Report of Independent Auditors
and Financial Statements
with Supplementary Information

University of New Mexico Behavioral Health Operations

June 30, 2025 and 2024

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University of New Mexico Behavioral Health Operations
Official Roster
Year Ended June 30, 2025

UNM Hospital Board of Trustees

Monica Zamora	Chair (Term expires 6/30/27, Regent appointed)
Henry Monroy	Vice-Chair (Term expires 6/30/26, Regent appointed)
Trey Hammond	Secretary (Term expires 6/30/26, County appointed)
Tamra Mason	Member (Term expires 6/30/25, Regent appointed)
Kenneth “Ken” Lucero	Member (Term expires 6/30/25, All Pueblo Council of Governors, Regent appointed)
Kurt Riley	Member (Term expires 6/30/26, All Pueblo Council of Governors, Regent appointed)
Anjali Taneja	Member (Term expires 6/30/26, County appointed)
Nathan Boyd	Member (Term expires 6/30/25, Regent appointed)

Administrative Officers

Garnett S. Stokes	President, University of New Mexico
Michael Richards, MD	Executive Vice President, UNM Health Sciences Center Chief Executive Officer, UNM Health System
Kate Becker	Chief Executive Officer, UNM Hospitals
Bonnie White	Chief Financial Officer, UNM Hospitals

Report of Independent Auditors

The University of New Mexico Health Sciences Center
Board of Trustees,
The University of New Mexico Hospital Board of Trustees,
and Mr. Joseph M. Maestas, PE, CFE
New Mexico State Auditor

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of New Mexico Behavioral Health Operations (the Center), a division of the University of New Mexico, which comprise the statements of net position as of June 30, 2025 and 2024, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2025 and 2024, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Notes 2 and 6 to the basic financial statements, in 2025, the Center adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 6 through 14, the schedule of the Center's proportionate share of the net pension liability on page 46, and the schedule of Center contributions on page 47 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Center's basic financial statements. The accompanying comparison of budgeted and actual revenues and expenses for the year ended June 30, 2025 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparison of budgeted and actual revenues and expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2025, 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 solely 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 the effectiveness of the Center's 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.

Baker Tilly US, LLP

Albuquerque, New Mexico
October 3, 2025

Management's Discussion and Analysis

The University of New Mexico (UNM) Behavioral Health Operations management's discussion and analysis includes the UNM Psychiatric Center (Adult Center) and the UNM Children's Psychiatric Center (Children's Center), collectively, the Center. This annual financial report presents management's discussion and analysis of the financial performance of the Center during the fiscal years ended June 30, 2025 and 2024. 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 Statement No. 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, deferred outflows, liabilities, and deferred inflows. Over time, increases or decreases in net position (the difference between assets and liabilities) are 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 nongovernmental 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 psychiatric Center's dependency on state and local 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.

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

Overview of entity – The Center offers a comprehensive range of inpatient and outpatient services to the community. The following summarizes the healthcare services offered by the Center.

Inpatient care – Care is provided by practitioners in 28 general adult beds, 15 geriatric beds, and 35 pediatric beds.

Outpatient care – The Center offers a large range of outpatient services including a medical home for high needs mental health patients, addiction service, psychosocial rehabilitation, as well as community-based services. The Adult Center also provides crisis triage services, electroconvulsive therapy, trans-cranial magnetic stimulation, and assertive community treatment. The Children's Center provides outpatient services to children and adolescents including evaluation, medication management, and community-based services, as well as specialized treatment approaches like multisystemic therapy.

Emergency care – The Center also offers the state's only dedicated psychiatric emergency department for both adult and pediatric patients providing evaluation and stabilization services on 24-hour, seven-day a week basis.

Three-year comparison of financial results

Condensed Summary of Net Position

	June 30,		
	2025	2024	2023
Assets			
Current assets	$ 30,089,856	$ 21,380,611	$ 18,436,819
Capital assets	68,244,543	45,041,398	26,703,850
Right-to-use assets	184,757	275,188	404,106
Total assets	$ 98,519,156	$ 66,697,197	$ 45,544,775
Deferred outflows			
Total deferred outflows of resources	$ 217,228	$ 179,526	$ 678,594
Liabilities			
Current liabilities	$ 18,047,470	$ 16,071,979	$ 11,909,957
Noncurrent liabilities	10,464,870	2,876,373	3,152,816
Total liabilities	$ 28,512,340	$ 18,948,352	$ 15,062,773
Deferred inflows			
Total deferred inflows of resources	$ 727,066	$ 1,166,020	$ 2,265,551
Net position			
Net investment in capital assets	$ 68,242,086	$ 45,036,255	$ 26,697,211
Restricted	350,674	342,545	342,417
Unrestricted	904,218	1,383,551	1,855,417
Total net position	$ 69,496,978	$ 46,762,351	$ 28,895,045

At June 30, 2025, the Center's total assets were $98.5 million, compared to $66.7 million at June 30, 2024 and $45.5 million at June 30, 2023. Total assets increased $31.8 million at June 30, 2025, compared to June 30, 2024. The largest asset is investment in capital assets in the amount of $68.2 million at June 30, 2025, $45.0 million at June 30, 2024, and $26.7 million at June 30, 2023. At June 30, 2025 and 2024, current assets exceeded current liabilities by $12.2 million and $5.4 million, respectively. The Center's largest current asset is third-party payor settlements receivable in the amount of $21.2 million at June 30, 2025, compared to $14.5 million and $11.8 million at June 30, 2024 and 2023, respectively. Third-party payor settlements receivable consist of amounts due from Medicare and Medicaid for cost report settlements, Indirect Medical Education, Graduate Medical Education, and Upper Payment Limit directed payments.

The Center's current liabilities increased by $2.0 million from June 30, 2024 to June 30, 2025, and increased by $4.0 million from June 30, 2023 to June 30, 2024. The most significant current liability, estimated third-party payor settlements, increased by $1.5 million at June 30, 2025, compared to June 30, 2024. This increase was a result of increased amounts due for Intergovernmental amounts due to the State of New Mexico for upper payment and directed payments.

Total net position increased by $22.7 million to $69.5 million at June 30, 2025, which reflects an operating loss of $29.4 million, offset by nonoperating net revenues of $31.9 million. and contributed capital funding of $20.3 million. At June 30, 2025, unrestricted net position totaled $900 thousand.

Total net position increased by $17.9 million to $46.8 million at June 30, 2024, which reflects an operating loss of $23.3 million, offset by nonoperating net revenues of $30.3 million and contributed capital funding of $11.6 million. At June 30, 2024, unrestricted net position totaled $1.4 million.

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

	Years Ended June 30,		
	2025	2024	2023
Total operating revenues	$ 56,565,924	$ 54,699,393	$ 46,252,913
Total operating expenses	(85,952,536)	(78,037,247)	(75,478,945)
Operating loss	(29,386,612)	(23,337,854)	(29,226,032)
Net nonoperating revenue	31,852,729	30,318,166	27,178,453
Increase (decrease) in net position before capital funding	2,466,117	6,980,312	(2,047,579)
Capital funding	20,268,510	11,615,022	6,564,799
Increase after capital funding	22,734,627	18,595,334	4,517,220
Net position, beginning of year	46,762,351	28,895,045	24,377,825
Cumulative effect of GASB 101 implementation	-	(728,028)	-
Net position, end of year	$ 69,496,978	$ 46,762,351	$ 28,895,045

Operating revenues – The sources of operating revenues for the Center include net patient service, contracts and grants, and other operating revenues, with the most significant source being net patient service revenues.

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 settlements. Also included in net patient service revenue are payments received for Indirect Medical Education (IME), Graduate Medical Education (GME), Directed Upper Payment Limit (UPL) and intergovernmental transfer (IGT) expense. Net patient service revenues were $52.4 million, $50.8 million and $42.9 million for the years ended June 30, 2025, 2024 and 2023, respectively.

Net patient service revenues increased $1.7 million during the year ended June 30, 2025, as compared to the year ended June 30, 2024, which represents a 3% increase. The increase in net patient service revenues is primarily due to increased outpatient services provided at the Behavioral Health Crisis Center (BHCC), which opened for services in July 2024.

Net patient service revenues increased $7.9 million during the year ended June 30, 2024, as compared to the year ended June 30, 2023, which represents a 18% increase. The increase in net patient service revenues is primarily due to an increase in the directed upper payment limit received.

