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UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Financial Statements with Supplementary Information

June 30, 2018 and 2017

(With Independent Auditors’ Report Thereon)

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Fiscal Year 2018 Official Roster

Board of Trustees

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Fiscal Year 2018 Official Roster

Administrative Officers

Chaouki T. Abdallah	President (Interim) – University of New Mexico
Paul Roth, M.D.	Chancellor – UNM Health Sciences Center Dean, School of Medicine – UNM Health Sciences Center
Michael Chicarelli	Chief Executive Officer (Interim) – UNM Hospitals
Ella Watt	Chief Financial Officer – UNM Hospitals

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

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KPMG LLP
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Independent Auditors' Report

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Wayne Johnson, 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, 2018 and 2017, 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 Center as of June 30, 2018 and 2017, 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 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, 2018 and 2017, 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 4–12, the schedule of the Center's proportionate share of the net pension liability (Schedule 4), and the schedule of Center contributions (Schedule 5) 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), indigent care cost and funding report (Schedule 2), and calculations of cost of providing indigent care (Schedule 3) (Schedules 1-3) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1-3 are 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, except for the information marked as unaudited, 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, Schedules 1-3 are fairly stated, in all material respects, in relation to the basic financial statements as a whole, except for the information marked as unaudited.

The information that is marked as unaudited in Schedules 2 and 3 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2018 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 11, 2018

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, 2018 and 2017. 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) is one indicator of the improvement or erosion of the Center's financial health when considered with nonfinancial facts such as patient statistics and the condition of facilities. This statement includes all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting method used by 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 multi-systemic 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.

Financial Summary

Condensed summary of net position

		June 30		
		2018	**2017**	**2016**
Assets:				
Current assets	$	11,408,421	9,252,245	9,842,421
Capital assets		9,323,754	9,740,490	8,950,998
Noncurrent assets		10,954,195	8,962,465	10,464,633
Total assets	$	31,686,370	27,955,200	29,258,052
Deferred outflows:				
Total deferred outflows of resources	$	1,521,082	255,178	269,677
Liabilities:				
Current liabilities	$	9,839,479	11,156,004	10,145,250
Noncurrent liabilities		4,769,082	3,292,670	2,924,809
Total liabilities	$	14,608,561	14,448,674	13,070,059
Deferred inflows:				
Total deferred inflows of resources	$	412,518	369,145	906,541
Net position:				
Net investment in capital assets	$	9,323,754	9,740,490	8,950,998
Restricted		225,477	196,127	186,478
Unrestricted		8,637,142	3,455,942	6,413,653
Total net position	$	18,186,373	13,392,559	15,551,129

At June 30, 2018, the Center's total assets were $31.7 million, compared to $28.0 million at June 30, 2017 and $29.3 million at June 30, 2016. The Center's largest asset is related-party receivables due from affiliates in the amount of $11.0 million at June 30, 2018, compared to $9.0 million and $10.5 million at June 30, 2017 and 2016, respectively. The University of New Mexico Hospital (the Hospital) manages all cash receipts and disbursements on behalf of the Center. The noncurrent asset represents the related-party receivable between

(Continued)

the Hospital and the Center for the intercompany cash transactions. The next largest asset is investment in capital assets in the amount of $9.3 million at June 30, 2018, $9.7 million at June 30, 2017, and $9.0 million at June 30, 2016. At June 30, 2018 current assets exceeded current liabilities by $1.6 million and in 2017, current liabilities exceeded current assets by $1.9 million. The Center's current assets were sufficient to cover current liabilities at June 30, 2016.

The Center's current liabilities decreased by $1.3 million from June 30, 2017 to June 30, 2018, and increased by $1.0 million from June 30, 2016 to June 30, 2017. The decrease in 2018 is due to the amounts paid in 2018 for a large capital roofing replacement and the settlement of a liability related to laboratory claims during the fiscal year. The increase during 2017 was primarily the result of accruals associated with the roofing replacement construction project as well as a liability for overpayment of Medicare laboratory claims associated with an incorrect CPT code.

The Center's noncurrent liabilities increased by $1.5 million from June 30, 2017 to June 30, 2018, and increased by $370,000 from June 30, 2016 to June 30, 2017. The increases are attributable to the net pension liability. Total net position increased by $4.8 million to $18.2 million at June 30, 2018, which reflects an operating loss of $16.8 million, offset by nonoperating net revenues of $21.6 million. At June 30 2018, unrestricted net position totaled $8.6 million while total net position was $18.2 million.

Total net position decreased by $2.2 million to $13.4 million at June 30, 2017, which reflects an operating loss of $23.2 million, offset by nonoperating net revenues of $21.0 million. At June 30 2017, unrestricted net position totaled $3.5 million while total net position was $13.4 million.

Condensed summary of revenues, expenses, and changes in net position

	Year ended June 30		
	2018	**2017**	**2016**
Total operating revenues	$ 38,316,701	30,329,481	25,905,626
Total operating expenses	(55,136,046)	(53,485,843)	(52,012,800)
Operating loss	(16,819,345)	(23,156,362)	(26,107,174)
Nonoperating revenues and expenses and other revenues	21,613,159	20,997,792	21,313,161
(Decrease) increase in net position, before special item	4,793,814	(2,158,570)	(4,794,013)
Special Item (gain on reversal of OPEB Liability)	—	—	616,219
(Decrease) increase in net position	4,793,814	(2,158,570)	(4,177,794)
Net position, beginning of year	13,392,559	15,551,129	19,728,923
Net position, end of year	$ 18,186,373	13,392,559	15,551,129

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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. Operating revenues were $38.3 million, $30.3 million, and $25.9 million for the years ended June 30, 2018, 2017, and 2016, respectively.

Net patient service revenue comprises gross patient service revenue net of contractual allowances, charity care, provision for doubtful accounts, and any third-party settlements. Net patient service revenues were $37.1 million, $29.0 million, and $24.7 million for 2018, 2017, and 2016, respectively.

