UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Financial Statements with Supplementary Information

June 30, 2021 and 2020

(With Independent Auditors’ Report Thereon)

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Fiscal Year 2021 Official Roster

Board of Trustees

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Fiscal Year 2021 Official Roster

Administrative Officers

Garnett S. Stokes	President, University of New Mexico
Douglas Ziedonis, 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

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Table of Contents

	Page
Independent Auditors’ Report	1
Management’s Discussion and Analysis	3
Financial Statements:	
Statements of Net Position	12
Statements of Revenues, Expenses, and Changes in Net Position	13
Statements of Cash Flows	14
Notes to Financial Statements	15
Supplementary Information:	
Schedule 1 – Comparison of Budgeted and Actual Revenues and Expenses	35
Required Supplementary Information:	
Schedule 2 – Schedule of the Center’s Proportionate Share of the Net Pension Liability	36
Schedule 3 – Schedule of Center Contributions	37
Independent Auditors’ Report 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*	38
Summary of Audit Results	40
Schedule of Findings and Responses	41
Summary of Prior Year Findings	43
Exit Conference	44

KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the University of New Mexico Behavioral Health Operations (the Center), a division of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of New Mexico Behavioral Health Operations (the Center) as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Center are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities that are

KPMG

attributable to the transactions of the Center. They do not purport to, and do not, present fairly the financial position of the University of New Mexico as of June 30, 2021 and 2020, the changes in its financial position or its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 to 11, the schedule of the Center's proportionate share of the net pension liability (Schedule 2), and the schedule of Center contributions (Schedule 3) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other 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 (Schedule 1) is presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedule 1 is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements, except for the information marked as unaudited. Such 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, Schedule 1 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 December 13, 2021 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 Center's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
December 13, 2021

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, 2021 and 2020. 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 and liabilities. 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 32 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 services, psychosocial rehabilitation, as well as community-based services. In addition, the Adult Center also provides 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 a 24-hour, seven-day a week basis.

Three Year Comparison of Financial Results

Condensed summary of net position

		June 30		
		2021	**2020**	**2019**
Assets:				
Current assets	$	17,108,186	13,874,233	13,596,556
Capital assets		10,178,095	9,960,414	10,283,326
Noncurrent assets		8,801,054	6,354,088	4,390,455
Total assets	$	36,087,335	30,188,735	28,270,337
Deferred outflows:				
Total deferred outflows of resources	$	2,577,244	516,875	1,114,551
Liabilities:				
Current liabilities	$	11,614,936	9,427,638	8,381,936
Noncurrent liabilities		5,576,562	2,719,983	4,659,990
Total liabilities	$	17,191,498	12,147,621	13,041,926
Deferred inflows:				
Total deferred inflows of resources	$	657,460	571,949	418,894
Net position:				
Net investment in capital assets	$	10,178,095	9,960,414	10,283,326
Restricted		312,299	321,048	225,627
Unrestricted		10,325,227	7,704,578	5,415,115
Total net position	$	20,815,621	17,986,040	15,924,068

(Continued)

At June 30, 2021, the Center's total assets were $36.1 million, compared to $30.2 million at June 30, 2020 and $28.3 million at June 30, 2019. Total current assets increased $3.2 million at June 30, 2021 compared to 2020. The Center's largest current asset is third-party payor settlements receivable in the amount of $12.2 million at June 30, 2021, compared to $9.8 million and $8.7 million at June 30, 2020 and 2019, 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 Medicare directed payments. The next largest asset is investment in capital assets in the amount of $10.2 million at June 30, 2021, $10.0 million at June 30, 2020, and $10.3 million at June 30, 2019. At June 30, 2021 and 2020, current assets exceeded current liabilities by $4.6 million and $4.4 million, respectively.

The Center's current liabilities increased by $2.2 million from June 30, 2020 to June 30, 2021, and increased by $1.0 million from June 30, 2019 to June 30, 2020. The most significant current liability, estimated third-party payor settlements increased by $778 thousand in fiscal year 2021 compared to fiscal year 2020 as a result of increased settlements due to payors and the timing of intergovernmental payments to the State of New Mexico. The increase in current liabilities in fiscal year 2020 compared to fiscal year 2019 was due to the timing of payments to UNM for clinician services.

The Center's noncurrent liabilities, which consist of the net pension liability, increased $2.9 million from June 30, 2020 to June 30, 2021 and decreased $1.9 million from June 30, 2019 to June 30, 2020. The increase in pension liability in 2021 was related to changes in investment performance and actuarial assumptions. The decrease in the pension liability in 2020 was related to plan changes and changes in actuarial assumptions.

Total net position increased by $2.8 million to $20.8 million at June 30, 2021, which reflects an operating loss of $21.7 million, offset by nonoperating net revenues of $24.6 million. At June 30, 2021, unrestricted net position totaled $10.3 million while total net position was $20.8 million.

Total net position increased by $2.1 million to $18.0 million at June 30, 2020, which reflects an operating loss of $22.4 million, offset by nonoperating net revenues of $24.4 million. At June 30, 2020, unrestricted net position totaled $7.7 million while total net position was $18.0 million.

Condensed summary of revenues, expenses and changes in net position

		Year ended June 30		
		2021	**2020**	**2019**
Total operating revenues	$	45,343,441	40,573,580	34,820,528
Total operating expenses		(67,079,870)	(62,927,609)	(59,612,963)
Operating loss		(21,736,429)	(22,354,029)	(24,792,435)
Nonoperating revenues and expenses and other revenues		24,566,010	24,416,001	22,530,130
Increase (decrease) in net position		2,829,581	2,061,972	(2,262,305)
Net position, beginning of year		17,986,040	15,924,068	18,186,373
Net position, end of year	$	20,815,621	17,986,040	15,924,068

(Continued)

Operating Revenues

The sources of operating revenues for the Center include net patient service, contracts and grants, and other operating (ancillary services) 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. Net patient service revenues were $42.2 million, $37.8 million, and $33.5 million for 2021, 2020, and 2019, respectively.

Net patient service revenues for 2021 of $42.2 million increased $4.4 million from $37.8 million in 2020, which represents a 12% increase. The primary factor that caused the increase in net patient service revenues was a $3.9 million increase in indirect and graduate medical education funds net of related IGTs.

