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UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Financial Statements with Supplementary Information

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Fiscal Year 2019 Official Roster

Board of Trustees

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Fiscal Year 2019 Official Roster

Administrative Officers

Garnett S. Stokes	President – University of New Mexico
Paul Roth, M.D.	Chancellor – UNM Health Sciences Center Dean, School of Medicine – UNM Health Sciences Center
Kate Becker	Chief Executive Officer – UNM Hospitals
Bonnie White	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. Brian Colón, New Mexico State Auditor:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of New Mexico Behavioral Health Operations (the Center), a division of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, as of and for the years ended June 30, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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 to 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 to 3) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1 to 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 to 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 Schedule 2 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 17, 2019 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 17, 2019

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, 2019 and 2018. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of the Center's management.

Using the Annual Financial Report

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

The financial statements prescribed by GASB Statement No. 34 (the statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows) present financial information in a form similar to that used by commercial corporations. They are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided, and expenses and liabilities are recognized when others provide the service or goods are received, regardless of when cash is exchanged.

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

The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred during the year. Activities are reported as either operating or nonoperating. A psychiatric center's dependency on state and local aid can result in an operating deficit since the financial reporting model classifies such aid as nonoperating revenues, which is the case with the State appropriation and County mill levy received by the Center. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

Overview of Entity

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

Inpatient Care – Care is provided by practitioners in 32 general adult beds, 15 geriatric beds, and 35 pediatric beds.

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

Three Year Comparison of Financial Results

Condensed summary of net position

		June 30		
		2019	**2018**	**2017**
Assets:				
Current assets	$	13,596,556	11,408,421	9,252,245
Capital assets		10,283,326	9,323,754	9,740,490
Noncurrent assets		4,390,455	10,954,195	8,962,465
Total assets	$	28,270,337	31,686,370	27,955,200
Deferred outflows:				
Total deferred outflows of resources	$	1,114,551	1,521,082	255,178
Liabilities				
Current liabilities	$	8,381,936	9,839,479	11,156,004
Noncurrent liabilities		4,659,990	4,769,082	3,292,670
Total liabilities	$	13,041,926	14,608,561	14,448,674
Deferred inflows:				
Total deferred inflows of resources	$	418,894	412,518	369,145
Net position:				
Net investment in capital assets	$	10,283,326	9,323,754	9,740,490
Restricted		225,627	225,477	196,127
Unrestricted		5,415,115	8,637,142	3,455,942
Total net position	$	15,924,068	18,186,373	13,392,559

(Continued)

At June 30, 2019, the Center's total assets were $28.3 million, compared to $31.7 million at June 30, 2018 and $28.0 million at June 30, 2017. Total current assets increased $2.2 million at June 30, 2019 compared to 2018. The Center's largest current asset is third-party payor settlements receivable in the amount of $8.7 million at June 30, 2019, compared to $6.4 million and $5.6 million at June 30, 2018 and 2017, respectively. Third-party payor settlements receivable consist of amounts due from Medicare and Medicaid for cost report settlements, disproportionate share, and indirect medical education. The next largest asset is investment in capital assets in the amount of $10.3 million at June 30, 2019, $9.3 million at June 30, 2018, and $9.7 million at June 30, 2017. At June 30, 2019, current assets exceeded current liabilities by $5.2 million and in 2018, current liabilities exceeded current assets by $1.6 million.

The Center's current liabilities decreased by $1.5 million from June 30, 2018 to June 30, 2019, and decreased by $1.3 million from June 30, 2017 to June 30, 2018. The decrease in 2019 is due to the timing of payment to UNM for clinician services and reduction in accounts payable for payments on large repair and maintenance projects that were in progress at the end of 2018. These projects were completed in 2019 and the expenditures were paid through accounts payable. 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 Center's noncurrent liabilities, which consist of the net pension liability, decreased $109 thousand from June 30, 2018 to June 30, 2019 and increased by $1.5 million from June 30, 2017 to June 30, 2018. The increase in the pension liability in 2018 was related to change in actuarial assumptions adopted by the New Mexico Educational Retirement Board in April of 2017.