Net patient service revenues for 2018 of $37.1 million increased $8 million from $29.0 million in 2017, which represents a 28% increase. In 2018, the primary factors that caused the increase in net patient service revenue were an increase in inpatient days of 508 and an increase in outpatient visits of 10,303 (6.65%). Additionally, several process changes were implemented within the revenue cycle that resulted in improved collections and an increase to net patient service revenues. Net patient service revenues for 2017 of $29.0 million increased $4.3 million from $24.7 million in 2016, which represents a 17.5% increase. In 2017, the primary factors that caused the increase in net patient service revenue were an increase in inpatient days of 59, an increase in outpatient visits of 12,012 (8.4%), as well as the Center not having a recurring Medicaid Disproportionate Share (DSH) refund. In fiscal year 2017, the Center opened a new clinic to provide primary care services to behavioral patients.

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

	Year ended June 30		
	2018	**2017**	**2016**
Inpatient days – Adult Psychiatric Center	13,756	13,632	13,590
Inpatient days – Children's Psychiatric Center	10,053	9,669	9,652
Total inpatient days	23,809	23,301	23,242
Discharges	2,723	2,591	2,267
Outpatient visits	165,202	154,899	142,887

For the year ended June 30, 2018, patient days increased by 508 from 2017. Outpatient visits increased 10,303 or 6.65% from 2017 to 2018 which is primarily attributable to increases in volume at Psychiatric Emergency Services (PES) as a result of other community behavioral health agencies closing and changes in the court system to lower the incarcerated population resulting in patients being treated through PES. The Cimarron clinic has also seen volume increases due to a lack of other providers in the community. For the year ended June 30, 2017, patient days increased by 59 from 2016. Outpatient visits increased 12,012 or 8% from 2016 to 2017 as a result of filling vacancies of licensed professionals who provide outpatient services.

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 are as follows:

		2018	2017
Charges foregone, based on established rates	$	5,339,643	8,756,334
Estimated costs and expenses incurred to provide charity care		3,937,104	6,394,150
Equivalent percentage of charity care charges foregone to total gross revenue		7 %	12 %

The decrease in charity care during fiscal year 2018 and 2017 is attributable to fewer patients with UNM Care as primary coverage and an increase in usage of UNM Care as secondary coverage to Medicaid, Medicare and Health Insurance Exchange plans for copayments, coinsurance, and deductibles.

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 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, 2018, 2017, and 2016, there were approximately 7,100, 6,700, and 6,800 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.

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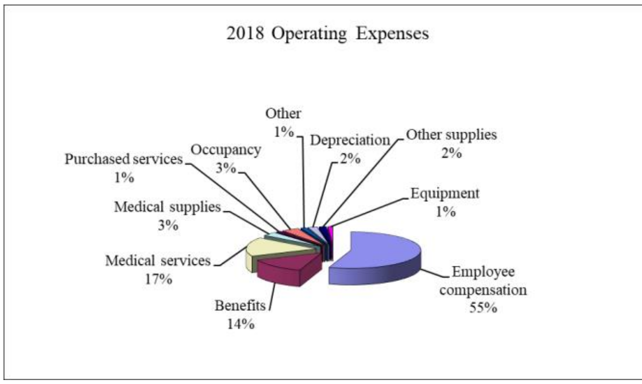
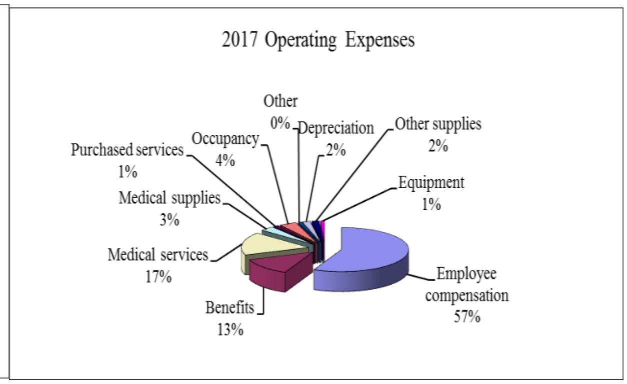
Operating Expenses

The following pie charts depict the distribution of the operating expenses for the Center for the years ended June 30, 2018, and 2017:





Operating expenses for 2018, including depreciation of $1.2 million, totaled $55.1 million. Overall expenses increased $1.7 million compared with the prior year. Employee compensation and benefits increased $607,557 (2%), Other expense increased $370,290 (111%), equipment increased $130,949 (25%), depreciation increased $146,033 (14%), and medical supplies increased $85,983 (4.9%) from fiscal year 2017 to 2018. Employee compensation increased due to merit-based pay increases awarded throughout fiscal year 2018 on employees' anniversary dates. These averaged between 2–3.2% for employees whose performance was determined to be satisfactory or higher. The increase in other expense is due to clinical cost sharing expenses in fiscal year 2018. Equipment increased due to additional purchases of noncapital equipment. Depreciation increased due to a capital project for a new roof being placed in service in fiscal year 2018. Medical supplies increased as a result of larger outpatient volumes as well as higher costs of pharmaceuticals.

Operating expenses for 2017, including depreciation of $1.0 million, totaled $53.5 million. Overall expenses increased $1.5 million compared with the prior year. Employee compensation/benefits increased 3% ($973,600), occupancy increased 29% ($493,000), medical supplies increased 9% ($144,200), purchased services increased 41% ($177,900) and equipment decreased 37% ($310,700) from fiscal year 2016 to 2017. Employee compensation increased due to merit-based pay increases awarded throughout fiscal year 2016 on employees' anniversary dates. These averaged between 2-3.2% for employees whose performance was determined to be satisfactory or higher. The full impact of these increases is reflected in the fiscal year 2017 compensation and benefits. The increase in occupancy expense is for building repairs and maintenance associated with the aging of the facilities and includes repairs for plumbing, sprinkler system, roof and walkway repairs as well as the demolition of one of the cottages at the Children's Psychiatric Center due to its condition. Medical supplies increased as a result of increased outpatient volumes as well as increased costs of pharmaceuticals. Purchased services increased due to a nonrecurring expense reduction associated with billing and collection services outsourced during the conversion to the new billing system in August 2015. Equipment decreased due to fewer noncapital equipment purchases.