Patient days and outpatient visits are important statistics for the Center and are presented below:

	Years Ended June 30,		
	2025	2024	2023
Inpatient days - Adult Center	11,439	12,316	13,081
Inpatient days - Children's Center	7,949	8,550	6,630
Total inpatient days	19,388	20,866	19,711
Discharges	1,633	1,606	1,417
Outpatient visits	262,316	232,159	230,141

For the year ended June 30, 2025, total inpatient days decreased (877), or (7.1%), discharges increased by 27, or 1.7%, and outpatient visits increased 30,157, or 13.0%, from the year ended June 30, 2024 to the year ended June 30, 2025. Total inpatient days decreased due to cottage closures at the Children's Center and inpatient days decreased at the Adult Center as a result of the continued closure of four adult beds, one geriatric bed, and changes made to the admission of geriatric patients.

For the year ended June 30, 2024, total inpatient days increased 1,155, or 5.9%, discharges increased by 189, or 13.3%, and outpatient visits increased 2,018, or 0.9%, from the year ended June 30, 2023 to the year ended June 30, 2024. Total inpatient days increased due to the recovery of the closure of cottages at the Children's Psychiatric Center from the prior year while inpatient days for the Adult Psychiatric Center decreased as a result of the continued closure of four adult beds and one geriatric bed being closed.

The Center offers a financial assistance program called UNM Care to which all eligible patients are encouraged to apply. This program assigns patients to primary care providers and enables them to receive care throughout the Hospital and at all clinic locations. This program is available to Bernalillo and Sandoval County residents who also meet certain income and asset thresholds. Patients applying for coverage under UNM Care must apply for coverage under Medicaid or the Health Insurance Exchange (HIX), if eligible. Patients may continue to receive UNM Care until they receive Medicaid eligibility or notification of coverage under the HIX. Patients certified under Medicaid or the HIX may continue to qualify for UNM Care as a secondary coverage for copays and deductibles if they meet the income guidelines.

As of June 30, 2025, 2024 and 2023, there were approximately 5,400, 5,300 and 4,800 active enrollees in UNM Care, respectively. 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 Center. The Center does not pursue collection of amounts determined to qualify as charity care. The cost of charity care provided under this program for the years ended June 30, 2025, 2024, and 2023, was approximately $2.7 million, $1.8 million, and $2.2 million, respectively.

The Center provides care to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for the years ended June 30, 2025, 2024, and 2023, were $348 thousand, $452 thousand, and $322 thousand, respectively.

The Center recognized intergovernmental transfers (IGTs) to the State of New Mexico in the amounts of $3.8 million, $3.4 million, and $1.6 million, respectively, for the years ended June 30, 2025, 2024, and 2023. These amounts are recorded within net patient service revenues.

Operating expenses – Operating expenses for the year ended June 30, 2025, including depreciation and amortization of $3.2 million, totaled $86.0 million. Overall, expenses increased $7.9 million compared with the prior year. The most significant increases were, employee compensation, $3.1 million, or 6.5%, employee benefits, $1.6 million, or 19.1%, and depreciation and amortization, $2.0 million, or 159.1%. The increase in employee compensation is due primarily to an increase in full-time equivalents for services provided at the BHCC. The increase in depreciation is do the capitalization of the BHCC in July, 2024. The increase in employee benefits is due to an increase in Health Insurance expense and an increase in expense associated with the New Mexico Educational Retirement Board (NMERB) retirement plan.

Operating expenses for the year ended June 30, 2024, including depreciation and amortization of $1.3 million, totaled $78.0 million. Overall, expenses increased $2.6 million compared with the prior year. Employee compensation increased $3.0 million, or 6.8%, employee benefits decreased $1.1 million, or 12.0%, medical services increased $895 thousand, or 7.5%, and occupancy decreased $567 thousand, or 26.3%. The increase in employee compensation is due primarily to wage increases. The decrease in employee benefits is due to a decrease in expense associated with the NMERB retirement plan. The increase in medical services is a result of an increase in physician support paid to the UNM School of Medicine. The decrease in occupancy is primarily the result of decreased building repairs and maintenance expense.

The operating expense mix for the Center for the years ended June 30, 2025 and 2024, is detailed below:

	2025	2024
Employee compensation	60%	61%
Benefits	11	11
Medical services	15	16
Occupancy	4	2
Medical supplies	2	2
Purchased services	2	2
Depreciation	2	1
Other supplies	2	1
Gross receipts tax	1	2
Equipment	1	1
Other	1	1

Nonoperating revenues and expenses – Revenue from the Bernalillo County mill levy was the most significant source of nonoperating revenue, totaling $19.8 million, $19.1 million, and $18.1 million for the years ended June 30, 2025, 2024, and 2023, respectively. The current Memorandum of Understanding (MOU) with Bernalillo County stipulates fifteen percent (15%) of the mill levy revenue will be allocated to the operation and maintenance of the Adult Center and associated behavioral health and substance abuse treatment services that are offered by the University of New Mexico Hospital (Hospital) and the Center. During the years ended June 30, 2025, 2024, and 2023, 15% of the mill levy was allocated to the Center.

The state appropriation was the next most significant nonoperating revenue source totaling $12.3 million, $11.4 million, and $9.3 million for the years ended June 30, 2025, 2024, and 2023, respectively. The state appropriation is provided to the Children's 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.

Capital funding – Capital funding received from Bernalillo County was $891 thousand, $9.6 million, and $6.5 million for the years ended June 30, 2025, 2024, and 2023, respectively. The state severance tax bonds were the next most significant capital funding source totaling $2.0 million for the year ended June 30, 2024, to be used towards the design of the Children's Psychiatric replacement building.

Capital assets – At June 30, 2025, the Center had $91.4 million invested in capital assets, less accumulated depreciation of $23.2 million. Depreciation charges for the year ended June 30, 2025, totaled $2.0 million compared to $1.1 million and $1.2 million for the years ended June 30, 2024 and 2023, respectively.

	2025	2024	2023
Land and land improvements	$ 6,018,876	$ 2,325,709	$ 2,325,709
Buildings and building improvements	39,150,147	13,968,345	13,968,345
Building service equipment	17,183,017	8,118,126	8,118,126
Major moveable equipment	3,503,256	1,435,411	1,435,411
Fixed equipment	2,471,828	994,561	994,561
Computer software	25,900	25,900	25,900
Construction in progress	23,086,608	38,523,871	19,061,360
	91,439,632	65,391,923	45,929,412
Less accumulated depreciation	(23,195,089)	(20,350,525)	(19,225,562)
Net capital assets	$ 68,244,543	$ 45,041,398	$ 26,703,850

During the year ended June 30, 2025, the Center's most significant increase to capital assets is buildings with a net increase of $25.2 million. This increase is due to the capitalization of the completed BHCC in July 2024.

During the year ended June 30, 2024, the Center's most significant increase to capital assets is construction in progress with a net increase of $19.5 million. This increase is due to the continued construction of the Crisis Triage Center at the Adult Center and the design phase of a new building at the Children's Center.

Change in net position – Total net position (assets plus deferred outflows minus liabilities minus deferred inflows) is 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 increase of approximately $22.7 million for the year ended June 30, 2025, and a net increase of $18.6 million for the year ended June 30, 2024. Approximately, $891 thousand and $9.6 million of the increase in net position at June 30, 2025 and 2024, respectively, is due to contributed capital funding from Bernalillo County used towards the design and construction of the BHCC.

Factors impacting future periods – On August 7, 2024, Centers for Medicare & Medicaid Services (CMS) released the Federal Fiscal Year (FFY) 2025 Inpatient Psychiatric Facilities (IPF) Prospective Payment System (PPS) Final Rule. The IPF PPS rates effective October 1, 2024, will reflect a market basket increase of 3.3% less the productivity reduction for FFY 2025 of 0.5% for a final rate increase of 2.8% for FFY 2025. The IPF Per diem Rate decreased 0.3% while the Center's Teaching and Electroconvulsive Therapy (ECT) payments increase 7.4% and 41.7%, respectively. The Center's pre-floor, pre-reclassified acute care hospital wage index increased from .9010 for FFY 2024 to .9233 for FFY 2025. The Center's Outlier Threshold increased 13.9% over FFY 2024 threshold.

The overall impact of the Proposed OPPS rule on the Hospital's psychiatric reimbursement is estimated to be an increase of 2.88% or $14 thousand.

The Bernalillo County mill levy that the Center receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially increase or decrease as a result of changes in property values. The voters approved the renewal of the mill levy in the November 2024 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 2032 election.