Total net position decreased by $2.3 million to $15.9 million at June 30, 2019, which reflects an operating loss of $24.8 million, offset by nonoperating net revenues of $22.5 million. At June 30, 2019, unrestricted net position totaled $5.4 million while total net position was $15.9 million.

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.

Condensed summary of revenues, expenses and changes in net position

		Year ended June 30		
		2019	**2018**	**2017**
Total operating revenues	$	34,820,528	38,316,701	30,329,481
Total operating expenses		(59,612,963)	(55,136,046)	(53,485,843)
Operating loss		(24,792,435)	(16,819,345)	(23,156,362)
Nonoperating revenues and expenses and other revenues		22,530,130	21,613,159	20,997,792
(Decrease) increase in net position		(2,262,305)	4,793,814	(2,158,570)
Net position, beginning of year	$	18,186,373	13,392,559	15,551,129
Net position, end of year	$	15,924,068	18,186,373	13,392,559

(Continued)

Operating Revenues

The sources of operating revenues for the Center include net patient service, contracts and grants, and other operating (ancillary services) revenues, with the most significant source being net patient service revenues.

Net patient service revenue is comprised of gross patient service revenue net of contractual allowances, charity care, provision for doubtful accounts, and any third-party settlements. Net patient service revenues were $33.5 million, $37.1 million, and $29.0 million for 2019, 2018, and 2017, respectively.

Net patient service revenues for 2019 of $33.5 million decreased $3.6 million from $37.1 million in 2018, which represents a 10% decrease. In 2019, the primary factors that caused the decrease in net patient service revenues were a 2.5% increase in patient days combined with a 7% decrease in discharges resulting in an increase in length of stay. 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.

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

		Year ended June 30		
		2019	2018	2017
Inpatient days – Adult Psychiatric Center	$	14,496	13,756	13,632
Inpatient days – Children's Psychiatric Center		9,899	10,053	9,669
Total inpatient days	$	24,395	23,809	23,301
Discharges	$	2,533	2,723	2,591
Outpatient Visits		164,934	155,138	143,152

For the year ended June 30, 2019, patient days increased 586 over the prior year, while discharges declined by 190, resulting in a longer length of stay for patients. Outpatient visits increased 9,796, or 6.00%, from 2018 to 2019. The primary drivers of the outpatient volume increases are growth in the psychiatric emergency department as a result of continuing lack of behavioral health resources in the community. There is also growth of the Care link Health Home program that was established for higher needs mental health patients. For the year ended June 30, 2018, patient days increased by 508 from 2017. Outpatient visits increased 11,986, or 8.37%, from 2017 to 2018, which was 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.

The Center provides charity care to those individuals who meet certain criteria. Charges foregone based on estimated rates, and the related estimated costs and expenses incurred to provide charity care for the year ended June 30, 2019 are $4.7 million and $3.5 million, respectively. For the year ended June 30, 2018, charges foregone were $5.3 million and estimated costs and expenses were $4.0 million.

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

As of June 30, 2019, 2018, and 2017, there were approximately 7,300, 7,100, and 6,700 active enrollees, respectively, in UNM Care. The income threshold for UNM Care is 300% of the Federal Poverty Level (FPL), and patients may apply for this program at various locations throughout the Center and various community locations. The Center does not pursue collection of amounts determined to qualify as charity care, with the exception of copayments.

Operating Expenses

The operating expense mix for the Center for the years ended June 30, 2019 and 2018 is detailed below:

	2019	2018
Employee Compensation	56%	55%
Benefits	14	13
Medical Services	15	17
Medical Supplies	3	3
Occupancy	4	4
Depreciation	2	2
Other supplies	2	2
Equipment	2	1
Purchased Service	2	1
Other	1	1

Operating expenses for 2019, including depreciation of $1.2 million, totaled $59.6 million. Overall, expenses increased $4.5 million compared with the prior year. Employee compensation and benefits increased $3.7 million (10%), purchased services increased $579,000 (91%) and equipment increased $296,000 (45%). The increase in employee compensation is due to wage increases of 2% effective July 1 of 2019, increased health insurance costs and increased use of contracted nurse labor during the year. The Center is part of an on-going Health System process improvement initiative that has resulted in the increased expenses in purchased services. Equipment expense continues to increase due purchases of non-capital equipment and repairs.