Nonoperating Revenues and Expenses

Revenue from the Bernalillo County mill levy was the most significant source of nonoperating revenue, totaling $15.3 million in 2018, $14.5 million in 2017, and $14.4 million in 2016. 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, 2018 and 2017, 15% of the mill levy was allocated to the Center.

The state appropriation was the next most significant nonoperating revenue source totaling $6.7 million in 2018, $6.8 million in 2017, and $7.2 million in 2016. 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, 2018, 2017, and 2016 included $26,318, $11,500, and $15,600, respectively, in bequests and contributions.

Capital Assets

At June 30, 2018, the Center had $24.1 million invested in capital assets, less accumulated depreciation of $14.8 million. Depreciation charges for the year totaled $1.2 million compared to $1 million and $966,000 in 2017 and 2016, respectively.

		June 30		
		2018	2017	2016
Land and improvements	$	1,417,924	1,386,407	1,386,407
Building and improvements		13,986,366	13,229,760	12,809,919
Building service equipment		5,675,803	5,320,580	4,622,299
Major moveable equipment		1,202,158	1,303,841	2,047,385
Fixed equipment		584,151	567,142	554,679
Construction in progress		1,281,763	1,740,518	1,174,369
		24,148,165	23,548,248	22,595,058
Less accumulated depreciation		(14,824,411)	(13,807,758)	(13,644,060)
Net property and equipment	$	9,323,754	9,740,490	8,950,998

During the year ended June 30, 2018, the Center's capital expenditures included a significant project to replace the roof at the Adult Center. The replacement was needed as a result of the significant aging of the facility. At the end of fiscal year 2018, the most significant projects in progress were an HVAC replacement for the Adult Hospital, installation of ligature proof sprinklers at the Children's Center and installation of alarms for upgraded security at the Children's Center.

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During the year ended June 30, 2017, the Center's capital expenditures included several improvement projects including a renovation on the second floor of the Adult Center to turn existing space into a new primary care outpatient clinic (iCope) and improvements for the physician access line transfer center. At the end of fiscal year 2017, the most significant projects in progress were roofing replacements for the Adult Center due to significant aging of the facility.

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 $4.8 million in 2018 and a net decrease of $2.2 million in 2017.

Factors Impacting Future Periods

On July 31, 2018, Centers for Medicare & Medicaid Services (CMS) released the fiscal year 2019 Inpatient Psychiatric Facilities (IPF) Prospective Payment System (PPS) Final Rule. The IPF PPS rates will reflect a market basket increase of 2.9%, less a 0.8% productivity reduction and an additional market basket reduction of 0.75% as mandated under the ACA. The increase to the Center would be an estimated $37,000.

On July 25, 2018, CMS issued the proposed calendar year 2019 Outpatient Prospective Payment (OPPS) rule. CMS proposed to raise the base OPPS Payment rate by a market basket increase of 2.8%, less a productivity adjustment of 0.8% and 0.75% for reductions required under ACA Section 603 of the Bipartisan Budget Act of 2015 required that services furnished in off campus provider based departments that began billing under OPPS on or after November 2, 2015 (nonexcepted clinics) will no longer be paid under OPPS. Under this site neutral payment policy, those services will be paid under the Medicare Physician Fee Schedule (MPFS), set at 40% of the amount paid under OPPS. For calendar year 2019, CMS is proposing to expand the MPFS payment methodology to excepted off campus provider based departments for HCPCS code G0463 (Hospital outpatient clinic visit). This would expand the applicability of the site neutral reduction to all UNM Hospital clinic visits. The Center is currently evaluating the impact of the proposed OPPS rule on operations.

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 decrease as a result of reduced property values and slowdowns in the building construction industry. The voters approved the renewal of the mill levy in the November 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 (Re-entry 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.

The Center will also see an increase in state appropriations in fiscal year 2019 of $384,400 or 5.7%.

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, 2018 and 2017

Assets		2018	2017
Current assets:			
Cash and cash equivalents	$	3,557	3,507
Receivables:			
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $13,381,000 in 2018 and $16,771,000 in 2017)		4,495,876	3,082,396
Contracts and grants		18,420	6,400
Estimated third-party payor settlements		6,427,202	5,608,818
Bernalillo County mill levy		230,398	234,155
Due from University of New Mexico Medical Group		40,151	48,417
Total net receivables		11,212,047	8,980,186
Inventories		164,491	156,497
Prepaid expenses		28,326	112,055
Total current assets		11,408,421	9,252,245
Noncurrent assets:			
Due from affiliates		10,954,195	8,962,465
Capital assets, net		9,323,754	9,740,490
Total noncurrent assets		20,277,949	18,702,955
Total assets	$	31,686,370	27,955,200
Deferred Outflows			
Total deferred outflows related to pensions	$	1,521,082	255,178
Liabilities			
Current liabilities:			
Accounts payable	$	1,857,843	2,552,859
Due to University of New Mexico		1,594,389	1,661,815
Accrued compensation and benefits		2,852,525	2,919,390
Estimated third-party payor settlements		3,534,722	4,021,940
Total current liabilities		9,839,479	11,156,004
Noncurrent liabilities:			
Net pension liability		4,769,082	3,292,670
Total noncurrent liabilities		4,769,082	3,292,670
Total liabilities	$	14,608,561	14,448,674
Deferred Inflows			
Total deferred inflows related to pensions	$	412,518	369,145
Net Position			
Net investment in capital assets	$	9,323,754	9,740,490
Restricted for expendable grants, bequests, and contributions		225,477	196,127
Unrestricted		8,637,142	3,455,942
Total net position	$	18,186,373	13,392,559