A portion of the Center's facilities are leased from Bernalillo County (the County) by UNM under the 2014 lease agreement, as described under note 1 to the financial statements. Terms of this agreement provide 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. Neither party requested to reopen the terms and conditions of the lease in 2022. 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 agreement was finalized in February 2018. Under the MOU, the UNM Hospital is required to allocate 15% of the mill levy proceeds to the Center, fund one or more navigational services and a transition planning and case management service, Bernalillo County Re-entry Resource Center (RRC), at $2.06 million adjusted annually, and to comply with certain reporting and collaboration efforts as described in the MOU. In June 2018, the Hospital and County entered into a program MOU for the RRC, under which the Center would establish within its budget at least $800 thousand for this program. UNMH also increased the annual funding to the Pathways program to $1.26 million. The Pathways funding of $1.26 million and the RRC funding of $800 thousand fulfill the navigation and case management requirement to the County.

The Center became provisionally certified as a Comprehensive Community Behavioral Healthcare Center (CCBHC) in the spring of 2024 and is working towards full certification for implementation in early 2025. CCBHC is a cost-based funding model for outpatient behavioral health services designed to increase access and to expand crisis services. CCBHC payments are a daily per-diem paid for a patient receiving qualified services, regardless of the number of services received on that day. Since this payment is based on cost it should allow for ongoing expansion of outpatient services. CCBHC applies to outpatient adult and child mental health and addiction services.

The New Mexico Legislature passed SB1 in the 2025 legislative session to create a trust fund for Behavioral Health Services. The goal is to provide ongoing funding support for development of services. The fund is to eventually be funded at $1 billion which would allow for an annual distribution of 5% of the fund balance.

SB2 was also approved by the New Mexico Legislature to provide specific targeted funding to certain services for behavioral health and homeless populations in order to provide a bridge to funding through SB1. The total allocation is approximately $200 million with over $100 million devoted to development of housing for targeted populations and approximately $50 million allocated to implement Behavioral Health System Reform as established in SB3.

SB3, known as the Behavioral Health Reform and Investment Act (BHRIA), establishes a new framework for the delivery of Behavioral Health in New Mexico. This framework includes establishing regional planning collaboratives organized around the 13 State Judicial Districts. The Administrative Office of the Courts and the New Mexico Healthcare Authority are responsible for implementation of BHRIA. Bernalillo County is its own region. Sandoval County is in a region with Valencia and Cibola County. The $50 million outlined in SB2 will be allocated to the 13 regions based on submission of a regional plan based on identified gaps using the Sequential Intercept Mapping process and weighted for factors like population. SB3 will eventually assume funding these plans at approximately $50 million annually.

H.R.1 or the One Big Beautiful Bill Act (OBBBA) is expected to impact the Behavioral Health facilities as the New Mexico Health Care Authority projects a reduction of around 89,000 Medicaid covered lives under OBBBA. The amount of the impact is yet to be determined as some of the key provisions will not go into effect until late in CY2027. H.R.1 will likely result in increases in the uncompensated care mix and will also impact funding under CCBHC, as CCBHC is a Medicaid funding construct

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.

Financial Statements

University of New Mexico Behavioral Health Operations
Statements of Net Position
June 30, 2025 and 2024

	2025	2024
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash	$ 2,775	$ 3,025
Receivables		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $19,100,000 in 2025 and $12,703,000 in 2024)	6,951,418	6,289,119
Contracts and grants	1,460,346	6,677
Estimated third-party payor settlements	21,172,364	14,476,032
Bernalillo County mill levy	321,091	424,722
	29,905,219	21,196,550
Inventories	146,349	135,699
Prepaid expenses	35,513	45,337
Total current assets	30,089,856	21,380,611
NONCURRENT ASSETS		
Capital assets, net	68,244,543	45,041,398
Right-to-use assets, net	184,757	275,188
Total noncurrent assets	68,429,300	45,316,586
TOTAL ASSETS	$ 98,519,156	$ 66,697,197
DEFERRED OUTFLOWS		
Total deferred outflows related to pensions	$ 217,228	$ 179,526

See accompanying notes.

University of New Mexico Behavioral Health Operations
Statements of Net Position
June 30, 2025 and 2024

	2025	2024
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 5,742,129	$ 2,948,848
Due to University of New Mexico entities	1,648,732	4,131,997
Lease liability - current	96,212	93,117
Accrued compensation and benefits	4,365,724	4,212,459
Estimated third-party payor settlements	6,194,673	4,685,558
Total current liabilities	18,047,470	16,071,979
NONCURRENT LIABILITIES		
Net pension liability	1,378,597	1,800,782
Due to affiliates	8,995,271	888,377
Lease liability	91,002	187,214
Total noncurrent liabilities	10,464,870	2,876,373
TOTAL LIABILITIES	$ 28,512,340	$ 18,948,352
DEFERRED INFLOWS		
Total deferred inflows related to pensions	$ 727,066	$ 1,166,020
NET POSITION		
Net investment in capital assets	$ 68,242,086	$ 45,036,255
Restricted for expendable grants, bequests, and contributions	350,674	342,545
Unrestricted	904,218	1,383,551
TOTAL NET POSITION	$ 69,496,978	$ 46,762,351

See accompanying notes.

University of New Mexico Behavioral Health Operations
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2025 and 2024

	2025	2024
OPERATING REVENUES		
Net patient service	$ 52,441,768	$ 50,756,261
State and local contracts and grants	4,035,353	3,875,369
Other operating revenues	88,803	67,763
Total operating revenues	56,565,924	54,699,393
OPERATING EXPENSES		
Employee compensation	50,939,294	47,851,223
Benefits	9,715,739	8,158,468
Medical services	12,958,651	12,819,806
Occupancy	1,802,276	1,461,738
Medical supplies	1,755,343	1,433,634
Purchased services	1,224,398	1,407,973
Depreciation and amortization	3,248,848	1,253,881
Other supplies	1,132,053	1,023,238
Gross receipts tax	1,449,877	1,077,075
Equipment	838,698	718,408
Other	887,359	831,803
Total operating expenses	85,952,536	78,037,247
Operating loss	(29,386,612)	(23,337,854)
NONOPERATING REVENUES (EXPENSES)		
Bernalillo County mill levy	19,813,351	19,136,747
State general fund and other state fund appropriations	12,327,650	11,444,000
Bequests and contributions	33,117	19,672
Other nonoperating expense	(321,389)	(282,253)
Net nonoperating revenue	31,852,729	30,318,166
Increase in net position before capital funding	2,466,117	6,980,312
CAPITAL FUNDING		
Capital funding from Bernalillo County	891,164	9,601,604
State severance tax bonds	19,377,346	2,013,418
Total capital funding	20,268,510	11,615,022
Increase in net position after capital funding	22,734,627	18,595,334
NET POSITION		
Beginning of year	46,762,351	28,895,045
Cumulative effect of GASB 101 implementation	-	(728,028)
End of year	$ 69,496,978	$ 46,762,351

See accompanying notes.

University of New Mexico Behavioral Health Operations
Statements of Cash Flows
Years Ended June 30, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from Medicaid and Medicare	$ 42,174,317	$ 39,017,577
Cash received from insurance and patients	4,417,935	9,353,246
Cash received from contracts and grants	2,581,684	3,891,557
Cash payments to employees	(42,566,062)	(38,321,571)
Cash payments to contract labor	(4,988,133)	(7,382,659)
Cash payments to suppliers	(14,192,988)	(18,418,512)
Cash payments to University of New Mexico entities	(19,943,014)	(9,982,639)
Cash received from affiliates	8,106,894	630,859
Cash payments to State of New Mexico for gross receipts tax	(1,449,877)	(1,077,075)
Other cash receipts	88,803	67,763
Net cash from operating activities	(25,770,441)	(22,221,454)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from Bernalillo County mill levy	19,916,982	19,017,288
Cash received from state general fund and other state fund appropriations	12,327,650	11,444,000
Cash received from contributions for other-than-capital purposes	33,117	19,672
Cash payments for nonoperating sources	(247,889)	(271,300)
Net cash from noncapital financing activities	32,029,860	30,209,660
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Cash received from Bernalillo County for capital funding	891,164	9,601,604
Cash received from state severance tax bonds	19,377,346	2,013,418
Purchases of capital assets	(26,427,271)	(19,462,511)
Principal payments on leases	(93,117)	(130,414)
Interest payments on leases	(7,791)	(10,953)
Net cash from capital financing activities	(6,259,669)	(7,988,856)
Net decrease in cash and cash equivalents	(250)	(650)
CASH, beginning of year	3,025	3,675
CASH, end of year	$ 2,775	$ 3,025

See accompanying notes.