Net patient service revenues for 2020 of $37.8 million increased $4.3 million from $33.5 million in 2019, which represents a 13% increase. In 2020, the primary factors that caused the increase in net patient service revenues were increased visits as part of a new home health service line and targeted reimbursement increase from payors as directed by the NM Department of Health.

Patient days are an important statistic for the Center and are presented below:

	Year ended June 30		
	2021	2020	2019
Inpatient days – Adult Psychiatric Center	13,661	14,094	14,496
Inpatient days – Children's Psychiatric Center	9,037	9,432	9,899
Total inpatient days	22,698	23,526	24,395
Discharges	2,125	2,395	2,533
Outpatient visits	198,029	192,680	164,934

For the year ended June 30, 2021, patient days decreased 828 over the prior year, while discharges declined by 270. Outpatient visits increased 5,349, or 2.8%, from 2020 to 2021.

For the year ended June 30, 2020, patient days decreased 869 over the prior year, while discharges declined by 138. Outpatient visits increased 27,746, or 17%, from 2019 to 2020. The primary drivers of the outpatient volume increases are growth in the Care link Health Home program. The year ended June 30, 2020 saw the first full year of the Care link Health Home program that was established for higher needs mental health patients.

(Continued)

The Center provides charity care to those individuals who meet certain criteria. Charges foregone, based on estimated rates and the related estimated costs and expenses incurred to provide charity care, for the year ended June 30, 2021 are $1.7 million and $1.5 million, respectively. For the year ended June 30, 2020, charges foregone were $2.5 million and estimated costs and expenses were $2.1 million.

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

As of June 30, 2021, 2020, and 2019, there were approximately 3,900, 5,900, and 7,300 active enrollees, respectively, in UNM Care. The income threshold for UNM Care is 300% of the Federal Poverty Level (FPL), and patients may apply for this program at various locations throughout the Center and various community locations. The Center does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments.

Operating Expenses

The operating expense mix for the Center for the years ended June 30, 2021 and 2020 is detailed below:

	2021	2020
Employee compensation	58 %	57 %
Benefits	15	12
Medical services	15	16
Occupancy	3	3
Medical supplies	2	2
Depreciation	2	2
Other supplies	1	2
Purchased services	1	3
Equipment	1	1
Gross receipts tax	1	1
Other	1	1

Operating expenses for 2021, including depreciation of $1.1 million, totaled $67.1 million. Overall, expenses increased $4.2 million compared with the prior year. Employee compensation increased $3.3 million (9.2%), employee benefits increased $2.6 million (35.2%), and purchased services decreased $1.4 million (63.4%). The increase in employee compensation is due to increased staffing costs associated with caring for patients and the need to use contract labor to supplement employed FTE labor. The increase in employee benefits is due to an increase in expense associated with the NM ERB retirement plan. The decrease in purchased services is a result of a Health System process improvement initiative that was completed in fiscal year 2020 and did not have recurring expense in fiscal year 2021.

Operating expenses for 2020, including depreciation of $1.3 million, totaled $62.9 million. Overall, expenses increased $3.3 million compared with the prior year. Employee compensation increased $2.4 million (7.3%) and purchased services increased $919,000 (76%). The increase in employee compensation is due to general wage increases of 2% effective July 1 of 2019 and targeted wage increases ranging from 1% to 3% effective September of 2019. The Center is part of an on-going Health System process improvement initiative that has resulted in the increased expenses in purchased services.

Nonoperating Revenues and Expenses

Revenue from the Bernalillo County mill levy was the most significant source of nonoperating revenue, totaling $16.8 million in 2021, $16.3 million in 2020, and $15.9 million in 2019. 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 Mental Health Center and associated behavioral health and substance abuse treatment services that are offered by the Hospital and the Center. During the fiscal years ended June 30, 2021, 2020 and 2019, 15% of the mill levy was allocated to the Center.

The state appropriation was the next most significant nonoperating revenue source totaling $7.4 million in 2021, $7.9 million in 2020, and $7.1 million in 2019. The state appropriation is provided to the Center to fulfill its mission to the state of New Mexico. In 1975, the Center was created by state statute under the authority of the state of New Mexico to supply what were deemed as necessary services to improve the mental health and well-being of New Mexico's children and adolescents through inpatient services at the Center, at school sites, and at patients' homes. The appropriation also funds the operation of the Mimbres School, a state-supported, on-site school.

Nonoperating revenue for fiscal years ended June 30, 2021 included $600 thousand in funding from the CARES Act to provide for increased costs associated with responding to the COVID-19 pandemic.

(Continued)

Capital Assets

At June 30, 2021, the Center had $27.2 million invested in capital assets, less accumulated depreciation of $17.1 million. Depreciation charges for the year totaled $1.1 million compared to $1.3 million and $1.2 million in 2020 and 2019, respectively.

		June 30		
		2021	**2020**	**2019**
Land and improvements	$	2,072,819	2,072,819	1,788,258
Building and improvements		13,474,902	14,491,522	14,200,511
Building service equipment		7,637,603	7,091,807	6,387,517
Major moveable equipment		1,210,465	1,230,569	1,260,300
Fixed equipment		710,273	710,273	584,151
Computer software		25,900	25,900	25,900
Construction in progress		2,097,790	1,386,822	1,841,581
		27,229,752	27,009,712	26,088,218
Less accumulated depreciation		(17,051,657)	(17,049,298)	(15,804,892)
Net property and equipment	$	10,178,095	9,960,414	10,283,326

During the year ended June 30, 2021, the Center's most significant increase to capital assets is within construction in progress. This increase is due to three major renovation projects in process at June 30, 2021. The expansion of the psychiatric emergency services unit, a significant boiler replacement project and the continued work on the emergency services triage center, which began in fiscal year 2020.

During the year ended June 30, 2020, the Center's most significant increase to capital assets is within construction in progress. The majority of this increase is related to one project for expansion of the emergency services space to include a triage center. This project is partially funded by NM State capital appropriation legislation, which set aside $428,000 in 2020 to partially fund this expansion.

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 $2.8 million in 2021 and a net increase of $2.1 million in 2020.