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, 2018 and 2017

		2018	2017
Operating revenues:			
Net patient service	$	37,075,606	29,034,894
State and local contracts and grants		1,190,127	1,245,885
Other operating revenues		50,968	48,702
Total operating revenues		38,316,701	30,329,481
Operating expenses:			
Employee compensation		30,356,233	30,329,065
Benefits		7,374,048	6,793,659
Medical services		9,229,038	8,976,077
Medical supplies		1,856,864	1,770,881
Occupancy		2,249,921	2,215,947
Depreciation		1,182,700	1,036,667
Other supplies		888,223	886,548
Equipment		661,648	530,699
Purchased services		633,487	612,706
Other		703,884	333,594
Total operating expenses		55,136,046	53,485,843
Operating loss		(16,819,345)	(23,156,362)
Nonoperating revenues (expenses):			
Bernalillo County mill levy		15,268,902	14,495,259
State general fund and other state fund appropriations		6,692,200	6,759,800
Bequests and contributions		26,318	11,508
Other nonoperating expense		(374,261)	(268,775)
Net nonoperating revenue		21,613,159	20,997,792
Increase (decrease) in net position		4,793,814	(2,158,570)
Net position, beginning of year		13,392,559	15,551,129
Net position, end of year	$	18,186,373	13,392,559

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Statements of Cash Flows

Years ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Cash received from Medicaid and Medicare	$	27,251,392	22,499,980
Cash received from insurance and patients		7,105,132	7,908,886
Cash received from contracts and grants		1,178,107	1,243,610
Cash payments to suppliers		(15,000,242)	(11,517,598)
Cash payments to employees		(29,563,347)	(29,315,245)
Cash payments to University of New Mexico		(9,889,448)	(11,565,363)
Cash received from (payments to) affiliates		(1,983,464)	1,498,786
Other cash receipts		50,968	48,702
Net cash used in operating activities		(20,850,902)	(19,198,242)
Cash flows from noncapital financing activities:			
Cash received from state general fund and other state fund appropriations		6,692,200	6,759,800
Cash received from Bernalillo County mill levy		15,272,659	14,522,058
Cash payment for nonoperating sources		(297,498)	(570,809)
Cash received from contributions for other-than-capital purposes		26,318	11,508
Net cash provided by noncapital financing activities		21,693,679	20,722,557
Cash flows from capital activities:			
Purchases of capital assets		(842,727)	(1,524,125)
Net cash used in capital activities		(842,727)	(1,524,125)
Net increase in cash and cash equivalents		50	190
Cash and cash equivalents, beginning of year		3,507	3,317
Cash and cash equivalents, end of year	$	3,557	3,507
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	$	(16,819,345)	(23,156,362)
Adjustments to reconcile operating loss to net cash (used in) operating activities:			
Depreciation expense		1,182,700	1,036,667
Provision for doubtful accounts		1,495,169	990,500
Change in assets, deferred outflows, liabilities, and deferred inflows:			
Patient receivables, net		(2,908,649)	(837,351)
Due from affiliates		(1,983,464)	1,498,786
Contracts and grants receivables		(12,020)	(2,275)
Estimated third-party payor settlements receivables		(818,384)	533,625
Prepaid expenses		83,729	(109,581)
Inventories		(7,994)	(7,969)
Due to University of New Mexico		(67,426)	(854,684)
Accounts payable and accrued expenses		(761,881)	1,178,240
Estimated third-party payor settlements liabilities		(487,218)	687,198
Deferred outflow of resources related to pensions		(1,265,904)	14,499
Deferred inflow of resources related to pensions		43,373	(537,396)
Net pension liability		1,476,412	367,861
Net cash used in operating activities	$	(20,850,902)	(19,198,242)

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 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 December 15, 2019. The Center is evaluating the impact the standard will have on its financial statements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The Center implemented this standard in Fiscal Year 2018.

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations with the establishment of criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. Statement No. 83 is effective for reporting periods beginning after June 15, 2018. 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

Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as appropriations, gifts, investment income, and government levies. Nonexchange revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Appropriations are recognized in the year they are appropriated, regardless of when actually received. Bequests and contributions are recognized when all applicable eligibility requirements have been met. The Mill Levy is recognized in the period it is collected by Bernalillo County.

(g) Cash and Cash Equivalents

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 2013 Edition published by the American Hospital Association. Repairs and maintenance costs are charged to expense as incurred.

(Continued)

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.

(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 $123,000 and $110,000 in aggregate, authorized by Bernalillo County, the City of Albuquerque, and the NM Hospital Equipment Loan Council, during the years ended June 30, 2018 and 2017, 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, 2018 and 2017 totaled $6,692,000 and $6,760,000, respectively. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Sub-Section J, Higher Education.

(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 Internal Revenue Code. However, income generated from activities unrelated to the Center's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B). During the years ended June 30, 2018 and 2017, there was no income generated from unrelated activities.

(q) 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, 2018 and 2017, the estimated amount of the Center's IBNR and accrued claims was $523,170 and $673,000, respectively. The liability balance for the self-insurance plan is included in accrued payroll of the Hospital, which is reflected in the net due from affiliate account of the Center. The 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
2017–2018	$ 673,170	3,748,343	(3,898,343)	523,170
2016–2017	283,613	3,363,396	(2,973,839)	673,170

(r) Classification

Certain 2017 amounts have been reclassified to conform to the 2018 presentation.

(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:

	2018		2017	
Medicaid	$ 10,344,292	58 %	$ 12,492,532	63 %
Patients and their insurance carriers	2,315,749	13	4,259,730	21
Medicare	5,217,327	29	3,101,047	16
Total patient accounts receivable	17,877,368	100 %	19,853,309	100 %
Less allowance for uncollectible accounts and contractual adjustments	(13,381,492)		(16,770,913)	
Patient accounts receivable, net	$ 4,495,876		$ 3,082,396	

(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, 2018				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Center capital assets not being depreciated:					
Land	$ 111,000				111,000
Construction in progress	1,740,518	833,051	(1,291,806)		1,281,763
	$ 1,851,518	833,051	(1,291,806)	—	1,392,763
Center depreciable capital assets:					
Land and land improvements	$ 1,275,407		31,518		1,306,925
Building and building improvements	13,229,760		836,194	(79,587)	13,986,367
Building service equipment	5,320,580		393,773	(38,551)	5,675,802
Major moveable equipment	1,303,841	9,676	24,816	(136,175)	1,202,158
Fixed equipment	567,142		18,781	(1,772)	584,151
Total depreciable capital assets	$ 21,696,730	9,676	1,305,082	(256,085)	22,755,403

