubs Direct					Employee Scrubs and Uniforms	Scrubs Direct, Inc.	
RFP P234-13	1. Accretive PAS 2. Executive Ehealth Resources 3. Schumacher Group	1. No 2. No 3. No	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No	NA	Physician Advisory Services	Accretive PAS	
RFP P285-14	Cook Medical Inc	No	Yes	No	NA	Radiology products	Cook Medical Inc.	
Invitation for Bid	EKOS Corporation	No	Yes	No	NA	Intelligent Drug Delivery Catheters for Ultrasound Thrombolysis	EKOS Corporation	
RFP 1720-15	Brycon Construction	Yes	No	No	Yes	UNMH Tricore Lab Repair Renew and Replacement	Brycon Construction	\$1,220,856
RFP 1721-15	1. AIC General Contractors 2. Klinger Constructors 3. ESA Construction	1. Yes 2. Yes 3. Yes	1. No 2. No 3. No			UNMH Gross Room Renovation	AIC General Contractors	\$370,000
RFP 1718-15	1. B&D Industries 2. US Electrical	1. Yes 2. Yes	1. No 2. No			Children's Psychiatric Center Emergency Generator Installation	B&D Industries	\$215,000
Sole Source		No	Yes	No	NA	Coblation Wands and Unit	Arthrocare	\$88,273

Note: Contracts listed reflect activity for UNM Hospitals and UNM Behavioral Health Operations. List is combined as a result of all contracts being managed at the Hospital level.

**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. Timothy Keller, 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 the University of New Mexico Behavioral Health Operations (the "Center"), as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, as listed in the table of contents, and the Comparison of Budgeted and Actual Revenues and Expenses ("budget comparison"), presented as supplementary information, as defined by the Governmental Accounting Standards Board, for the year ended June 30, 2015, and have issued our report thereon dated October 29, 2015.

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.

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

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

Mess Adams LLP

Albuquerque, New Mexico
October 29, 2015

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2015**

There are no current or prior year findings.

**UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS
EXIT CONFERENCE
Year Ended June 30, 2015**

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

An exit conference was conducted on October 28, 2015 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.

Jerry McDowell	Chairman, Finance/Audit Committee
Nick Estes	Finance/Audit Committee Member
Michael Olguin	Finance/Audit Committee Member
Steve McKernan	UNMH Chief Executive Officer
Michael Schwantes	Director, Finance Systems & Restricted Accounting
Manu Patel	Director of Internal Audit Department
Shawna Gonzales	Executive Director/Controller, Finance and Account
Purvi Mody	Executive Director, Compliance and Internal Audit
Sandra Long-Mendoza	Finance Director
Berenice Lopez	Finance Director
Julie Alliman	Finance Director
Lawrence Pineda	SRMC Finance Director
DeVon Wiens	Engagement Partner, Moss Adams LLP
Josh Lewis	Senior Manager, Moss Adams LLP