Factors Impacting Future Periods

On August 4, 2021, Centers for Medicare & Medicaid Services (CMS) released the Federal Fiscal Year (FFY) 2022 Inpatient Psychiatric Facilities (IPF) Prospective Payment System (PPS) Final Rule. The IPF PPS rates will reflect a market basket increase of 2.7% less the productivity reduction for FY 2022 is 0.7% for a final rate increase of 2% for FFY 2022. Teaching payments for FFY 2022 will increase 6.5% while ECT payments will increase 3.3%. FFY 2022 will be the second year of CMS's FFY 2021 adoption of a more recent version of the Office of Management and Budget core-based statistical area delineations, and the application of a two-year transition for all providers negatively impacted by wage index changes by more than 5%. The Center's wage index increased 1.4% from .8699 in FY 2021 to .8824 for FY 2022 so it is not impacted by the 5% cap. The overall impact of the IPF final rule is estimated to be a 2.4% or $83,400 net increase.

On August 4, 2021, CMS issued the proposed Calendar Year 2022 (CY) Outpatient Prospective Payment System (OPPS) rule. CMS proposes to raise the base OPPS Payment rate by 2.3%, which is a market basket increase of 2.5%, less a multi-factor productivity adjustment of 0.2%. CMS proposed continuation of Average Sales Price minus 22.5% for 340b Drugs. CMS also continues their site-neutral policy under ACA Section 603 of the Bipartisan Budget Act of 2015 for services furnished in off-campus provider-based departments (PBDs). These services are paid under the Medicare Physician Fee Schedule (MPFS), set at 40% of the amount paid under OPPS. The overall impact of the proposed OPPS rule on the Hospital's reimbursement is estimated to be a reduction of .83% or $5,700.

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 2016 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 2024 election.

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. Section IV. Term of this agreement provides for either party to the lease to reopen the terms and conditions by giving notices in the first three months of 2006, 2014, 2022, 2030 and 2038. On March 25, 2014, the County Commission approved Administrative Resolution AR 2014-21 to open negotiations with UNM on the lease agreement and to establish a taskforce to provide healthcare expertise to the County in support of the negotiations. The 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 (Reentry Center) at $2,060,000 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 Bernalillo County Re-entry Resource Center, under which the Center would establish within its budget at least $800,000 for this program. UNMH also increased funding to the Pathways program for $400,000 per year in addition to $860,000 in baseline funding. The Pathways funding of $1.26 million and the RRC funding of $800,000 fulfill the navigation and case management requirement to Bernalillo County.

UNM Psychiatric Center is also working on internal program expansion for Crisis services in collaboration with Bernalillo County to construct a Crisis Triage Center on the UNM campus adjacent to the UNM Psychiatric Center. Under an agreement completed with the County in March 2019 Bernalillo County agreed to contribute up to $20M in Capital to be matched by UNMH for construction of Crisis Triage Center. This document was amended to extend the timelines identified in the original document to account for delays due to COVID-19. In May 2021 the decision was made by UNMH to rebuild and expand the existing Psychiatric emergency services for adults and children as part of the Crisis Triage Center Complex. Capital Funding for Psychiatric Emergency Services will be provided through UNMH. The Crisis Center program plan will also include the incorporation of a Living Room model for patients presenting at the Center. All of these programs will be operated by the UNM Psychiatric Center as part of an expanded continuum of care. The Center has also assumed some clinical service delivery responsibilities at the Metropolitan Assessment and Treatment Center (MATS) operated by Bernalillo County. This includes the operation of a medical clearance program, medical service enhancement for detoxification services and planning for a Crisis Triage Center. These programs are part of the ongoing behavioral health systems development with Bernalillo County and are cost reimbursed by the county to the Center. UNMH and Bernalillo County also executed a new MOU in August 2021 to outline the next series of behavioral health program development with Bernalillo County offering to provide up to $10M in funding support related to these new programs as one-time support. The funding will be provided as programs are developed over the next several months.

The Center could potentially benefit from the new State-Directed Payments Program received by UNMH for calendar year 2021. This supplemental program was approved by CMS for inpatient and outpatient services of hospitals that guarantee access to Native Americans. This funding may provide an opportunity for new program development over time. At this point it is difficult to quantify the estimated impact.

The budget situation in New Mexico has proven to be extremely volatile over the last few years between the COVID-19 pandemic and the states large reliance on the oil and gas industry. Based on large amounts of federal stimulus provided over the last year and an increase in oil and gas prices driven by consumer demand as the national economy improves, the current budget situation in New Mexico is projected to be stable over the next FY with projections showing a significant budget surplus.

The Center will also see an increase in state appropriations in fiscal year 2022 of $60,900.

Contacting the Center's Financial Management

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

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Statements of Net Position

June 30, 2021 and 2020

Assets		**2021**	**2020**
Current assets:			
Cash	$	3,675	3,585
Receivables:			
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $8,471,000 in 2021 and $7,783,000 in 2020)		4,402,291	3,678,416
Contracts and grants		—	7,194
Estimated third-party payor settlements		12,203,560	9,754,203
Bernalillo County mill levy		334,956	281,009
Total net receivables		16,940,807	13,720,822
Inventories		132,752	107,138
Prepaid expenses		30,952	42,688
Total current assets		17,108,186	13,874,233
Noncurrent assets:			
Due from affiliates		8,801,054	6,354,088
Capital assets, net		10,178,095	9,960,414
Total noncurrent assets		18,979,149	16,314,502
Total assets	$	36,087,335	30,188,735
Deferred Outflows			
Total deferred outflows related to pensions	$	2,577,244	516,875
Liabilities			
Current liabilities:			
Accounts payable	$	875,685	698,638
Due to University of New Mexico		1,488,316	1,045,688
Accrued compensation and benefits		4,602,599	3,812,936
Estimated third-party payor settlements		4,648,336	3,870,376
Total current liabilities		11,614,936	9,427,638
Noncurrent liabilities:			
Net pension liability		5,576,562	2,719,983
Total noncurrent liabilities		5,576,562	2,719,983
Total liabilities	$	17,191,498	12,147,621
Deferred Inflows			
Total deferred inflows related to pensions	$	657,460	571,949
Net Position			
Net investment in capital assets	$	10,178,095	9,960,414
Restricted for expendable grants, bequests, and contributions		312,299	321,048
Unrestricted		10,325,227	7,704,578
Total net position	$	20,815,621	17,986,040