(Continued)

	Year ended June 30, 2018				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Less accumulated depreciation for:					
Land improvements	$ (640,107)	(86,009)			(726,116)
Building and building improvements	(10,114,194)	(521,851)		29,790	(10,606,255)
Building service equipment	(1,880,152)	(419,191)		21,574	(2,277,769)
Major moveable equipment	(940,277)	(108,862)	(13,276)	126,394	(936,021)
Fixed equipment	(233,028)	(46,788)		1,565	(278,251)
Total accumulated depreciation	(13,807,758)	(1,182,701)	(13,276)	179,323	(14,824,412)
Center depreciable capital assets, net	$ 7,888,972	(1,173,025)	1,291,806	(76,762)	7,930,991
Capital asset summary:					
Center capital assets not being depreciated	$ 1,851,518	833,051	(1,291,806)		1,392,763
Center depreciable capital assets, at cost	21,696,730	9,676	1,305,082	(256,085)	22,755,403
Center total cost of capital assets	23,548,248	842,727	13,276	(256,085)	24,148,166
Less accumulated depreciation	(13,807,758)	(1,182,701)	(13,276)	179,323	(14,824,412)
Center capital assets, net	$ 9,740,490	(339,974)	—	(76,762)	9,323,754

Transfers represent the movement of capital equipment between the University Health System family of companies.

	Year ended June 30, 2017				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Center capital assets not being depreciated:					
Land	$ 111,000	—	—	—	111,000
Construction in progress	1,174,369	1,396,885	(830,736)	—	1,740,518
	$ 1,285,369	1,396,885	(830,736)	—	1,851,518
Center depreciable capital assets:					
Land and land improvements	$ 1,275,407	—	—	—	1,275,407
Building and building improvements	12,809,919	—	419,841	—	13,229,760
Building service equipment	4,622,299	—	699,534	(1,253)	5,320,580
Major moveable equipment	2,047,385	127,240	8,491	(879,275)	1,303,841
Fixed equipment	554,679	—	12,463	—	567,142
Total depreciable capital assets	21,309,689	127,240	1,140,329	(880,528)	21,696,730

	Year ended June 30, 2017				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Less accumulated depreciation for:					
Land improvements	$ (558,826)	(81,281)	—	—	(640,107)
Building and building improvements	(9,656,661)	(457,533)	—	—	(10,114,194)
Building service equipment	(1,532,944)	(348,460)	—	1,252	(1,880,152)
Major moveable equipment	(1,707,308)	(104,686)	(778)	872,495	(940,277)
Fixed equipment	(188,321)	(44,707)	—	—	(233,028)
Total accumulated depreciation	(13,644,060)	(1,036,667)	(778)	873,747	(13,807,758)
Center depreciable capital assets, net	$ 7,665,629	(909,427)	1,139,551	(6,781)	7,888,972
Capital asset summary:					
Center capital assets not being depreciated	$ 1,285,369	1,396,885	(830,736)	—	1,851,518
Center depreciable capital assets, at cost	21,309,689	127,240	1,140,329	(880,528)	21,696,730
Center total cost of capital assets	22,595,058	1,524,125	309,593	(880,528)	23,548,248
Less accumulated depreciation	(13,644,060)	(1,036,667)	(778)	873,747	(13,807,758)
Center capital assets, net	$ 8,950,998	487,458	308,815	(6,781)	9,740,490

Transfers represent the movement of capital equipment between the University Health System family of companies.

(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 an hour-for-hour basis. At termination, only employees who retire from the Center and qualify under the Center policy or estates of employees who die as the result of a compensable occupational illness or injury are eligible for payment of unused accumulated hours earned under the Center’s plan. Accrued sick leave as of June 30, 2018 and 2017 approximates $370,000 and $371,000, 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, 2018 and 2017 approximates $1,310,000 and $1,265,000, 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.

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 $56,000 and $36,000 in fiscal years 2018 and 2017, 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, 2018 and 2017, the following changes occurred in accrued compensated absences:

	Balance July 1, 2017	Increase	Decrease	Balance June 30, 2018
$	1,670,851	2,136,478	(2,070,672)	1,736,657

	Balance July 1, 2017	Increase	Decrease	Balance June 30, 2018
$	1,752,510	2,062,632	(2,144,291)	1,670,851

(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 80% and 79% of the Center’s gross patient revenues, for the fiscal years ended 2018 and 2017 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:

		2018	2017
Charges at established rates	$	74,777,505	70,568,941
Charity care		(5,339,644)	(8,756,334)
Contractual adjustments		(30,867,086)	(31,787,213)
Provision for doubtful accounts		(1,495,169)	(990,500)
Net patient service revenues	$	37,075,606	29,034,894

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, 2018, services rendered to the Medicaid beneficiaries that were covered under the Medicaid fee-for-service (FFS) program were paid under a cost-reimbursement methodology subject to a cost-per-discharge limitation. The Center was reimbursed at tentative rates throughout the year with final settlement determined after submission of the annual cost report and audit thereof by the Medicaid audit agent. Medicaid cost reports have been final settled for all fiscal years through 2015 with open settlements to the Centers amounting to $778,000. 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 from 2013–2018 amounting to $5,387,000.

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 $1,028,000 and $1,063,000 for the years ended June 30, 2018 and 2017, 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.

(Continued)

(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:

		2018	2017
Charges foregone, based on established rates	$	5,339,644	8,756,334
Estimated costs and expenses incurred to provide charity care		3,937,105	6,394,150
Equivalent percentage of charity care charges foregone to total gross revenue		7 %	12 %

(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 accounts receivable from the University of New Mexico's Medical Group for services rendered, in the amount of $40,000 and $48,000, as of June 30, 2018 and 2017, respectively. Also, the Center reported liabilities to UNM in the amount of $1,594,000 and $1,662,000 as of June 30, 2018 and 2017, respectively.

(Continued)

The Center's expenses for services rendered during the years ended June 30, 2018, and 2017, amounted to approximately $9,548,000 and $9,986,000, respectively.