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 $608,000 (2%), Other expense increased $370,000 (111%), equipment increased $131,000 (25%), depreciation increased $146,000 (14%), and medical supplies increased $86,000 (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.

Nonoperating Revenues and Expenses

Revenue from the Bernalillo County mill levy was the most significant source of nonoperating revenue, totaling $15.9 million in 2019, $15.3 million in 2018, and $14.5 million in 2017. 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, 2019, 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 $7.1 million in 2019, $6.7 million in 2018, and $6.8 million in 2017. 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, 2019, 2018, and 2017 included $7,700, $26,300 and $11,500, respectively, in bequests and contributions.

Capital Assets

At June 30, 2019, the Center had $26.1 million invested in capital assets, less accumulated depreciation of $15.8 million. Depreciation charges for the year totaled $1.2 million compared to $1.2 million and $1 million in 2018 and 2017, respectively.

		June 30		
		2019	2018	2017
Land and improvements	$	1,788,258	1,417,925	1,386,407
Building and improvements		14,200,511	13,986,367	13,229,760
Building service equipment		6,387,517	5,675,802	5,320,580
Major moveable equipment		1,260,300	1,176,258	1,277,941
Fixed equipment		584,151	584,151	567,142
Computer software		25,900	25,900	25,900
Construction in progress		1,841,581	1,281,763	1,740,518
		26,088,218	24,148,166	23,548,248
Less accumulated depreciation		(15,804,892)	(14,824,412)	(13,807,758)
Net property and equipment	$	10,283,326	9,323,754	9,740,490

During the year ended June 30, 2019, the Center's capital expenditures include projects to replace the roof at the Children's Center, extensive HVAC and electrical work and security upgrades. The roof replacement, HVAC and electrical work were necessary due to the significant age of the building.

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.

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 decrease of approximately $2.3 million in 2019 and a net increase of $4.8 million in 2018.

Factors Impacting Future Periods

On July 30, 2019, Centers for Medicare & Medicaid Services (CMS) released the fiscal year 2020 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 0.4% 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 $52,800.

On July 29, 2019, CMS issued the proposed calendar year 2020 Outpatient Prospective Payment (OPPS) rule. CMS has proposed to raise the base OPPS payment rate by a market basket increase of 3.2%, less a multi-factor productivity adjustment of 0.5%. CMS has also proposed to fully implement their site-neutral policy under ACA Section 603 of the Bipartisan Budget Act of 2015 for services furnished in off-campus provider-based departments (PBD's). These services will be paid under the Medicare Physician Fee Schedule (MPFS), set at 40% of the amount paid under OPPS. This proposed rule change is estimated to decrease OPPS reimbursement $20,000.

The Bernalillo County mill levy that the Center receives is based on property values. It is possible that the amount of the mill levy may remain flat or potentially increase as a result of increased property values. The voters approved the renewal of the mill levy in the November 2016 election. The mill levy is subject to approval by the Bernalillo County voters every eight years and it will be up for renewal in the November 2024 election.

The Center's facilities are leased from Bernalillo County (the County) by UNM under the 2014 lease agreement, as described under note 1 to the financial statements. Section IV. Term of this agreement provides for either party to the lease to reopen the terms and conditions by giving notices in the first three months of 2006, 2014, 2022, 2030 and 2038. On March 25, 2014, the County Commission approved Administrative Resolution AR 2014-21 to open negotiations with UNM on the lease agreement and to establish a taskforce to provide healthcare expertise to the County in support of the negotiations. The agreement was finalized in February 2018. Under the MOU, the UNM Hospital is required to allocate 15% of the mill levy proceeds to the Center, fund one or more navigational services and a transition planning and case management service (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. UNMH also increased funding to the Pathways program for $400,000 per year in addition to $860,000 in baseline funding. The Pathways funding of $1.26 million and the RRC funding of $800,000 fulfill the navigation and case management requirement to Bernalillo County.