University of New Mexico Behavioral Health Operations
Statements of Cash Flows
Years Ended June 30, 2025 and 2024

	2025	2024
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	$ (29,386,612)	$ (23,337,854)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	3,158,417	1,124,963
Lease amortization	90,431	128,918
Provision for doubtful accounts	348,474	451,651
Change in assets, deferred outflows, liabilities, and deferred inflows		
Patient receivables, net	(1,010,773)	(731,092)
Due to/from affiliates	8,106,894	630,859
Contracts and grants	(1,453,669)	16,188
Estimated third-party payor settlements receivables	(6,696,332)	(2,626,868)
Due to/from University of New Mexico entities	(2,483,265)	2,429,688
Inventories	(10,650)	(4,276)
Prepaid expenses	9,824	3,074
Accounts payable and accrued expenses	2,946,547	587,072
Estimated third-party payor settlements payable	1,509,115	520,871
Deferred outflow of resources related to pensions	(37,702)	499,068
Deferred inflow of resources related to pensions	(438,955)	(1,099,531)
Net pension liability	(422,185)	(814,185)
Net cash from operating activities	$ (25,770,441)	$ (22,221,454)

See accompanying notes.

Note 1 – Description of Business

The University of New Mexico Behavioral Health Operations (the Center) includes the UNM Psychiatric Center (Adult Center) and the UNM Children's Psychiatric Center (Children's Center).

The Adult Center 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 participate in a lease agreement for operation and lease of County healthcare facilities terminating June 30, 2055. 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.

The Children's Center, a psychiatric center operated by UNM Health Sciences Center, is certified as a short-term, acute care provider. The Children's 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 Center 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 Center is not a legally separate entity and is, therefore, reported as a division of UNM and included in the basic financial statements of UNM. As a division of UNM, the Center has no component units.

The UNM Board of Regents is the ultimate governing authority of the Center but has delegated certain oversight responsibilities to the UNM Hospital's (Hospital) Board of Trustees, which consists of nine members, including seven members appointed by the UNM Board of Regents, two of which are nominated by the All Pueblo Council of Governors. The two remaining members are appointed by the County Commission.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with generally accepted accounting principles for healthcare organizations, and are presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements;* GASB Statement No. 38, *Certain Financial Statement Note Disclosures;* 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 and right-to-use assets net of accumulated depreciation, accumulated amortization, and related liabilities.

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 UNM Hospital Board of Trustees, the UNM Board of Regents, or may otherwise be limited by contractual agreements with outside parties.

Recent accounting pronouncements – GASB Statement No. 101, *Compensated Absences*, was issued in June 2022 and provides guidance on the accounting and financial reporting for compensated absences for government end users. This statement is effective for fiscal years beginning after December 15, 2023, and requires recognition of a liability for compensated absences to reflect when the obligation is incurred. This statement was adopted for the year ended June 30, 2025. As required by GASB Statement No. 100, *Accounting Changes & Error Corrections*, for a change in accounting principle retroactive application of the standard is required and net assets ending June 30, 2024 have been restated accordingly. See Note 6.

GASB Statement No. 102, *Certain Risk Disclosures*, was issued in December 2023 and requires governments to access whether a concentration or constraint exists that would impact the issuers ability to operate or service debt. This statement is effective for fiscal years beginning after June 15, 2024. The Center has evaluated the concentration of risks in the note disclosures below as it related to Medicare and Medicaid future funding.

GASB Statement No. 103, *Financial Reporting Model Improvements*, was issued in April 2024 and provides improvements to key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement is effective for fiscal years beginning after June 15, 2025, and requires that management's discussion and analysis be limited to five specific topics with detailed discussion and analysis over changes in results of operations. This statement is expected to have minimal impact on the future financial statements of the Center.

GASB Statement No. 104, *Disclosure of Certain Capital Assets*, effective for fiscal years beginning after June 15, 2024. The objective of this statement is to provide users of government financial statements with essential information about certain types of capital assets. This statement requires that lease assets recognized in accordance with Statement No. 87, right-to-use assets recognized in accordance with Statement No. 94, and subscription-based information technology assets recognized in accordance with Statement No. 96 be disclosed separately by major class in the capital assets note disclosures. In addition, other intangible assets must be disclosed separately by major class. This statement also requires separate disclosure for capital assets held for sale, which are defined as assets that a government has decided to sell and for which it is probable that the sale will be finalized within one year of the financial statement date. Governments should evaluate each reporting period whether assets meet the criteria for being held for sale. If so, the ending balance, including historical cost and accumulated depreciation by major class, as well as the carrying amount of debt for which the assets are pledged as collateral, should be disclosed. These disclosure requirements are intended to improve the consistency, comparability, and usefulness of capital asset information for users of government financial statements. The Center has included right-to-use assets and subscription-based information technology assets separately by major class with the capital assets note disclosures. The Center does not have capital assets held for sale and will continue to evaluate capital asset held for sale on an annual basis.

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

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

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 eligibility requirements of the grant have been met. All reimbursable costs for which reimbursement has not been received are reflected in the accompanying statements of net position as contracts and grants receivable.

Nonoperating revenue and expenses – Nonoperating revenue and expenses include activities that have the characteristics of nonexchange transactions, such as appropriations, gifts, investment income, government levies, gains, and losses on the sale of assets and other administrative expenses.

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 the County. Gains and losses on the sale of assets and other administrative expenses are recognized when incurred.

Cash – The Center holds petty cash amounts only as it does not have its own bank accounts. The Hospital receives all cash on behalf of, and pays all obligations for, the Center.

Inventories – Inventories consisting of medical supplies and pharmaceuticals are stated at the lower of cost or market. Cost is determined using the first-in, first-out valuation method for medical supplies and the replacement cost method 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 thousand and a minimum estimated useful life of three years. 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 2023 Edition published by the American Hospital Association. Repairs and maintenance costs are charged to expense as incurred. On an annual 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 Critical Triage Center (CTC) is owned by the Center and are recorded on the Center's financial statements. Other Adult Center's buildings are owned by the County and are furnished to the Adult Center in accordance with the lease agreement between the County and UNM. The Children Center's land and buildings are owned by UNM and are furnished for use to the Center. The land and buildings owned by UNM are 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.

Leases – The Center is a lessee for various noncancellable leases of buildings. For leases with a maximum possible term of 12 months or less at commencement, the Center recognizes the expense based on the provisions of the lease contract. For all other leases, the Center recognizes a lease liability.

At lease commencement, the Center initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, less lease payments made at or before the lease commencement date, plus any initial direct costs ancillary to placing the underlying asset into service, less any lease incentives received at or before the lease commencement date. Subsequently, the lease asset is amortized into lease expense on a straight-line basis over the shorter of the lease terms or the useful life of the underlying asset. If the Center is reasonably certain of exercising a purchase option contained in a lease, the lease asset will be amortized over the useful life of the underlying asset.

Key estimates and judgments include how the Center determines the discount rate it uses to calculate the present value of the expected lease, lease term and lease payments.

The Center generally uses its estimated incremental borrowing rate as the discount rate for leases unless the rate that the lessor charges is known. The Center's incremental borrowing rate for leases is based on the rate of interest it would pay for any amounts borrowed for capital projects.

The lease term includes the noncancellable period of the lease plus any additional periods covered by either the Center or lessor option to extend for which it is reasonably certain to be exercised or terminate for which it is reasonably certain not to be exercised.

Payments are evaluated by the Center to determine if they should be included in the measurement of the lease liability, including those payments that require a determination of whether they are reasonably certain of being made, such as residual value guarantees, purchase options, payments for termination penalties and other payments.

The Center monitors changes in circumstances that may require remeasurement of a lease arrangement. When certain changes occur that are expected to significantly affect the amount of the lease, the liability is remeasured, and a corresponding adjustment is made to the lease.

Lease assets are reported with long-term assets and lease liabilities are reported with short and long-term liabilities in the statements of net position.

Due to/from affiliates – 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. Amounts due to affiliates consist mainly of expenses paid in excess of cash collected and do not bear interest.

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 Educational Retirement Plan (ERP) and additions to/deductions from ERP's fiduciary net position have been determined on the same basis as they are reported by ERP. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Net patient service revenues – Net patient service 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.

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 copayments.

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 the County.

The County may utilize property tax exemptions and abatements to stimulate economic development and investment in the community. Three agencies entered into abatement agreements under the authority of NMSA 7-37-6 and NMSA 7-38. The proceeds to the levy were reduced by $241 thousand, $202 thousand in aggregate, authorized by the County, the City of Albuquerque, and the New Mexico Hospital Equipment Loan Council, during the years ended June 30, 2025 and 2024, respectively, as a result of the exemptions and abatements granted.

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. Funds appropriated for the years ended June 30, 2025 and 2024, totaled $12.3 million and $11.4 million, respectively. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Sub-Section J, Higher Education. In addition to the $11.4 million, the state appropriated $2.0 million which represents proceeds from state severance tax bonds to be used towards the design of the Children's Center replacement hospital.