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2021 and 2020

	2021	2020
Operating revenues:		
Net patient service	$ 42,207,128	37,765,963
State and local contracts and grants	3,084,957	2,767,096
Other operating revenues	51,356	40,521
Total operating revenues	45,343,441	40,573,580
Operating expenses:		
Employee compensation	39,076,332	35,778,649
Benefits	9,929,401	7,343,692
Medical services	10,155,216	9,886,973
Occupancy	1,537,710	1,988,456
Medical supplies	1,468,179	1,305,285
Depreciation	1,143,818	1,345,485
Other supplies	891,693	971,496
Purchased services	781,071	2,131,542
Equipment	680,388	723,934
Gross receipts tax	660,971	728,158
Other	755,091	723,939
Total operating expenses	67,079,870	62,927,609
Operating loss	(21,736,429)	(22,354,029)
Nonoperating revenues (expenses):		
Bernalillo County mill levy	16,819,867	16,292,864
State general fund and other state fund appropriations	7,418,100	7,891,600
Cares Act Funding	600,000	—
Bequests and contributions	1,943	105,132
Other nonoperating expense	(273,900)	(297,513)
Net nonoperating revenue	24,566,010	23,992,083
Increase in net position before capital appropriations	2,829,581	1,638,054
Capital appropriations	—	423,918
Increase in net position after capital appropriations	2,829,581	2,061,972
Net position, beginning of year	17,986,040	15,924,068
Net position, end of year	$ 20,815,621	17,986,040

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Statements of Cash Flows

Years ended June 30, 2021 and 2020

		2021	2020
Cash flows from operating activities:			
Cash received from Medicaid and Medicare	$	28,256,301	26,637,263
Cash received from insurance and patients		11,555,555	10,525,132
Cash received from contracts and grants		3,092,151	2,961,071
Cash payments to employees		(38,032,702)	(34,328,743)
Cash payments to suppliers		(15,539,813)	(16,887,006)
Cash payments to University of New Mexico		(9,429,842)	(10,324,336)
Cash received from (payments to) affiliates		(2,446,966)	(1,963,633)
Cash payments to State of New Mexico for gross receipts tax		(660,971)	—
Other cash receipts		51,356	40,522
Net cash used in operating activities		(23,154,931)	(23,339,730)
Cash flows from noncapital financing activities:			
Cash received from Bernalillo County mill levy		16,765,920	16,239,366
Cash received from state general fund and other state fund appropriations		7,418,100	7,891,600
Cash received from Cares Act funding		600,000	—
Cash received from contributions for other-than-capital purposes		1,943	105,132
Cash payment for nonoperating sources		(273,900)	(297,513)
Net cash provided by noncapital financing activities		24,512,063	23,938,585
Cash flows from capital financing activities:			
Cash received from state capital appropriations		—	423,918
Purchases of capital assets		(1,357,042)	(1,022,573)
Net cash used in capital financing activity		(1,357,042)	(598,655)
Net increase in cash and cash equivalents		90	200
Cash beginning of year		3,585	3,385
Cash end of year	$	3,675	3,585
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(21,736,429)	(22,354,029)
Adjustments to reconcile operating loss to net cash (used in) operating activities:			
Depreciation expense		1,143,818	1,345,485
Provision for doubtful accounts		738,436	1,304,201
Change in assets, deferred outflows, liabilities, and deferred inflows:			
Patient receivables, net		(1,462,311)	(735,881)
Due from affiliates		(2,446,966)	(1,963,633)
Contracts and grants receivables		7,194	193,975
Estimated third-party payor settlements receivables		(2,449,357)	(1,103,170)
Other receivables		—	68,666
Prepaid expenses		11,736	18,602
Inventories		(25,614)	29,628
Due to University of New Mexico		442,628	646,434
Accounts payable and accrued expenses		962,253	467,986
Estimated third-party payor settlements liabilities		777,960	(68,718)
Deferred outflow of resources related to pensions		(2,060,369)	597,676
Deferred inflow of resources related to pensions		85,511	153,055
Net pension liability		2,856,579	(1,940,007)
Net cash used in operating activities	$	(23,154,931)	(23,339,730)

See accompanying notes to financial statements.

(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 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.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with generally accepted accounting principles for healthcare organizations, and are presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 38, *Certain Financial Statement Note Disclosure*; and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*.

The Center follows the business-type activities requirements of GASB Statement No. 34 and No. 63. This approach requires the following components of the Center's financial statements:

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

GASB Statement No. 34 and subsequent amendments, including GASB Statement No. 63 as discussed below, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following three net position categories:

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

(b) Recent Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after June 15, 2021. The Center is evaluating the impact the standard will have on its financial statements.

In May 2020, GASB issued Statement No. 96, *Subscription-based Information Technology Arrangements*. The objective of this statement is to provide uniform guidance for accounting and financial reporting for transactions that meet the definition of subscription-based information technology arrangements (SBITAs). This statement defines a SBITA, established that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Center is evaluating the impact the standard will have on its financial statements.

In June 2020, GASB issued Statement No. 97, *Certain component unit criteria, and accounting and financial reporting for internal revenue code section 457 deferred compensation plans – an amendment of GASB Statements No. 14 and 84 and a supersession of GASB Statement No. 32.* Among other things, this statement strives to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. The Center is evaluating the impact the standard will have on its financial statements.

(c) 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.

(d) Operating Revenues and Expenses

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

(e) 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.

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

(g) Cash

The Center holds petty cash amounts only as it does not have its own bank accounts. As noted in item (j), the Hospital receives all cash on behalf of, and pays all obligations for, the Center.

(h) Inventories

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

(i) Capital Assets

Capital assets are stated at cost on the date of acquisition or at estimated fair value on the date of donation. The Center's capitalization policy for assets includes all items with a unit cost of more than $5,000 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 2018 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 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 this 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.

(j) Due 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.

(Continued)

(k) 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.

(l) Net Patient Service Revenues

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

(m) 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.

(n) Bernalillo County Taxes

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

Bernalillo 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 $135,000 and $116,000 in aggregate, authorized by Bernalillo County, the City of Albuquerque, and the NM Hospital Equipment Loan Council, during the years ended June 30, 2021 and 2020, respectively, as a result of the exemptions and abatements granted.

(o) 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, 2021 and 2020 totaled $7,418,100 and $7,891,600, respectively. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Sub-Section J, Higher Education.

The funding for the state capital appropriation is included in the Capital Outlay Expenditures Act, which is approved by the House and Senate of the State Legislature and signed by the governor before going into effect. The funds appropriated for 2020 includes $424,000 to plan, design, construct, furnish and equip an adult psychiatric regional crisis triage center at the Center. There were no capital outlay funds appropriated in 2021.