UNM Psychiatric Center is also working on internal program expansion for Crisis services for adults and children through capital expansion program of the Psychiatric Emergency Service and incorporation of a Living Room model for patients presenting at the Center. The Center has also assumed some clinical service delivery responsibilities at the Metropolitan Assessment and Treatment Center (MATS) operated by Bernalillo County. This includes the operation of a medical clearance program, medical service enhancement for detoxification services and planning for a Crisis Triage Center. These programs are part of the ongoing behavioral health systems development with Bernalillo County and are cost reimbursed by the county to the Center.

The Center will also see an increase in state appropriations in fiscal year 2019 of $777,600, or 11%.

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, 2019 and 2018

Assets		**2019**	**2018**
Current assets:			
Cash	$	3,385	3,557
Receivables:			
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately $9,885,000 in 2019 and $13,361,000 in 2018)		4,246,736	4,495,876
Contracts and grants		201,169	18,420
Estimated third-party payor settlements		8,651,033	6,427,202
Bernalillo County mill levy		227,511	230,398
Due from related parties		68,666	40,151
Total net receivables		13,395,115	11,212,047
Inventories		136,766	164,491
Prepaid expenses		61,290	28,326
Total current assets		13,596,556	11,408,421
Noncurrent assets:			
Due from affiliates		4,390,455	10,954,195
Capital assets, net		10,283,326	9,323,754
Total noncurrent assets		14,673,781	20,277,949
Total assets	$	28,270,337	31,686,370
Deferred Outflows			
Total deferred outflows related to pensions	$	1,114,551	1,521,082
Liabilities			
Current liabilities:			
Accounts payable	$	789,585	1,857,843
Due to University of New Mexico		399,254	1,594,389
Accrued compensation and benefits		3,254,003	2,852,525
Estimated third-party payor settlements		3,939,094	3,534,722
Total current liabilities		8,381,936	9,839,479
Noncurrent liabilities:			
Net pension liability		4,659,990	4,769,082
Total noncurrent liabilities		4,659,990	4,769,082
Total liabilities	$	13,041,926	14,608,561
Deferred Inflows			
Total deferred inflows related to pensions	$	418,894	412,518
Net Position			
Net investment in capital assets	$	10,283,326	9,323,754
Restricted for expendable grants, bequests, and contributions		225,627	225,477
Unrestricted		5,415,115	8,637,142
Total net position	$	15,924,068	18,186,373

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, 2019 and 2018

		2019	2018
Operating revenues:			
Net patient service	$	33,510,631	37,075,606
State and local contracts and grants		1,248,991	1,190,127
Other operating revenues		60,906	50,968
Total operating revenues		34,820,528	38,316,701
Operating expenses:			
Employee compensation		33,336,306	30,356,233
Benefits		8,081,293	7,374,048
Medical services		9,024,774	9,229,038
Medical supplies		1,810,037	1,856,864
Occupancy		2,318,347	2,249,921
Depreciation		1,249,855	1,182,700
Other supplies		912,302	888,223
Equipment		957,349	661,648
Purchased services		1,212,738	633,487
Other		709,962	703,884
Total operating expenses		59,612,963	55,136,046
Operating loss		(24,792,435)	(16,819,345)
Nonoperating revenues (expenses):			
Bernalillo County mill levy		15,856,438	15,268,902
State general fund and other state fund appropriations		7,076,600	6,692,200
Bequests and contributions		7,665	26,318
Other nonoperating expense		(410,573)	(374,261)
Net nonoperating revenue		22,530,130	21,613,159
(Decrease) increase in net position		(2,262,305)	4,793,814
Net position, beginning of year		18,186,373	13,392,559
Net position, end of year	$	15,924,068	18,186,373