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 (IRC). However, income generated from activities unrelated to the Center's exempt purpose is subject to income taxes under IRC Section 511(a)(2)(B). During the years ended June 30, 2025 and 2024, there was no income generated from unrelated activities.

Gross receipts taxes – The Center is subject to a 5% gross receipts tax on all service generated revenues after a 60% deduction on applicable receipts. Gross receipts tax is calculated and recorded in the accompanying financial statements on an accrual basis. Taxes are paid on a cash basis for the period received.

Intergovernmental transfers – Intergovernmental transfers (IGTs) are recognized in the period in which the Center incurs an obligation to make payments to other governmental entities as evidenced by executed Memoranda of Understanding (MOUs) between the State of New Mexico and the Center. The Center recorded $3.8 million and $3.4 million in IGT obligations for years ended June 30, 2025 and 2024, respectively. Due to the nature of the MOUs to fund a portion of the nonfederal share to obtain federal matching funds for the Medicaid "Turquoise Care," and since the Medicaid "Turquoise Care" program is for the provision of patient care, IGTs are recorded as a reduction of net patient service.

Capital funding – The County and the UNM Health Sciences Center entered into an agreement to construct a Crisis Triage Center and Adult Psychiatric Replacement Hospital during the year ended June 30, 2023. The Bernalillo County Board of County Commissioners approved a motion to appropriate a capital investment of up to $20.0 million for the project. As funds are received from the County, they are recognized as capital funding within the statements of revenues, expenses and changes in net position. The Crisis Triage Center began caring for patients on June 25, 2024, at the Behavioral Health Crisis Center.

During the year ended June 30, 2025, the Center began construction of the Children's Psychiatric Campus Replacement Hospital (Note 13).

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, 2025 and 2024, the estimated amount of the Center's IBNR and accrued claims was $445 thousand and $430 thousand, respectively. The liability balance for the self-insurance plan is included in accrued payroll of the Hospital, which is reflected in the net due to/from affiliate account of the Center. The IBNR liability was based on an actuarial analysis calculated using information provided by BCBSNM. Changes in the reported liability were as follows:

	Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2024-2025	$ 430,163	$ 4,668,935	$ (4,654,456)	$ 444,642
2023-2024	$ 477,333	$ 4,604,522	$ (4,651,692)	$ 430,163

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:

	2025		2024	
Medicaid	$ 15,426,289	59%	$ 11,128,083	59%
Medicare	4,962,511	19%	4,264,982	22%
Patients and their insurance carriers	5,639,125	22%	3,598,645	19%
Total patient account receivables	26,027,925	100%	18,991,710	100%
Less allowance for doubtful accounts and contractual adjustments	(19,076,507)		(12,702,591)	
Patient accounts receivable, net	$ 6,951,418		$ 6,289,119	

Note 4 – Capital Assets

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

	Year Ended June 30, 2025				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Center capital assets not being depreciated					
Land	$ 111,000	$ -	$ -	$ -	$ 111,000
Construction in progress	38,523,871	21,494,411	(36,931,674)	-	23,086,608
	$ 38,634,871	$ 21,494,411	$ (36,931,674)	$ -	$ 23,197,608
Center depreciable capital assets					
Land improvements	$ 2,214,709	$ -	$ 3,693,167	$ -	$ 5,907,876
Building and building improvements	13,968,345	4,888,183	20,312,421	(18,801)	39,150,148
Building service equipment	8,118,126	-	9,232,919	(168,029)	17,183,016
Major moveable equipment	1,435,411	44,677	2,215,900	(192,732)	3,503,256
Fixed equipment	994,561	-	1,477,267	-	2,471,828
Computer software	25,900	-	-	-	25,900
Total depreciable capital assets	26,757,052	4,932,860	36,931,674	(379,562)	68,242,024
Less accumulated depreciation for					
Land improvements	(1,482,430)	(496,780)	-	-	(1,979,210)
Building and building improvements	(12,047,845)	(1,184,240)	-	16,706	(13,215,379)
Building service equipment	(5,050,903)	(904,680)	-	127,826	(5,827,757)
Major moveable equipment	(1,119,469)	(211,938)		169,321	(1,162,086)
Fixed equipment	(623,978)	(65,326)	-	-	(689,304)
Computer equipment	-	(295,453)	-	-	(295,453)
Computer software	(25,900)		-	-	(25,900)
		-	-		
Total accumulated depreciation	(20,350,525)	(3,158,417)	-	313,853	(23,195,089)
Center depreciable capital assets, net	$ 6,406,527	$ 1,774,443	$ 36,931,674	$ (65,709)	$ 45,046,935
Capital asset summary					
Center capital assets not being depreciated	$ 38,634,871	$ 21,494,411	$ (36,931,674)	$ -	$ 23,197,608
Center depreciable capital assets, at cost	26,757,052	4,932,860	36,931,674	(379,562)	68,242,024
Center total cost of capital assets	65,391,923	26,427,271	-	(379,562)	91,439,632
Less accumulated deprecation	(20,350,525)	(3,158,417)	-	313,853	(23,195,089)
Center capital assets, net	$ 45,041,398	$ 23,268,854	$ -	$ (65,709)	$ 68,244,543

	Year Ended June 30, 2024				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Center capital assets not being depreciated					
Land	$ 111,000	$ -	$ -	$ -	$ 111,000
Construction in progress	19,061,360	19,462,511	-	-	38,523,871
	$ 19,172,360	$ 19,462,511	$ -	$ -	$ 38,634,871
Center depreciable capital assets					
Land improvements	$ 2,214,709	$ -	$ -	$ -	$ 2,214,709
Building and building improvements	13,968,345	-	-	-	13,968,345
Building service equipment	8,118,126	-	-	-	8,118,126
Major moveable equipment	1,435,411	-	-	-	1,435,411
Fixed equipment	994,561	-	-	-	994,561
Computer software	25,900	-	-	-	25,900
Total depreciable capital assets	26,757,052	-	-	-	26,757,052
Less accumulated depreciation for					
Land improvements	(1,337,021)	(145,409)	-	-	(1,482,430)
Building and building improvements	(11,679,319)	(368,526)	-	-	(12,047,845)
Building service equipment	(4,601,973)	(448,930)	-	-	(5,050,903)
Major moveable equipment	(1,025,681)	(93,788)	-	-	(1,119,469)
Fixed equipment	(555,668)	(68,310)	-	-	(623,978)
Computer software	(25,900)	-	-	-	(25,900)
Total accumulated depreciation	(19,225,562)	(1,124,963)	-	-	(20,350,525)
Center depreciable capital assets, net	$ 7,531,490	$ (1,124,963)	$ -	$ -	$ 6,406,527
Capital asset summary					
Center capital assets not being depreciated	$ 19,172,360	$ 19,462,511	$ -	$ -	$ 38,634,871
Center depreciable capital assets, at cost	26,757,052	-	-	-	26,757,052
Center total cost of capital assets	45,929,412	19,462,511	-	-	65,391,923
Less accumulated deprecation	(19,225,562)	(1,124,963)	-	-	(20,350,525)
Center capital assets, net	$ 26,703,850	$ 18,337,548	$ -	$ -	$ 45,041,398

Note 5 – Leases

A summary of the lease asset activity during the years ended June 30, 2025 and 2024, is as follows:

	Balance at June 30, 2024	Additions	Deductions	Balance at June 30, 2025
Lease assets				
Buildings	$ 1,356,723	$ -	$ -	$ 1,356,723
Total lease assets	1,356,723	-	-	1,356,723
Less accumulated amortization				
Buildings	(1,081,535)	(90,431)	-	(1,171,966)
Total accumulated amortization	(1,081,535)	(90,431)	-	(1,171,966)
Total lease assets, net	$ 275,188	$ (90,431)	$ -	$ 184,757

	Balance at June 30, 2023	Additions	Deductions	Balance at June 30, 2024
Lease assets				
Buildings	$ 1,356,723	$ -	$ -	$ 1,356,723
Total lease assets	1,356,723	-	-	1,356,723
Less accumulated amortization				
Buildings	(952,617)	(128,918)	-	(1,081,535)
Total accumulated amortization	(952,617)	(128,918)	-	(1,081,535)
Total lease assets, net	$ 404,106	$ (128,918)	$ -	$ 275,188

Changes in long-term lease liabilities for the years ended June 30, 2025 and 2024, are summarized below:

Balance at June 30, 2024	Additions	Deductions	Balance at June 30, 2025	Amounts Due Within One Year
$ 280,331	$ -	$ (93,117)	$ 187,214	$ 96,212

Balance at June 30, 2023	Additions	Deductions	Balance at June 30, 2024	Amounts Due Within One Year
$ 410,745	$ -	$ (223,531)	$ 280,331	$ 93,117