(p) 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 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, 2021 and 2020, there was no income generated from unrelated activities.

(q) 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.

(r) 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 $1,028,000 and $0 in IGT obligations for fiscal years ended June 30, 2021 and 2020, respectively. Due to the nature of the MOUs to fund a portion of the nonfederal share to obtain federal matching funds for the Medicaid "Centennial Care," and since the Medicaid "Centennial Care" program is for the provision of patient care, IGTs are recorded as a reduction of net patient service.

(Continued)

(s) 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, 2021 and 2020, the estimated amount of the Center's IBNR and accrued claims was $485,221 and $450,053, respectively. The liability balance for the self-insurance plan is included in accrued payroll of the Hospital, which is reflected in the net due from affiliate account of the Center. The IBNR liability was based on an actuarial analysis calculated using information provided by BCBSNM. Changes in the reported liability were as follows:

		Beginning of fiscal year	Current year claims and changes in estimates	Claim payments	Balance at fiscal year-end
2020–2021	$	450,053	4,716,664	(4,681,496)	485,221
2019–2020		488,407	4,388,553	(4,426,907)	450,053

(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:

	2021		2020	
Medicaid	$ 6,118,306	48 %	$ 6,047,607	53 %
Patients and their insurance carriers	4,043,563	31	3,210,537	28
Medicare	2,711,356	21	2,203,434	19
Total patient accounts receivable	12,873,225	100 %	11,461,578	100 %
Less allowance for uncollectible accounts and contractual adjustments	(8,470,934)		(7,783,162)	
Patient accounts receivable, net	$ 4,402,291		$ 3,678,416	

(4) Capital Assets

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

	Year ended June 30, 2021				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Center capital assets not being depreciated:					
Land	$ 111,000	—	—	—	111,000
Construction in progress	1,386,822	1,232,380	(521,412)	—	2,097,790
	$ 1,497,822	1,232,380	(521,412)	—	2,208,790
Center depreciable capital assets:					
Land and land improvements	$ 1,961,819	—	—	—	1,961,819
Building and building improvements	14,491,522	—	—	(1,016,620)	13,474,902
Building service equipment	7,091,807	24,384	521,412	—	7,637,603
Major moveable equipment	1,230,569	100,278	8,491	(128,873)	1,210,465
Fixed equipment	710,273	—	—	—	710,273
Computer software	25,900	—	—	—	25,900
Total depreciable capital assets	25,511,890	124,662	529,903	(1,145,493)	25,020,962
Less accumulated depreciation for:					
Land improvements	(963,237)	(126,056)	—	—	(1,089,293)
Building and building improvements	(11,522,016)	(412,340)	—	1,016,620	(10,917,736)
Building service equipment	(3,202,641)	(451,546)	—	—	(3,654,187)
Major moveable equipment	(960,435)	(111,465)	(4,034)	128,873	(947,061)
Fixed equipment	(375,069)	(42,411)	—	—	(417,480)
Computer software	(25,900)	—	—	—	(25,900)
Total accumulated depreciation	(17,049,298)	(1,143,818)	(4,034)	1,145,493	(17,051,657)
Center depreciable capital assets, net	$ 8,462,592	(1,019,156)	525,869	—	7,969,305
Capital asset summary:					
Center capital assets not being depreciated	$ 1,497,822	1,232,380	(521,412)	—	2,208,790
Center depreciable capital assets, at cost	25,511,890	124,662	529,903	(1,145,493)	25,020,962
Center total cost of capital assets	27,009,712	1,357,042	8,491	(1,145,493)	27,229,752
Less accumulated depreciation	(17,049,298)	(1,143,818)	(4,034)	1,145,493	(17,051,657)
Center capital assets, net	$ 9,960,414	213,224	4,457	—	10,178,095

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Notes to Financial Statements

June 30, 2021 and 2020

	Year ended June 30, 2020				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Center capital assets not being depreciated:					
Land	$ 111,000	—	—	—	111,000
Construction in progress	1,841,581	951,225	(1,405,984)	—	1,386,822
	$ 1,952,581	951,225	(1,405,984)	—	1,497,822
Center depreciable capital assets:					
Land and land improvements	$ 1,677,258	—	284,561	—	1,961,819
Building and building improvements	14,200,511	—	291,011	—	14,491,522
Building service equipment	6,387,517	—	704,290	—	7,091,807
Major moveable equipment	1,260,300	71,348	—	(101,079)	1,230,569
Fixed equipment	584,151	—	126,122	—	710,273
Computer software	25,900	—	—	—	25,900
Total depreciable capital assets	24,135,637	71,348	1,405,984	(101,079)	25,511,890
Less accumulated depreciation for:					
Land improvements	(829,290)	(133,947)	—	—	(963,237)
Building and building improvements	(11,044,534)	(477,482)	—	—	(11,522,016)
Building service equipment	(2,654,652)	(547,989)	—	—	(3,202,641)
Major moveable equipment	(927,138)	(134,376)	—	101,079	(960,435)
Fixed equipment	(323,378)	(51,691)	—	—	(375,069)
Computer software	(25,900)	—	—	—	(25,900)
Total accumulated depreciation	(15,804,892)	(1,345,485)	—	101,079	(17,049,298)
Center depreciable capital assets, net	$ 8,330,745	(1,274,137)	1,405,984	—	8,462,592
Capital asset summary:					
Center capital assets not being depreciated	$ 1,952,581	951,225	(1,405,984)	—	1,497,822
Center depreciable capital assets, at cost	24,135,637	71,348	1,405,984	(101,079)	25,511,890
Center total cost of capital assets	26,088,218	1,022,573	—	(101,079)	27,009,712
Less accumulated depreciation	(15,804,892)	(1,345,485)	—	101,079	(17,049,298)
Center capital assets, net	$ 10,283,326	(322,912)	—	—	9,960,414

(5) Compensated Absences

Qualified Center employees are entitled to accrue sick leave and annual leave based on their full time equivalent (FTE) status.