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash received from Medicaid and Medicare	$ 24,455,356	27,251,392
Cash received from insurance and patients	7,484,956	7,105,132
Cash received from contracts and grants	1,066,242	1,178,107
Cash payments to suppliers	(16,915,934)	(15,000,242)
Cash payments to employees	(31,998,684)	(29,563,347)
Cash payments to University of New Mexico	(10,149,404)	(9,889,448)
Cash received from (payments to) affiliates	6,535,225	(1,983,464)
Other cash receipts	60,906	50,968
Net cash used in operating activities	(19,461,337)	(20,850,902)
Cash flows from noncapital financing activities:		
Cash received from state general fund and other state fund appropriations	6,214,175	6,692,200
Cash received from Bernalillo County mill levy	15,859,325	15,272,659
Cash payment for nonoperating sources	(293,835)	(297,498)
Cash received from contributions for other-than-capital purposes	7,665	26,318
Net cash provided by noncapital financing activities	21,787,330	21,693,679
Cash flows from capital financing activity:		
Purchases of capital assets	(2,326,165)	(842,727)
Net cash used in capital financing activity	(2,326,165)	(842,727)
Net (decrease) increase in cash and cash equivalents	(172)	50
Cash beginning of year	3,557	3,507
Cash end of year	$ 3,385	3,557
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (24,792,435)	(16,819,345)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	1,249,855	1,182,700
Provision for doubtful accounts	631,849	1,495,169
Change in assets, deferred outflows, liabilities, and deferred inflows:		
Patient receivables, net	(382,709)	(2,908,649)
Contracts and grants receivables	(182,749)	(12,020)
Estimated third-party payor settlements receivables	(2,223,831)	(818,384)
Inventories	27,725	(7,994)
Prepaid expenses	(32,964)	83,729
Due from affiliates	6,535,225	(1,983,464)
Deferred outflow of resources related to pensions	406,531	(1,265,904)
Accounts payable and accrued expenses	(666,780)	(761,881)
Due to University of New Mexico	(332,710)	(67,426)
Estimated third-party payor settlements liabilities	404,372	(487,218)
Net pension liability	(109,092)	1,476,412
Deferred inflow of resources related to pensions	6,376	43,373
Net cash used in operating activities	$ (19,461,337)	(20,850,902)

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.

(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.

(Continued)

(e) Contracts and Grants

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

(f) Nonoperating Revenue and Expenses

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

Nonexchange revenue streams are recognized under GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. Appropriations are recognized in the year they are appropriated, regardless of when actually received. Bequests and contributions are recognized when all applicable eligibility requirements have been met. The Mill Levy is recognized in the period it is collected by Bernalillo County. Gains and losses on the sale of assets and other administrative expenses are recognized when incurred.

(g) Cash

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

(h) Inventories

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

(i) Capital Assets

Capital assets are stated at cost on the date of acquisition or at estimated fair value on the date of donation. The Center’s capitalization policy for assets includes all items with a unit cost of more than $5,000 and a minimum estimated useful life of three years. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives of the assets as indicated in the “Estimated Useful Lives of Depreciable Hospital Assets,” Revised 2018 Edition published by the American Hospital Association. Repairs and maintenance costs are charged to expense as incurred. On an annual basis, the Center assesses long-lived assets in order to determine whether or not it is necessary to retire, replace, or impair on condition of the assets and their intended use.