The Hospital employees provides administrative services, which primarily include accounting functions such as payroll and accounts payable processing as well as cash management activities. The payroll cost for these activities are directly allocated and charged to the center and recorded in the applicable expense account of the Center. In addition, the Hospital provides medical support services and goods for the Center including laboratory, radiology, and pharmaceuticals, which are directly allocated to and are reflected in the revenues/expenses of the Center.

(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 5.5% or 7.5% of an employee's salary to the plan, depending on employment level. The plan was established by the Board of Trustees and can be amended at its discretion. The plan is administered by UNM Hospitals Human Resources Department.

The expense for the defined-contribution plan was $1,117,000 and $1,052,000, for the fiscal years ended June 30, 2018 and 2017, respectively. Total employee contributions under this plan were $1,239,000 and $1,199,000 in fiscal years 2018 and 2017, 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 2018 and 2017, respectively, as the Center does not contribute to this plan. Total employee contributions under this plan were $126,000 and $129,000 in fiscal years 2018 and 2017, 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 $16,000 in both 2018 and 2017.

(11) Defined-Benefit Plan – Educational Retirement Board

Nineteen 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 Web site 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 (Board); 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 sixty-five years of age and has five or more years of earned service credit; or the employee has service credit totaling 25 years or more. 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 sixty-seven years of age and has five or more years of earned service credit; or the employee has service credit totaling 30 years or more. Employees 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 sixty-seven years of age and has five 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.

(c) Contributions

For the fiscal years ended June 30, 2018 and 2017, employers contributed 13.9% of employees' gross annual salary to the Plan, and participating employees' earning more than $20,000 contributed 10.7%. Employees earning $20,000 or less contributed 7.9%. The Center's cash contributions to the ERB for fiscal years ended June 30, 2018 and 2017 were approximately $151,000 and $173,000, respectively.

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

At June 30, 2018 and 2017, the Center reported a liability of $4,769,000 and $3,293,000, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 and 2015. For the fiscal year ended 2018, the total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2017 using generally accepted actuarial principles. The roll-forward incorporates the impact of the new assumptions adopted by the Board on April 21, 2017. There were no other significant events of changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2017. Therefore, the employer's portion was established as of the measurement date of June 30, 2017. 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. At June 30, 2017, the Center's proportion was 0.04201%, which was a decrease of 0.00374% from its proportion measured as of June 30, 2016.

For fiscal years 2018 and 2017, the Center recognized pension expense of $403,972 and $26,000, respectively. The Center also reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		June 30, 2018	
		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	7,545	75,999
Net difference between projected and actual earning on pension plan investments		—	677
Changes in assumptions		1,363,448	
Changes in proportion and differences between Hospital contributions and proportionate share of contributions			335,842
Center contributions subsequent to the measurement date		150,089	
	$	1,521,082	412,518

The $150,000 reported as deferred outflows of resources relates to pensions resulting from Center contributions subsequent to the measurement date at year-end June 30, 2018, will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

		June 30, 2017	
		Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$	14,369	32,545
Net difference between projected and actual earning on pension plan investments		—	29,156
Changes in assumptions		67,422	—
Changes in proportion and differences between Hospital contributions and proportionate share of contributions		—	307,444
Center contributions subsequent to the measurement date		173,387	—
	$	255,178	369,145

The $173,000 reported at June 30, 2017 as deferred outflows of resources related to pensions resulting from the Center's contributions subsequent to the measurement date was recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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:		
2019	$	275,727
2020		450,792
2021		303,098
2022		(38,440)
	$	991,177

(e) Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	2.5%
Salary increases	Composed of 3.0% inflation, plus 0.75% productivity increase rate, plus step rate promotional increases for members with less than ten years of service.
Investment rate of return	7.25%
Single discount rate	5.90%
Retirement age	Experience based table of rates based on age and service. Adopted by NMERB on June 12, 2015 in conjunction with the six year experience study for the period ended June 30, 2014.
Mortality	Healthy Males – RP-2000 Combined Mortality Table with white collar adjustments, generational mortality improvements with scale BB. Healthy Females – GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with scale BB from the table's base year of 2012.

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, 2017 in conjunction with the six-year actuarial experience study period ending June 30, 2016. At that time, the Board adopted several economic assumption changes, including a decrease in the inflation assumption from 3.00% to 2.50%. The 0.50% decrease in the inflation assumption also led to decreases in the nominal investment return assumption from 7.75% to 7.25%, the assumed annual wage inflation rate from 3.75% to 3.25%, the payroll growth assumption from 3.50% to 3.00%, and the annual assumed COLA from 2.00% to 1.90%.

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.); structural themes (supply and demand imbalances, capital flows, etc.) These items are developed for each major asset class.

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

Asset class	Target allocation	Estimated rate of return
Equities – Domestic	19 %	7.25 %
Equities – International	14	7.25
Fixed income	26	5.90
Alternatives	40	7.25
Cash	1	3.25
	100 %	

(f) Discount Rate

A single discount rate of 5.90% was used to measure the total pension liability as of June 30, 2017. This single discount rate was based on the expected rate of return on pension plan investments of 7.25%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were sufficient to finance all projected future benefit payments of current Plan membership. Therefore, the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(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 (4.90%) or one-percentage-point higher (6.90%) than the single discount rate:

	June 30, 2018		
	1% Decrease (4.90%)	Discount rate (5.90%)	1% Increase (6.90%)
Center's proportionate share of the net pension liability	6,208,159	4,769,082	3,592,754

(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

The Center has operating leases, primarily for office space. Rental expenses under operating leases amounted to approximately $347,000 and $348,000 in 2018 and 2017, respectively.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2018 under noncancelable operating leases and memorandums of understanding are as follows:

		Amount
Year end June 30:		
2019	$	361,986
2020		339,756
2021		336,426
	$	1,038,168

Schedule 1

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Comparison of Budgeted and Actual Revenues and Expenses

Years ended June 30, 2018 and 2017

		Budgeted (original)	Budgeted (final)	Actual	Budget variance
Operating revenues:					
Net patient service	$	28,635,063	33,142,349	37,075,606	3,933,257
Other operating revenues		1,100,281	1,191,258	1,241,095	49,837
Total operating revenues		29,735,344	34,333,607	38,316,701	3,983,094
Operating expenses		(54,083,195)	(53,941,649)	(55,136,046)	(1,194,397)
Operating loss		(24,347,851)	(19,608,042)	(16,819,345)	2,788,697
Nonoperating revenues		20,929,212	19,858,236	21,613,159	1,754,923
Increase (decrease) in net assets	$	(3,418,639)	250,194	4,793,814	4,543,620

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.