(a) Sick Leave

Full-time employees accrue four hours of sick leave each two-week pay period (13 days per annum) up to a maximum of 1,040 hours to be used for major and minor sick leave. Seven of these days are accumulated into a minor sick leave bank. Part-time employees who are at least 0.5 FTE earn sick leave on a prorated basis each pay period. At June 30 of each year, employees have the opportunity to exchange 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 a 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 as of June 30, 2021 and 2020 approximates $745,000 and $351,000, respectively, is computed by multiplying each employee's current hourly rate by the number of hours accrued.

Major and minor sick leave balances earned by the consolidated employees (personnel employed by UNM prior to July 2000 and employed by the Center thereafter) under the UNM plan were transferred to the Center. Under the UNM plan, only employees hired prior to July 1, 1984 were eligible to accrue major sick leave. Eligible employees accrued sick leave each pay period at an hourly rate, which was based on their date of hire and employment status.

The excess minor sick leave hours carried over from UNM were converted to cash in December 2000, at a rate equal to 50% of the employee's hourly wage, multiplied by the number of hours converted. Upon retirement, all minor sick leave hours in excess of 600 are paid at a rate equal to 50% of the employee's hourly wage multiplied by the number of hours in excess of 600 unused minor sick leave hours based on FTE status, not to exceed 440 hours of such sick leave.

Immediately upon retirement or death, a consolidated employee is entitled to receive cash payment for unused major sick leave hours in excess of 1,040 at a rate equal to 28.5% of the employee's hourly wage multiplied by the number of hours in excess of 1,040 major sick leave hours based on FTE status. Partial hours are rounded to the nearest full hour.

(b) Annual Leave

Full-time employees accrue annual leave based on their length of employment up to a maximum of 480 hours. Part-time employees who are at least 0.5 FTE earn annual leave on a prorata basis each pay period. At June 30 of each year, employees have the opportunity to exchange, for cash, up to 80 annual leave hours accumulated in excess of 240 hours. At termination, employees are eligible for payment of unused accumulated hours, not to exceed 480 hours. Accrued annual leave as of June 30, 2021 and 2020 approximates $1,689,000 and $1,558,000, respectively. This amount is computed by multiplying each employee's current hourly rate by the number of hours accrued.

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

(Continued)

Accrued compensated absences are included in “accrued compensation and benefits” in the accompanying financial statements. This balance also includes compensatory time (accrued time) and holiday, totaling approximately $42,000 and $39,000 in fiscal years 2021 and 2020, respectively. The portion of accrued compensated absences due after one year is not material and, therefore, is not presented separately. During the years ended June 30, 2021 and 2020, the following changes occurred in accrued compensated absences:

	Balance July 1, 2020	Increase	Decrease	Balance June 30, 2021
$	1,947,427	2,962,908	(2,433,968)	2,476,367

	Balance July 1, 2019	Increase	Decrease	Balance June 30, 2020
$	1,737,749	2,380,967	(2,171,289)	1,947,427

(6) Net Patient Service Revenues

The majority of the Center’s revenue is generated through agreements with third-party payors that provide for reimbursement to the Center at amounts different from billed charges. Approximately 84% and 83% of the Center’s gross patient revenues, for the fiscal years ended 2021 and 2020, respectively, were derived from the Medicare and Medicaid programs, the continuations of which are dependent upon governmental policies. With the implementation of Medicare Part C, the Center experienced a decline in Medicare Fee for Service (FFS) revenues with an associated increase in Managed Medicare revenues as patients elected coverage under a Medicare HMO. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded revenue estimates could change as a result of regulatory review. Contractual adjustments under third-party reimbursement programs represent the difference between the Center’s billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement from major third-party payors follows:

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

Medicaid – The Center has reimbursement agreements with certain healthcare contractors that have contracted to provide services to Medicaid beneficiaries enrolled under the State of New Mexico (managed care) program. The basis for reimbursement under these agreements is a per diem rate for acute inpatient. For outpatient services, charges are paid based on a fee schedule determined by CPT codes, or a percentage of billed charges.

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:

		2021	2020
Charges at established rates	$	76,597,061	76,058,816
Charity care		(1,692,638)	(2,509,427)
Contractual adjustments		(31,958,859)	(34,479,224)
Provision for doubtful accounts		(738,436)	(1,304,202)
Net patient service revenues	$	42,207,128	37,765,963

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, 2021, services rendered to the Medicaid beneficiaries that were covered under the FFS program were paid under a cost-reimbursement methodology subject to a cost-per-discharge limitation. The Center was reimbursed at tentative rates throughout the year with final settlement determined after submission of the annual cost report and audit thereof by the Medicaid audit agent. Medicaid cost reports have been final settled for all fiscal years through 2019 with open settlements to the Centers amounting to $371,000. 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 2012, excluding fiscal year 2005, have been final settled for the Medicare program, with open fiscal years 2005 and 2013 to 2021 amounting to a receivable of $9,690,000.

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 $1,456,000 and $1,074,000 for the years ended June 30, 2021 and 2020, 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.

(7) Charity Care

The Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the years ended June 30:

		2021	2020
Charges foregone, based on established rates	$	1,692,638	2,509,427
Estimated costs and expenses incurred to provide charity care		1,482,329	2,050,804
Equivalent percentage of charity care charges foregone to total gross revenue		2 %	3 %

(8) Malpractice Insurance

As a part of UNM, the Center enjoys 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 $750,000 set forth as follows: (a) $200,000 for real property; (b) up to $300,000 for past and future medical and medically related expenses; and (c) up to $400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. While the language of the NMTCA does not expressly provide for third-party claims such as loss of consortium, the New Mexico appellate court decisions have allowed claimants to seek loss of consortium. As a result, if loss of consortium claims are presented, those claims cannot exceed $350,000 in the aggregate. Thus, 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 $1,050,000. 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.

(9) Related-Party Transactions

UNM provides certain administrative and medical support services for the Center, and the Center provides the use of the Center's facilities and administrative services to UNM's teaching personnel. The Center reported liabilities to UNM in the amount of $1,488,316 and $1,045,688 as of June 30, 2021 and 2020, respectively. The Center's expenses for services rendered during the years ended June 30, 2021 and 2020 amounted to approximately $11,918,000 and $9,520,000, respectively.

(Continued)

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.

(10) 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 the Board of Trustees and can be amended at its discretion. The plan is administered by UNM Hospitals Human Resources Department.

The expense for the defined-contribution plan was $1,441,000 and $1,277,000, for the fiscal years ended June 30, 2021 and 2020, respectively. Total employee contributions under this plan were $1,644,000 and $1,385,000 in fiscal years 2021 and 2020, respectively.