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

(Continued)

(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 $108,000 and $123,000 in aggregate, authorized by Bernalillo County, the City of Albuquerque, and the NM Hospital Equipment Loan Council, during the years ended June 30, 2019 and 2018, 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, 2019 and 2018 totaled $7,076,600 and $6,692,000, 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, 2019 and 2018, 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, 2019 and 2018, the estimated amount of the Center's IBNR and accrued claims was $488,407 and $523,170, 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
2018–2019	$	523,170	4,254,421	(4,289,184)	488,407
2017–2018		673,170	3,748,343	(3,898,343)	523,170

(r) Classification

Certain 2018 amounts have been reclassified to conform to the 2019 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:

	2019		2018	
Medicaid	$ 7,542,581	53 %	$ 10,344,292	58 %
Patients and their insurance carriers	3,954,872	28	2,315,749	13
Medicare	2,634,368	19	5,217,327	29
Total patient accounts receivable	14,131,821	100 %	17,877,368	100 %
Less allowance for uncollectible accounts and contractual adjustments	(9,885,085)		(13,381,492)	
Patient accounts receivable, net	$ 4,246,736		$ 4,495,876	

(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, 2019				
	Beginning balance	Additions	Transfers	Retirements	Ending balance
Center capital assets not being depreciated:					
Land	$ 111,000	—	—	—	111,000
Construction in progress	1,281,763	2,078,670	(1,518,852)	—	1,841,581
	$ 1,392,763	2,078,670	(1,518,852)	—	1,952,581
Center depreciable capital assets:					
Land and land improvements	$ 1,306,925	51,507	318,826	—	1,677,258
Building and building improvements	13,986,367	—	291,390	(77,246)	14,200,511
Building service equipment	5,675,802	—	908,636	(196,921)	6,387,517
Major moveable equipment	1,176,258	195,988	—	(111,946)	1,260,300
Fixed equipment	584,151	—	—	—	584,151
Computer software	25,900	—	—	—	25,900
Total depreciable capital assets	22,755,403	247,495	1,518,852	(386,113)	24,135,637
Less accumulated depreciation for:					
Land improvements	(726,116)	(103,174)	—	—	(829,290)
Building and building improvements	(10,606,255)	(491,594)	—	53,315	(11,044,534)
Building service equipment	(2,277,769)	(481,331)	—	104,448	(2,654,652)
Major moveable equipment	(910,121)	(128,629)	—	111,612	(927,138)
Fixed equipment	(278,251)	(45,127)	—	—	(323,378)
Computer software	(25,900)	—	—	—	(25,900)
Total accumulated depreciation	(14,824,412)	(1,249,855)	—	269,375	(15,804,892)
Center depreciable capital assets, net	$ 7,930,991	(1,002,360)	1,518,852	(116,738)	8,330,745
Capital asset summary:					
Center capital assets not being depreciated	$ 1,392,763	2,078,670	(1,518,852)	—	1,952,581
Center depreciable capital assets, at cost	22,755,403	247,495	1,518,852	(386,113)	24,135,637
Center total cost of capital assets	24,148,166	2,326,165	—	(386,113)	26,088,218
Less accumulated depreciation	(14,824,412)	(1,249,855)	—	269,375	(15,804,892)
Center capital assets, net	$ 9,323,754	1,076,310	—	(116,738)	10,283,326

(Continued)

	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	1,277,941	9,676	24,816	(136,175)	1,176,258
Fixed equipment	567,142	—	18,781	(1,772)	584,151
Computer equipment	—	—	—	—	—
Computer software	25,900	—	—	—	25,900
Total depreciable capital assets	21,696,730	9,676	1,305,082	(256,085)	22,755,403
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	(914,377)	(108,862)	(13,276)	126,394	(910,121)
Fixed equipment	(233,028)	(46,788)	—	1,565	(278,251)
Computer equipment	—	—	—	—	—
Computer software	(25,900)	—	—	—	(25,900)
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

(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's policy or estates of employees who die as the result of a compensable occupational illness or injury are eligible for payment of unused accumulated hours earned under the Center's plan. Accrued sick leave as of June 30, 2019 and 2018 approximates $360,000 and $370,000, 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, 2019 and 2018 approximates $1,342,000 and $1,310,000, 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 $36,000 and $56,000 in fiscal years 2019 and 2018, 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, 2019 and 2018, the following changes occurred in accrued compensated absences:

Balance July 1, 2018	Increase	Decrease	Balance June 30, 2019
$ 1,736,657	2,143,964	(2,142,872)	1,737,749