Future annual lease payments are as follows:

Years Ending June 30,	Principal Amount	Interest Amount	Total
2026	$ 96,212	$ 4,696	$ 100,908
2027	91,002	1,497	92,499
	$ 187,214	$ 6,193	$ 193,407

Note 6 – Compensated Absences

Qualified Center employees are entitled to accrue sick leave and annual leave based on their full-time equivalent (FTE) status. Accrued sick leave and annual leave balances are carried as a liability within compensated absences on the statement of net position and consist of the following as of June 30:

	2025	2024
Annual leave	$ 1,840,820	$ 1,712,609
Minor sick leave	306,034	385,093
Major sick leave	678,415	704,552
	$ 2,825,269	$ 2,802,254

Sick leave – Full-time employees accrue four hours of sick leave each two-week pay period (13 days per annum) up to a maximum of 1,040 hours to be used for major and minor sick leave. Seven of these days are accumulated into a minor sick leave bank. Part-time employees who are at least 0.5 FTE earn sick leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange minor sick leave for annual leave or major sick leave, or cash all hours accumulated in excess of 24 hours of minor sick leave and 1,040 hours of major sick leave on an hour-for-hour basis. At termination, only employees who retire from the Center and qualify under the Center's policy or estates of employees who die as the result of a compensable occupational illness or injury are eligible for payment of unused accumulated hours earned under the Center's plan. Accrued sick leave is computed by multiplying each employee's current hourly rate by the number of hours accrued. Accrued major sick leave under GASB Statement No. 101 is based on payouts required for FTE's that have met the years of service plus age requirement, based on their respective dates of hire. An additional amount is accrued for hours earned but not yet vested as of year-end that are expected to vest within the next five years.

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 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.

Accrued compensated absences are included in “accrued compensation and benefits” in the accompanying financial statements. The portion of accrued compensated absences due after one year is not material and, therefore, is not presented separately.

Changes in compensated absences – The following table summarizes the changes in the accrued compensated absences liability for the years ended June 30, 2025 and 2024. The column labeled “Additions/(Reductions)” represents the net change during the fiscal year.

Balance at July 1, 2024	Additions/(Reductions)	Balance at June 30, 2025
$ 2,802,254	$ 147,968	$ 2,825,269

Balance July 1, 2023	Additions/(Reductions)	Balance June 30, 2024
$ 2,612,734	$ 189,520	$ 2,802,254

During fiscal year 2025 the Center implemented GASB Statement No. 101, *Compensated Absences*. This statement changed how the compensated absences liability is recognized and measured by moving from a vesting to more likely than not recognition model, as well as including certain salary related expenses in the measurement of the liability.

Implementation of this statement reduced the ending fiscal year 2024 net position, increased accrued compensated absences, and total operating expenses as reflected in the following schedule.

Ending fiscal year 2024 net position as previously reported	$ 47,466,903
Reduced by implementing GASB 101	704,552
Adjusted fiscal year 2024 ending net position	$ 46,762,351
Ending fiscal year 2024 accrued compensation and benefits as previously reported	$ 3,507,907
Increased by implementing GASB 101	704,552
Adjusted fiscal year 2024 ending accrued compensation and benefits	$ 4,212,459
Ending fiscal year 2024 operating expenses as previously reported	$ 78,060,723
Decreased by implementing GASB 101	(23,476)
Adjusted fiscal year 2024 ending operating expenses	$ 78,037,247

Note 7 – Net Patient Service Revenues

The majority of the Center's revenue is generated through agreements with third-party payors that provide for reimbursement to the Center at amounts different from established charges. Approximately 81% and 82% of the Center's gross patient revenues, for the years ended June 30, 2025 and 2024, respectively, were derived from the Medicare and Medicaid programs, the continuations of which are dependent upon governmental policies. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the 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 CMS reimburses the Center for outpatient services at a prospectively established rate using Ambulatory Payment Classifications (APCs). The basis for payment under APCs is 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 for acute inpatient. For outpatient services, charges are paid based on a fee schedule determined by CPT codes, a percentage of billed charges, or a per diem rate.

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.

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

	2025	2024
Charges at established rates	$ 89,268,266	$ 76,026,061
Settlements and other third-party payments	16,099,047	16,067,210
Contractual adjustments	(49,804,297)	(39,133,922)
Charity care	(2,772,774)	(1,751,437)
Provision for doubtful accounts	(348,474)	(451,651)
Net patient service revenues	$ 52,441,768	$ 50,756,261

Estimated third-party payor settlements – 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, 2025, services rendered to the Medicaid beneficiaries that were covered under the fee-for-service 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 2022 with open settlements to the Center's amounting to $222 thousand. 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. The annual cost reports are subject to audit by the Medicare intermediary. Cost reports through 2018, have been final settled for the Medicare program, with open fiscal years 2019 through 2025 amounting to a receivable of $14.6 million as of June 30, 2025.

Current year Medicare cost report settlement estimates, settlements of prior-year cost reports, and changes in prior-year estimates resulted in net increases to net patient service revenue of approximately $2.9 million and $2.6 million for the years ended June 30, 2025 and 2024, respectively.

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

Federal and state health care policy and budget cuts – The Center is subject to risks and uncertainties arising from potential changes in federal health care policy, grants, and budgetary adjustments affecting Medicare and Medicaid programs. Proposed and potential cuts to Medicaid could indirectly impact Medicare beneficiaries by straining state budgets. Cuts to Medicaid, including elimination of the enhanced federal match rate for expansion enrollees or the imposition of work requirements, could lead to significant coverage losses, particularly among low-income individuals, those with disabilities, or chronic conditions. States may respond to reduced federal funding by raising taxes or cutting other essential programs. Potential policy changes under consideration include reductions in the federal Medicaid matching rate, imposition of work requirements, more frequent eligibility redeterminations leading to disenrollments, implementation of per-capita caps on federal funding, and elimination of provider taxes used to offset Medicaid costs. If implemented, such changes could force states to reduce benefits, lower payments to providers, and increase financial pressures on state budgets, which may, in turn, adversely affect the Center's operations. However, the timing, likelihood, and specific impact of these policy changes remain uncertain.

Note 8 – Charity Care

The Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy.

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

	2025	2024
Charges foregone, based on established rates	$ 2,772,774	$ 1,751,437
Estimated costs and expenses incurred to provide charity care	2,660,362	1,781,438
Equivalent percentage of charity care charges foregone to total gross revenue	3%	2%

Note 9 – 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 $750 thousand set forth as follows: (a) $200 thousand for real property; (b) up to $300 thousand for past and future medical and medically related expenses; and (c) up to $400 thousand 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 thousand in the aggregate. Thus, if a claim presents both direct claims and third-party claims, the maximum exposure of the Public Liability Fund, and therefore, the Center, cannot exceed $1.05 million. The NMTCA prohibits the award of punitive or exemplary damages against the Center.

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 10 – Related-Party Transactions

UNM provides certain administrative and medical support services for the Center, and the Center provides the use of the Center's facilities and administrative services to UNM's teaching personnel. The Center reported liabilities to UNM entities in the amount of $1.6 million and $4.1 million as of June 30, 2025 and 2024, respectively. The Center's expenses for services rendered for the years ended June 30, 2025 and 2024, amounted to approximately $14.8 million and $14.5 million, respectively.

The Hospital also provides administrative services, which primarily include accounting functions such as payroll and accounts payable processing as well as cash management activities. In addition, the Hospital provides medical support services and goods for the Center including laboratory, radiology, and pharmaceuticals, which is reflected in the revenues/expenses of the Center. This activity is reflected net in due to/from affiliates.

Note 11 – Defined-Contribution Plans

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 6% or 8% of an employee's salary to the plan, depending on employment level. The plan was established by UNM Hospital 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 $1.7 million and $1.6 million in the years ended June 30, 2025 and 2024, respectively. Total employee contributions under this plan were $2.1 million and $1.8 million in the years ended June 30, 2025 and 2024, 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 UNM Hospital 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 years ended June 30, 2025 and 2024, as the Center does not contribute to this plan. Total employee contributions under this plan were $467 thousand and $377 thousand in the years ended June 30, 2025 and 2024, 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 based on management's recommendation that is approved by the board on an annual basis. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. All assets of the plan are held in a trust fund, are not considered hospital assets, and are under the direction of a Plan Administrator. The expense for the 401(a) defined-contribution plan was $16 thousand for the years ended June 30, 2025 and 2024.

Note 12 – Defined-Benefit Plan – Educational Retirement Board

Eight of the Center's full-time employees participate in an educational employee retirement system authorized under the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978).