Schedule 2

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Indigent Care Cost and Funding Report

		Years ended June 30,		
		2018	**2017**	**2016**
				Unaudited
Funding for Indigent Care:				
State appropriations specified for indigent care – Out of County Indigent Fund	$		—	—
County indigent funds received			—	—
Out of county indigent funds received			—	—
Payments and copayments received from uninsured patients qualifying for indigent care		87	67	—
Reimbursement received for services provided to patients qualifying for coverage under EMSA		389	—	—
Charitable contributions received from donors that are designated for funding indigent care			—	—
Other sources:				
Other source			—	—
Total Funding for Charity Care		476	67	—
Cost of Providing Indigent Care:				
Total cost of care for providing services to:				
Uninsured patients qualifying for indigent care		38,939	100,329	45,398
Patients qualifying for coverage under EMSA		14,053	664	539
Cost of care related to patient portion of bill for insured patients qualifying for indigent care		3,898,166	6,293,821	8,181,445
Direct costs paid to other providers on behalf of patients qualifying for indigent care			—	—
Total Cost of Providing Indigent Care		3,951,158	6,394,814	8,227,382
Shortfall of Funding for Charity Care to Cost of Providing Indigent Care	$	(3,950,682)	(6,394,747)	(8,227,382)
Patients Receiving Indigent Care Services (Unaudited):				
Total number of patients receiving indigent care		4,002	4,593	4,754
Total number of patient encounters receiving indigent care		17,661	15,899	15,227

See accompanying independent auditors' report.

Schedule 3

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Calculations of Cost of Providing Indigent Care

		Years ended June 30,		
		2018	**2017**	**2016**
				Unaudited
Uninsured patients qualifying for indigent care:				
Charges for these patients	$	52,810	137,394	56,875
Ratio of cost to charges		73.7 %	73.0 %	79.8 %
Cost for uninsured patients qualifying for indigent care	$	38,939	100,329	45,398
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA):				
Charges for these patients	$	19,059	910	648
Ratio of cost to charges		73.7 %	73.0 %	83.2 %
Cost for Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	$	14,053	664	539
Cost of care related to patient portion of bill for insured patients qualifying for indigent care:				
Indigent/charity care adjustments for these patients	$	5,286,834	8,618,940	10,428,632
Ratio of cost to charges		73.7 %	73.0 %	78.5 %
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	$	3,898,166	6,293,821	8,181,445
Direct costs paid to other providers on behalf of patients qualifying for indigent care	$	—	—	—
Payments to other providers for care of these patients	$	—	—	—

See accompanying independent auditors’ report.

Schedule 4

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 four years are shown. Until a full 10-year trend is compiled, information for those years for which information is available will be presented.

	2018	2017	2016	2015
Center's proportion of the net pension liability	0.04201 %	0.04575 %	0.04516 %	0.05368 %
Center's proportionate share of the net pension liability	$ 4,769,082	3,292,670	2,924,809	3,062,832
Center's covered-employee payroll	1,247,388	1,138,359	1,232,876	1,479,662
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	382 %	289 %	237 %	207 %
Plan fiduciary net position as a percentage of the total pension liability	52.95 %	61.58 %	63.97 %	66.54 %

See accompanying independent auditors' report.

Schedule 5

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Schedule of Center Contributions

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 four 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			
		2018	**2017**	**2016**	**2015**
Contractually required contribution	$	150,089	173,387	169,077	203,627
Contributions in relation to the contractually required contribution		150,089	173,387	169,077	178,415
Contribution deficiency	$	—	—	—	25,212
Center's covered-employee payroll	$	1,059,835	1,247,388	1,138,359	1,232,846
Contributions as a percentage of covered-employee payroll		14.16 %	13.90 %	14.85 %	14.47 %

See accompanying independent auditors' report.

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

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Wayne Johnson, 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, 2018, 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 11, 2018.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2018-001, that we consider to be a significant deficiency.

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 a certain matter that is required to be reported per Section 12-6-5 NMSA 1978, that we have described in the accompanying schedule of findings and responses as item 2018-002.

The Center's Response to the Finding

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 11, 2018

Financial Statement Finding

2018-001 Related Party Transaction Policies and Procedures – Significant Deficiency

Condition

We did not identify adjustments to the reported financial results in our testing of related party transactions. However, the organization does not have specific written policies and procedures governing related party transactions, including associated internal controls. Although existing procurement controls are applied to related party transactions, such procurement controls are not designed to comprehensively address related party transactions. For example, third-party procurements are transacted on an arms-length basis with outside entities. However, such market checks and balances are not always present in related party transactions because the parties to the transactions are, by definition, interrelated and in many cases are dependent on one another. To compensate for this, the organization should have written policies and procedures that address the topics in the following “Criteria” section, and such policies and procedures should incorporate methods for allocating revenues and expenses among entities, expectations about documentation standards for and timeliness of related party agreements, and contributed services.

Criteria

Management should design, implement and maintain controls to:

- Identify, account for, and disclose related party relationships and transactions.
- Authorize and approve significant transactions and arrangements with related parties including appropriate segregation of duties.
- Authorize and approve any significant transactions or arrangements outside the normal course of business, should they arise.
- Ensure compliance with applicable federal and state rules and regulations, as applicable.

Effect

Related party transactions may not be consistently identified and appropriately accounted for and disclosed. Additionally, the lack of written policies and procedures may create challenges in understanding the nature and business rationale of the entity’s related party relationships and transactions.

Cause

Written policies and procedures have not been developed for related party transactions.