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

There was no expense for the deferred compensation plan in fiscal years 2021 and 2020, respectively, as the Center does not contribute to this plan. Total employee contributions under this plan were $320,000 and $150,000 in fiscal years 2021 and 2020, 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 UNMH Board of Trustees and can be amended at its discretion. All assets of the plan are held in a trust fund, are not considered hospital assets, and are under the direction of a Plan Administrator.

The expense for the 401(a) defined-contribution plan was $15,000 and $14,000 in fiscal years 2021 and 2020, respectively.

(Continued)

(11) Defined-Benefit Plan – Educational Retirement Board

Eleven 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).

(a) 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 comprehensive annual financial report. The report can be found on NMERB's website at https://www.nmerb.org/Annual_reports.html.

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.

(b) 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.

(Continued)

(c) Contributions

For the fiscal years ended June 30, 2021 and 2020, employers contributed 14.15% of employees' gross annual salary to the Plan. During fiscal years ended June 30, 2021 and 2020, participating employees earning more than $24,000 contributed 10.7% and employees earning $24,000 or less contributed 7.9%. The Center's cash contributions to the ERB for fiscal years ended June 30, 2021 and 2020 were approximately $107,000 and $131,000, respectively.

(d) Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2021 and 2020, the Center reported a liability of $5,577,000 and $2,720,000, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019, rolled forward to June 30, 2020. For the fiscal year ended 2021, the total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2020 using generally accepted actuarial principles.

The roll-forward incorporates the impact of the new assumptions adopted by the Board on April 21, 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 0.02772% and 0.03432% at June 30, 2021 and June 30, 2020, respectively.

For fiscal years 2021 and 2020, the Center recognized pension expense of $988,000 and benefit of $(1,061,000), respectively. The Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2021	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 34,874	21,662
Net difference between projected and actual earning on pension plan investments	190,755	—
Changes in assumptions	2,251,062	—
Changes in proportion and differences between Center contributions and proportionate share of contributions	(5,961)	635,798
Center contributions subsequent to the measurement date	106,514	—
	$ 2,577,244	657,460

The $106,514 reported as deferred outflows of resources relates to pensions resulting from Center contributions subsequent to the measurement date at year-end June 30, 2021, will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

		June 30, 2020	
		Deferred outflows of resources	**Deferred inflows of resources**
Differences between expected and actual experience	$	—	68,104
Net difference between projected and actual earning on pension plan investments		—	55,340
Changes in assumptions		366,139	—
Changes in proportion and differences between Center contributions and proportionate share of contributions		21,999	448,505
Center contributions subsequent to the measurement date		128,737	—
	$	516,875	571,949

The $128,737 reported as deferred outflows of resources relates to pensions resulting from Center contributions subsequent to the measurement date at year-end June 30, 2020 was recognized as a reduction of the net pension liability in the year ended June 30, 2021.

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

Year ended June 30:		
2022	$	632,227
2023		740,727
2024		377,389
2025		62,927
	$	1,813,270

(e) Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
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 10 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 21, 2020 in conjunction with the six year experience study for the period ended June 30, 2019.
Mortality	Healthy Males – RP-2000 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 – 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.

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 21, 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 7.0%, 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	17 %	
Equities – International	14	
Fixed income	24	
Alternatives	44	
Cash	1	
	100 %	7.00 %

(f) Discount Rate

A single discount rate of 3.89% was used to measure the total pension liability as of June 30, 2020. This single discount rate was based on the expected long-term rate of return on pension plan investments of 7.00% and a municipal bond rate of 2.45%. The source of the municipal bond rate as of June 30, 2020 is the rate for Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index".

Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2046. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2046 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

(g) 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 (2.89%) or one percentage point higher (4.89%) than the single discount rate:

	June 30, 2021		
	1% Decrease (2.89%)	Discount rate (3.89%)	1% Increase (4.89%)
Center's proportionate share of the net pension liability	$ 7,042,592	5,576,562	4,397,047

(h) Pension Plan Fiduciary Net Position

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

(12) Commitments and Contingencies

(a) Lease Commitments

The Center has operating leases, primarily for office space. Rental expenses under operating leases amounted to approximately $405,000 and $399,000 in 2021 and 2020, respectively.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2021 under noncancelable operating leases and memorandums of understanding are as follows:

		Amount
Years ending June 30:		
2022	$	194,232
2023		109,213
2024		107,084
2025		109,226
2026		111,411
2027–2031		104,169
	$	735,335

(b) 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 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.

UNM Health was subject to a network intrusion that occurred on April 2, 2021 and was initially detected by the organization on April 30, 2021. The organization responded quickly to contain the incident. On June 4, 2021, further investigation determined that certain systems containing patient information were accessed by an unauthorized party on May 2, 2021. UNM Health notified all affected patients and the Office for Civil Rights pursuant to HIPAA, as well as the Governor and Attorney General of New Mexico.

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.

Schedule 1

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Comparison of Budgeted and Actual Revenues and Expenses

Years ended June 30, 2021 and 2020

		Budgeted (original)	Budgeted (final)	Actual	Budget variance
Operating revenues:					
Net patient service	$	41,258,247	35,445,133	42,207,128	6,761,995
Other operating revenues		3,063,859	3,097,480	3,136,313	38,833
Total operating revenues		44,322,106	38,542,613	45,343,441	6,800,828
Operating expenses		(67,657,586)	(65,311,131)	(67,079,870)	(1,768,739)
Operating loss		(23,335,480)	(26,768,518)	(21,736,429)	5,032,089
Nonoperating revenues		23,455,266	24,245,796	24,566,010	320,214
Decrease in net assets	$	119,786	(2,522,722)	2,829,581	5,352,303

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.

See accompanying independent auditors' report.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Schedule of the Center's Proportionate Share of the Net Pension Liability

Last 10 Fiscal Years

The schedule of proportionate share of net pension liability and the schedule of employer contributions present multiyear trend information for the last 10 fiscal years. Fiscal year 2015 was the year of implementation, therefore, only seven years are shown. Until a full 10-year trend is compiled, information for those years for which information is available will be presented.