Plan description – The New Mexico Educational Retirement Act (ERA) was enacted in 1957. The act created the Educational Employees Retirement Plan (Plan) and, to administer it, the New Mexico Educational Retirement Board (NMERB). The Plan is included in NMERB's annual comprehensive financial report. The report can be found on NMERB's website at https://www.erb.nm.gov/annual-reports.

The Plan is a cost-sharing, multiple-employer pension 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 state agencies providing educational programs. Additional tenets of the ERA can be found in Sections 22-11-1 through 22-11-52, NMSA 1978, as amended.

The Plan is a pension trust fund of the State of New Mexico. The ERA assigns the authority to establish and amend benefit provisions to a seven-member board of trustees; the state legislature has the authority to set or amend contribution rates and other terms of the Plan. NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico.

All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined in Section 22-11-2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

Benefits provided – The Plan provides retirement and disability benefits. Retirement benefits are determined by taking 2.35% 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 65 years of age and has 5 or more years of earned service credit; or the employee has service credit totaling 25 years or more. Employees hired on or after July 1, 2010 and before July 1, 2013 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 67 years of age and has 5 or more years of earned service credit; or the employee has service credit totaling 30 years or more. Employees hired on or after July 1, 2013 are eligible to retire when one of the following events occur: the employee is at least 55 and has earned 30 or more years of service credit; the employee's minimum age and earned service sum to 80 or more; or the employee is at least 67 years of age and has 5 or more years of earned service credit. 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.

Contributions – For the years ended June 30, 2025 and 2024, employers contributed 18.15% and 18.15% respectively, of employees' gross annual salary to the Plan. During years ended June 30, 2025 and 2024, participating employees earning more than $24 thousand contributed 10.7% and employees earning $24 thousand or less contributed 7.90%. The Center's cash contributions to the ERB for the years ended June 30, 2025 and 2024, were $102 thousand and $127 thousand, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2025 and 2024, the Center reported a liability of $1.4 million and $1.8 million, respectively, for its proportionate share of the net pension liability. The net **pension** liability was measured as of June 30, 2024, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2023, rolled forward to June 30, 2024. For the year ended June 30, 2025, the total pension liability was rolled forward from the valuation date to the plan year ended June 30, 2024, using generally accepted actuarial principles.

The roll-forward incorporates the impact of the new assumptions adopted by the board on April 17, 2020. 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 educational institutions, actuarially determined. The Center's proportion was 0.01568% and 0.02074% at June 30, 2025 and 2024, respectively.

For the years ended June 30, 2025 and 2024, the Center recognized pension benefit of $797 thousand and benefit of $1.3 million, respectively. The Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2025	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 112,417	$ 3,056
Net difference between projected and actual earning on pension plan investments	-	41,760
Changes in assumptions	-	36,129
Change in proportion and differences between Center contributions and proportionate share of contributions	2,605	646,121
Center contributions subsequent to the measurement date	102,206	-
	$ 217,228	$ 727,066

The $102 thousand reported as deferred outflows of resources relates to pensions resulting from Center contributions subsequent to the measurement date at year end June 30, 2025, will be recognized as a reduction of the net pension liability in the year ended June 30, 2026.

	June 30, 2024	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 51,042	$ 16,282
Net difference between projected and actual earning on pension plan investments	-	11,281
Changes in assumptions	-	267,232
Change in proportion and differences between Center contributions and proportionate share of contributions	972	871,225
Center contributions subsequent to the measurement date	127,512	-
	$ 179,526	$ 1,166,020

The $102 thousand reported as deferred outflows of resources relates to pensions resulting from Center contributions subsequent to the measurement date at year end June 30, 2025, will be recognized as a reduction of the net pension liability in the year ended June 30, 2026.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	
2026	$ (432,713)
2027	(129,211)
2028	(38,770)
Total	$ (600,694)

Actuarial assumptions – The total pension liability in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll
Remaining amortization method period	Amortized over a closed 30-year period from June 30, 2019, ending June 30, 2049.
Asset valuation method	5-year smoothed market
Inflation	2.3%
Salary increases	Composed of 2.3% inflation, plus 0.70% productivity increase rate, plus step rate promotional increases for members with less than 15 years of service.
Investment rate of return	7.0%
Retirement age	Experience based table of rates based on age and service. Adopted by NMERB on April 17, 2020 in conjunction with the six year experience study for the period ended June 30, 2019.
Mortality	*Healthy males* – 2020 GRS Southwest Region Teacher Mortality Table, set back one year and scaled at 95%. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2020.
	Healthy females – 2020 GRS Southwest Region Teacher Mortality Table, set back one year. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2020.
Other information	
Notes	A new set of assumptions was adopted for the June 30, 2024 actuarial valuation and will be first reflected with the ADEC determined for the fiscal year ending 2025.

Actuarial assumptions and methods are set by the Plan's board of trustees, based upon recommendations made by the Plan's actuary. The board adopted new assumptions on April 17, 2020 in conjunction with the six year actuarial experience study period ended June 30, 2019. At that time, the board adopted several economic assumption changes, including a decrease in the inflation assumption from 2.50% to 2.30%. The 0.20% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.25% to 7.00%, the assumed annual wage inflation rate from 3.25% to 3.00%. These new assumptions are reflected as changes in assumptions along with the change in the single discount rate between June 30, 2019 and 2020.

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.

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

Asset Class	Target Allocation	Estimated Rate of Return
Equities - domestic	19%	
Equities - international	9%	
Fixed income	24%	
Alternatives	47%	
Cash	1%	
Total	100%	7%

Discount rate – A single discount rate of 7.00% was used to measure the total pension liability as of June 30, 2024. This single discount rate was based on the expected long-term rate of return on pension plan investments of 7.00%.

Based on the stated assumptions and the projection of cash flows, the pension plan's fiduciary net position and future contributions were sufficient to finance all projected future benefit payments of current plan members. As a result, 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 change in the discount rate – The following table provides the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents the Plan's net pension liability, if it were calculated using a single discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the single discount rate:

	June 30, 2025		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Center's proportionate share of the net pension liability	$ 1,894,937	$ 1,378,597	$ 950,318

	June 30, 2024		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Center's proportionate share of the net pension liability	$ 2,448,010	$ 1,800,782	$ 1,266,096

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.erb.nm.gov.

Note 13 – Commitments and Contingencies

The Center is currently a party to various claims and legal proceedings. The Center makes provisions for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Center believes it has adequate provisions for potential liability in litigation matters. The Hospital reviews these provisions on a periodic basis and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular case.

Based on the information that is currently available to the Center, the Center believes that the ultimate outcome of litigation matters, individually and in aggregate, will not have a material adverse effect on its results of operations or financial position. However, litigation is inherently unpredictable.

The Center began the construction phase of a Children's Psychiatric Campus Replacement Hospital during the year ended June 30, 2025. The total budgeted cost of the project is $55.0 million to be funded by a $36.0 million state general obligation bond, a $4.0 million state severance tax bond, a $1.0 million 2024 opioid settlement, and $14.0 million internal capital funding by the Center. As of June 30, 2025, the total cost incurred on the project is $17.0 million with an estimated $38.0 million committed budget remaining.

Supplementary Information

University of New Mexico Behavioral Health Operations
Comparison of Budgeted and Actual Revenues and Expenses – Schedule 1
Year Ended June 30, 2025

	Budgeted (Original)	Budgeted (Final)	Actual	Budget Variance
Operating revenues				
Net patient service	$ 42,324,454	$ 53,415,450	$ 52,441,768	$ (973,682)
Other operating revenues	3,670,680	3,887,496	4,124,156	236,660
Total operating revenues	45,995,134	57,302,946	56,565,924	(737,022)
Operating expenses	79,886,295	89,487,666	85,952,536	(3,535,130)
Operating loss	(33,891,161)	(32,184,720)	(29,386,612)	2,798,108
Net nonoperating revenues	30,736,599	31,257,306	31,852,729	595,423
Increase (decrease) in net assets before capital funding	(3,154,562)	(927,415)	2,466,117	3,393,532
Capital funding	26,000,000	17,311,703	20,268,510	2,956,807
Increase in net position after capital funding	$ 22,845,438	$ 16,384,288	$ 22,734,627	$ 6,350,339

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.