Recommendation

We recommend that management develop a written policy which expands on and enhances existing practices to:

- Identify, account for, and disclose related party relationships and transactions.
- Authorize and approve significant transactions and arrangements with related parties including appropriate segregation of duties.
- Authorize and approve any significant transactions or arrangements outside the normal course of business, should they arise.

(Continued)

- Ensure compliance with applicable federal and state rules and regulations, as applicable.

The policy should also address methods for allocating revenues and expenses among entities, expectations about documentation standards for and timeliness of related party agreements, and contributed services.

Management Response

We appreciate the comprehensive audit that was performed in regards to related party transactions. It is gratifying that no specific findings or adjustments were identified as a result of this audit.

The organization (UNMH, BHOs, SRMC, UNM MG) has entered into related party transactions as a part of our fully integrated Academic Medical Center. Full integration allows us to maximize efficiency of operations and achieve economies of scale. This is essential in a diverse community like New Mexico's where poverty and the lack of healthcare resources are contributing factors in determining health and disease.

These transactions and exchange of funds are widely used in the United States by academic health systems similar to ours. This is especially true of a School of Medicine (SOM), whose faculty are the Physicians and whose post-doctoral learners are the Residents and Fellows who provide the patient care in the hospitals and clinics.

For the consolidated financial statements of the University of New Mexico, this exchange of funds, or related party transactions, is completely eliminated and has no financial impact to the UNM system.

Although the procurement of related party goods and services currently follow our policies regarding the issuance of purchase orders and authorization based on dollar limits, including segregation of duties, our policies do not specifically address procurement from related parties. Our policies do currently require compliance with applicable federal and state rules and regulations.

Management will develop a policy to specifically address transactions between UNM entities where standalone financial statements are issued. The Chancellor for Health Sciences will be responsible for this policy, with a completion date of April 30, 2019.

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

2018-002 User Access Review – Control Deficiency (finding that does not rise to the level of significant deficiency)

Condition

Our testwork revealed that controls over user access reviews are not operating effectively.

This was validated in three components of our testwork:

1 The notification of employee account terminations was not always performed by IT in a timely manner. We identified one BHO employee from the population sampled for whom access to the Millennium system was not timely disabled after termination. We verified that this employee did not record any activity in Millennium subsequent to their termination.

For our testwork we compared all employee terminations during the year to determine if any of these employees still had access to the Millennium, Soarian, and Lawson system as of June 30, 2018.

2 A cloud migration process performed by vendors created Lawson accounts for employees that were terminated, leaving them active. UNMH IT identified these employees and manually disabled these accounts. However, 3 terminated users had active accounts as of the date of testwork. We verified that these employees did not record any activity in Lawson subsequent to their termination.

3 For the Millennium, Soarian, and Lawson system, we noted documentation supporting various components of management's FY2018 user access review was not sufficient to evidence the control is operating effectively. For example, the documentation of the review of the complete population of users and the actions resulting from management's review (user access changes or removals) was not maintained to evidence that the control process took place such that it could be re-performed.

Criteria

The entities' system processes, records, and stores information that is vital to its daily operations and certain systems contain protected health information of its patients. It is critical that access to this system is properly maintained to prevent inappropriate transactions from occurring, data from being lost, and to prevent protected health information from being released. The applicable entities have 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, or five working days of termination.

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 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 disabling of user access within IT systems should take place within a reasonable time, or five working days of termination of employment. 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 review. Evidence of the performance of the review, including remedial action taken, should be maintained.

Management Response

1. The notification of employee termination has two methods. The separation checklist requires that the direct supervisor notify IT of the termination, and a secondary process creates a termination report to identify employee terminations in case the direct supervisor did not complete the separation checklist. During the migration of Infor (Lawson) from on-premise to cloud, a special termination report was run from the HR system and sent to the IT Helpdesk to verify termination tickets were submitted. This report was not in the usual format for termination notification and there was confusion on the part of IT staff regarding proper treatment of the request. The IT staff have been re-educated regarding how to follow up on requests in a non-standard format.

2. Infor (Lawson) accounts that were disabled were re-created during migration from on-premise to Cloud by a third party vendor. Several hundred re-created accounts were identified and manually disabled after go-live. The manual process missed 3 BHO accounts out of over 700 total. The 3 accounts identified have since been disabled. Past Infor account reviews were for elevated access, which excluded employee level access to their own information. The Infor elevated access reviews will continue with the addition of an annual 100% account review for non-elevated accounts.

3. The Soarian account review does include the complete population of users; however, it hasn't historically included a summary of changes as a result of the audit. Going forward, the Patient Financial Services department will document any access changes and removals as a result of these audits.

Due to the volume of Millennium accounts and the many organizations that sponsor the accounts, the Millennium account review is based on a random selection of accounts that are individually audited, The current process is to maintain a summary of these audit results. Going forward, the randomly selected accounts reviewed and the subsequent actions from the review will also be maintained and documented.

The Chancellor for Health Sciences will be responsible for the corrective action plan with completion dates of April 30, 2019.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Summary of Prior Year Findings

Year ended June 30, 2018

Other Finding as Required by Section 12-6- NMSA 1978

Finding 2017-001. Charity Care – Control Deficiency (finding that does not rise to the level of significant deficiency)

Current Status: ***Resolved***

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Exit Conference

Year ended June 30, 2018

An exit conference was conducted on October 10, 2018 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

Jerry McDowell, Compliance and Audit Committee Chair

Terry Horn, Compliance and Audit Committee Member

Christine Glidden, Finance and Audit Committee Member

Kate Becker, Chief Executive Officer, UNM Hospitals

Bonnie White, Interim CFO, UNM Hospitals

Julie Alliman, Executive Director/Controller, UNM Hospitals

Purvi Mody, Compliance Officer, UNM Hospitals

Rodney McNease, Executive Director of Government Affairs, UNM Hospitals

Dawn Harrington, Administrator for Information Technology, UNM Hospitals

Manu Patel, Director, UNM Internal Audit

Jennifer James, Associate University Counsel

KPMG

Mark McComb, Partner

Jaime Cavin, Senior Manager

BHO is responsible for the contents of the financial statements. KPMG LLP assisted with the preparation of the financial statements.