	Years ended June 30						
	2021	2020	2019	2018	2017	2016	2015
Center's proportion of the net pension liability	0.02772 %	0.03429 %	0.03540 %	0.04201 %	0.04575 %	0.04516 %	0.05368 %
Center's proportionate share of the net pension liability	$ 5,576,562	2,719,983	4,659,990	4,769,082	3,292,670	2,924,809	3,062,832
Center's covered-employee payroll	852,958	992,243	1,059,835	1,247,388	1,138,359	1,232,846	1,479,662
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	654 %	274 %	440 %	382 %	289 %	237 %	207 %
Plan fiduciary net position as a percentage of the total pension liability	39.11 %	64.13 %	52.17 %	52.95 %	61.58 %	63.97 %	66.54 %

See accompanying independent auditors' report.

Schedule 3

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Schedule of Center Contributions

Last 10 Fiscal Years

The schedule of proportionate share of net pension liability and the schedule of employer contributions present multiyear trend information for the last 10 fiscal years. Fiscal year 2015 was the year of implementation, therefore, only seven years are shown. Until a full 10-year trend is compiled, information for those years for which information is available will be presented.

	Years ended June 30						
	2021	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**
Contractually required contribution	$ 106,514	128,737	140,636	150,089	173,387	169,077	203,627
Contributions in relation to the contractually required contribution	106,514	128,737	140,636	150,089	173,387	169,077	178,415
Contribution deficiency	$ —	—	—	—	—	—	25,212
Center's covered-employee payroll	$ 734,718	852,958	992,243	1,059,835	1,247,388	1,138,359	1,232,846
Contributions as a percentage of covered-employee payroll	14.50 %	15.09 %	14.17 %	14.16 %	13.90 %	14.85 %	14.47 %

See accompanying independent auditors' report.

KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Brian Colón, 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, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, organized as the University of New Mexico Behavioral Health Operations, which comprise the statement of net position as of June 30, 2021, 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, and have issued our report thereon dated December 13, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Center’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Center’s internal control. Accordingly, we do not express an opinion on the effectiveness of 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

KPMG

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We note certain matters that are required to be reported per Section 12-6-5 NMSA 1978, that we have described in the accompanying schedule of findings and responses as item 2021-001.

The Center's Response to the Finding

The Center's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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 Center'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 Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
December 13, 2021

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Summary of Audit Results

Fiscal year ended June 30, 2021

Type of auditor report issued: Unmodified

Fiscal year 2021 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

2021-001 (2020-001, 2019-002, 2018-003, 2017-001) User Access Review – Other Matter

Condition

In our testwork related to controls over user access reviews, we noted in the one sampled quarter for the Soarian and Lawson systems that lookback procedures or impact assessments were not completed after the user access reviews for the individuals identified for access change (termination, user change, etc.), to determine whether the user(s) performed any inappropriate activity from the time the applicable change noted/ requested to the time they were removed from the application.

In prior years we identified certain controls over user access reviews were not operating effectively. Management has continued to update processes and procedures to address the specific deficiencies identified in prior years. The root cause of prior year deficiencies related to departmental leadership training of account disable requirements and the employee termination checklist when employees leave the organization, as well as the training of application administration personnel on accurate documentation and timely completion of disabling accounts.

Management has implemented the following changes over the past several years to address the control deficiencies: updated documented procedures for the Cerner account audits and increased the audit sample sizes; developed more specific training for IT analysts; utilized a nightly safety net report from the HR department to identify employee records that were terminated; and emphasized IT and HR collaborations on the termination processes and procedures. In addition, in fiscal year 2021 a monthly distribution of a termination listing to application owners was implemented and this new procedure is in the review stage.

Management is still in process of refining the policy, process and procedures for lookback or impact assessments. Subsequent to the 2021 audit period, instructions have been communicated to the application analysts for the Soarian and Lawson systems to include account last login dates to support the lookback requirements during quarterly audits for all exceptions identified.

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 its patients. It is critical that access to these systems is properly maintained to prevent inappropriate transactions from occurring, data from being lost, and to prevent protected health information from being released. The entity has a formal policy to periodically review user access to ensure active employees have the proper level of access in the applicable systems, and that terminated employees have been timely deactivated. Based on industry standards, the appropriate disabling of access within IT systems would occur within a reasonable time, three business days from terminations per the organization's policy.

(Continued)

Effect

There is an increased risk that a terminated or unauthorized employee has continued access to IT systems and the data contained therein subsequent to termination or change of employment terms or responsibilities, potentially resulting in a breach of data or protected health information.

Cause

The controls related to the removal of terminated users and the user access review process was not operating effectively, and aspects of its performance could not be evidenced through documentation retained.

Recommendation

We recommend that the entity develop lookback procedures to ensure no inappropriate activity has occurred due to access changes. Management should continue to enhance its review of user access, which should occur periodically during the year.

A departmental manager or individual responsible for the functional data should perform the user access review. Evidence of the performance of the review, including remedial action taken, should be maintained.

Management Response

User Access Reviews will continue to be performed by the Soarian and Lawson teams. For accounts identified as active after the employee termination date, the last login date for the Soarian account audit and the last login for the Lawson HSCNetID AD account will be documented. These documented dates will be the look back documentation.

The Chief Information Officer and the Chief Financial Officer will be responsible for the corrective action plan with a completion date of March 31, 2022.

Finding 2020-001 User Access Review – Other Matter (finding that does not rise to the level of significant deficiency)

Current Status – *Repeat and Modified (see Finding 2021-001)*

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Exit Conference

Year ended June 30, 2021

An exit conference was conducted on October 8, 2021 with a member of the Finance and Audit Committee of the Board of Trustees and a member of the Center's management. During this meeting, the contents of this report were discussed.

University of New Mexico Behavioral Health Operations

Terry Horn, Compliance and Audit Committee Chair

Del Archuleta, Compliance and Audit Committee Member

Tamra Mason, Compliance and Audit Committee Member

Kurt Riley, Compliance and Audit Committee Member

Kate Becker, CEO UNM Hospitals

Julie Alliman, Executive Director of Finance, UNM Hospitals

Angela Vigil, Executive Director of Compliance, UNM Hospitals

Scot Sauder, In House Council, UNM HSC

Ava Lovell, Senior Executive Officer for Finance and Administration, UNM HSC

Ajay Gupta, Partner, Clifton Larson Allen

Dave Strzyzewski, Senior Manager, Clifton Larson Allen

KPMG

John Kennedy, Partner

Jaime Cavin, Managing Director