Required Supplementary Information

University of New Mexico Behavioral Health Operations
Schedule of the Center’s Proportionate Share of the Net Pension Liability – Schedule 2
Last 10 Fiscal Years
Year Ended June 30, 2025

	Years Ended June 30,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Center’s proportion of the net pension liability	0.01568%	0.02074%	0.03105%	0.02482 %	0.02772 %	0.03429 %	0.03540 %	0.04201 %	0.04575 %	0.04516 %
Center’s proportionate share of the net pension liability	$ 1,378,597	$ 1,800,782	$ 2,614,967	$ 1,759,173	$ 5,576,562	$ 2,719,983	$ 4,659,990	$ 4,769,082	$ 3,292,670	$ 2,924,809
Center’s covered-employee payroll	$ 628,638	$ 725,504	$ 721,427	$ 845,250	$ 734,718	$ 852,958	$ 992,243	$ 1,059,835	$ 1,247,388	$ 1,138,359
Center’s proportionate share of the net pension liability as a percentage of its covered-employee payroll	219%	248%	362%	208%	759%	319%	470%	450%	264%	257%
Plan fiduciary net position as a percentage of the total pension liability	66.57%	65.19%	64.87%	69.77%	39.11%	64.13%	52.17%	52.95%	61.58%	63.97%

See accompanying report of independent auditors.

University of New Mexico Behavioral Health Operations
Schedule of Center Contributions – Schedule 3
Last 10 Fiscal Years
Year Ended June 30, 2025

	Years Ended June 30,									
	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contribution	$ 102,206	$ 127,512	$ 127,725	$ 118,364	$ 106,514	$ 128,737	$ 140,636	$ 150,089	$ 173,387	$ 169,077
Contributions in relation to the contractually required contribution	102,206	127,512	127,725	118,364	106,514	128,737	140,636	150,089	173,387	169,077
Contribution deficiency	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Center's covered-employee payroll	628,638	725,504	721,427	845,250	734,718	852,958	992,243	1,059,835	1,247,388	1,138,359
Contributions as a percentage of covered-employee payroll	16.26%	17.58%	17.70%	14.00%	14.50%	15.09%	14.17%	14.16%	13.90%	14.85%

See accompanying report of independent auditors.

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,
The University of New Mexico Hospital Board of Trustees,
and Mr. Joseph M. Maestas, PE, CFE
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), a division of the University of New Mexico, which comprise the statement of net position as of June 30, 2025, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated October 3, 2025.

Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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*.

We note a certain matter that is required to be reported per Section 12-6-5 NMSA 1978, that we have described in the accompanying schedule of findings and responses as item 2025-001.

The Center's Response to Finding

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

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.

Baker Tilly US, LLP

Albuquerque, New Mexico
October 3, 2025

Type of auditor report issued: Unmodified

Fiscal year 2025 findings and responses:

Material weakness: No matters to report

Significant deficiencies: No matters to report

Material noncompliance: No matters to report

Other Findings as Required by Section 12-6-5 NMSA 1978

2025-001 (2024-001) – User Access Review – Other Matter

Condition: In our testing of the controls over user access for Lawson and Cerner Millennium, we noted that although management performs a quarterly audit to ensure accounts for terminated employees are disabled, the audit does not include the review of roles and permissions for active users. The same deficiency was identified and reported in the prior year. Management has made progress in the design of processes and controls to address the deficiency, however they have not yet been implemented.

Additionally, for one sampled new hire, we also noted that the Lawson access provisioned for the user was not consistent with the access requested and approved.

The absence of a periodic user access review on the users and their roles and permissions may result in users gaining access privileges beyond those necessary to perform their assigned duties, thereby breaking down segregation of duties. Further, unauthorized access to financial data may result in the destruction of financial data or improper changes to financial data, including the recording of unauthorized or nonexistent transactions or inaccurate recording of transactions.

Criteria: The entity's systems process, record, and store information that is vital to the entity's daily operations, and certain systems contain protected health information of the entity's patients. It is critical that access to these systems is properly maintained to prevent inappropriate transactions from occurring, data from being lost, and protected health information from being released. Based on industry standards, a user access review should include a review over each user’s roles and permissions for appropriateness and segregation of duties conflicts.

Effect: A lack of precision over the review of users’ roles and permissions within a system may lead to 1) unauthorized access to data that might result in destruction of data or improper changes to data, including the recording of unauthorized or nonexistent transactions or inaccurate recording of transactions (particular risks might arise when multiple users access a common database), 2) the possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties, thereby breaking down segregation of duties, and 3) unauthorized changes to data in master files.

Cause: The user access review process is not adequately designed to include review of roles and permissions.

Recommendation: Management should design and implement a control over user access review of all users with access to systems impacting financial reporting. Best practices for user access reviews include the following:

- The review should be thoroughly documented and cover all users and their assigned permissions, the reviewer, the review date, and the overall conclusion regarding appropriateness of user access.

- Management at the department level with a thorough understanding of appropriate employee access requirements should conduct periodic reviews of their employees' user access and confirm that access permissions are aligned with each employee's assigned roles and responsibilities.

- Individuals performing a review should not assess their own access. Instead, another member of management with the authority and knowledge of the specific area should confirm the reviewers' assigned access.

- Actions taken to implement any noted changes must be documented. This can be achieved by confirming with the reviewer and providing evidence to support that the change was fully processed.

- Document any conflicting permissions identified from the review and identify mitigating controls that would address the segregation of duties risks or remove the conflicting permissions.

- Management should retain evidence demonstrating that the information used for these reviews is complete and accurate. This may include, where applicable, any queries, date/time stamps indicating when information was extracted from systems, and/or screenshots displaying total record counts for comparison to the extracts.

Management response:

Lawson – With regards to active employee access reviews, Information Technology Management (IT Executive Director Systems & Development) will work with the leadership of Human Resources, Finance, Purchasing, and Materials Management (departments with access above normal employee level access) on an annual basis to review the access provided to the respective departments' employees. Information Technology will provide Role access reports from the Infor Security module to these business departments to review and determine if the access for each employee is appropriate. Expected completion of initial annual departmental review process is March 31, 2026.

Further, Information Technology Management (IT Executive Director Systems & Development) currently downloads the Infor SOC 1 report on an annual basis, reviews the report, and sends this report to the Finance Controller for review. IT Executive Management and Finance Controller will define a formalized SOC report review process for Infor/Lawson. Expected completion of formalized SOC report review process is March 31, 2026.

With regards to inconsistent access given, Information Technology Management (IT Executive Director Systems & Development) will work with the leadership of Human Resources, Finance, Purchasing, and Materials Management to define user access templates based on department defined employee roles. Creating employee role templates will minimize deviations from standard role definitions. Expected completion of department user access templates is March 31, 2026.

Soarian – The current process for Cerner Soarian access is to review users on a quarterly basis. Due to the large number of users, reviewing all on a quarterly basis is not viable or an effective approach. User accounts for administrator, financially significant, or management-type groups will continue to be audited on a quarterly basis, as these accounts may result in more damage to the organization if compromised. The remaining users will be divided across the four quarterly audits during each year, ensuring that each user group is actively audited at least once per year.

The normal user-audit process is to have one person do the initial review and a second person cross-check the proposed actions. Due to staffing vacancies, the secondary review did not occur for the administrator level reviewer. Additional staff have been trained to allow for the cross-checks to occur in future user audits. System administrator access and access for users conducting the audits will be approved by their immediate supervisor.

Cerner – With regards to access review, Information Technology Management (IT Executive Director Clinical Informatics) will work with the Clinical Informatics Governance committees to review the access provided for specific roles within Oracle Health. The Clinical Informatics Governance committee will develop a process for account access reviews to address the audit observation. Expected completion of Clinical governance committee review process is March 31, 2026.
Further, Information Technology Management (IT Executive Director Clinical Informatics) will define a formalized SOC report review process for Oracle Health with the Clinical Informatics Governance committees. Expected completion of formalized SOC report review process is March 31, 2026.

2024-001 – User Access Review – Other Matter

Current status: Repeated and modified as finding 2025-001

An exit conference was conducted on September 23, 2025, with members of the Finance and Audit Committee of UNM Hospital Board of Trustees and members of the Hospital's management. During this meeting, the contents of this report were discussed.

University of New Mexico Behavioral Health Operations
Kate Becker, UNM Hospital Chief Executive Officer
Bonnie White, UNM Hospital Chief Financial Officer
Julie Knight, Executive Director of Finance, UNM Hospitals
Angela Vigil, Executive Director of Compliance, UNM Hospitals
Sara M. Frasch, UNM Hospital Chief Human Resources Officer
Victor Griego, UNM Internal Audit Director
Monica Zamora, UNM Hospital Board of Trustees Chair
Dr. Anjali Taneja, UNM Hospital Board of Trustees Member
Kurt Riley, UNM Hospital Board of Trustees Member
Paula Williams, Senior Executive Director Revenue Cycle
Rodney McNease, Senior Executive Director, Governmental Affairs and Behavioral Health Administration
Emily Luke, UNM HSC Associate University Counsel

Baker Tilly US, LLP
Josh Lewis, Partner
Lauren Kistin, Senior Manager