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

(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 82% and 80% of the Center's gross patient revenues, for the fiscal years ended 2019 and 2018, 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:

		2019	2018
Charges at established rates	$	78,445,605	74,777,505
Charity care		(4,659,868)	(5,339,644)
Contractual adjustments		(39,643,257)	(30,867,086)
Provision for doubtful accounts		(631,849)	(1,495,169)
Net patient service revenues	$	33,510,631	37,075,606

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, 2019, services rendered to the Medicaid beneficiaries that were covered under the FFS program were paid under a cost-reimbursement methodology subject to a cost-per-discharge limitation. The Center was reimbursed at tentative rates throughout the year with final settlement determined after submission of the annual cost report and audit thereof by the Medicaid audit agent. Medicaid cost reports have been final settled for all fiscal years through 2016 with open settlements to the Centers amounting to $711,000. 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 to 2019 amounting to $7,187,000.

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 $1,799,000 and $1,028,000 for the years ended June 30, 2019 and 2018, 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:

		2019	2018
Charges foregone, based on established rates	$	4,659,868	5,339,644
Estimated costs and expenses incurred to provide charity care		3,541,162	3,937,105
Equivalent percentage of charity care charges foregone to total gross revenue		6 %	7 %

(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.

(Continued)

(9) Related-Party Transactions

UNM provides certain administrative and medical support services for the Center, and the Center provides the use of the Center's facilities and administrative services to UNM's teaching personnel. The Center reported liabilities to UNM in the amount of $399,000 and $1,594,000 as of June 30, 2019 and 2018, respectively. The Center's expenses for services rendered during the years ended June 30, 2019, and 2018 amounted to approximately $8,308,000 and $9,548,000, respectively. Also, the Center reported accounts receivable from the UNM for services rendered in the amount of $33,000 and $0 as of June 30, 2019 and 2018, respectively, and from UNM's Medical Group for services rendered in the amount of $36,000 and $40,000 as of June 30, 2019 and 2018, respectively.

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

(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 $1,211,000 and $1,117,000, for the fiscal years ended June 30, 2019 and 2018, respectively. Total employee contributions under this plan were $1,423,000 and $1,239,000 in fiscal years 2019 and 2018, 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 2019 and 2018, respectively, as the Center does not contribute to this plan. Total employee contributions under this plan were $173,000 and $126,000 in fiscal years 2019 and 2018, 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 2019 and 2018.

(Continued)

(11) Defined-Benefit Plan – Educational Retirement Board

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

(a) Plan Description

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

The Plan is a cost-sharing, multiple-employer pension plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs. Additional tenets of the ERA can be found in Sections 22-11-1 through 22-11-52, NMSA 1978, as amended.

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

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

(b) Benefits Provided

The Plan provides retirement and disability benefits. Retirement benefits are determined by taking 2.35% of the employee's final average annual salary multiplied by the employee's years of service. Employees employed before July, 1, 2010 are eligible to retire when one of the following events occur: the employee's age and earned service credit sum to 75 or more; the employee is at least 65 years of age and has 5 or more years of earned service credit; or the employee has service credit totaling 25 years or more. Employees hired on or after July 1, 2010 and before July 1, 2013 are eligible to retire when one of the following events occur: the employee's age and earned service credit sum to 80 or more; the employee is at least 67 years of age and has 5 or more years of earned service credit; or the employee has service credit totaling 30 years or more. Employees hired on or after July 1, 2013 are eligible to retire when one of the following events occur: the employee is at least 55, and has earned 30 or more years of service credit; the employee's minimum age and earned service sum to 80 or more; or the employee is at least 67 years of age and has 5 or more years of earned service credit. Employees are eligible for service-related disability benefits provided he or she has credit for at least 10 years of service and the disability is approved by the Plan.

(c) Contributions

For the fiscal years ended June 30, 2019 and 2018, 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, 2019 and 2018 were approximately $140,000 and $151,000, respectively.

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

At June 30, 2019 and 2018, the Center reported a liability of $4,660,000 and $4,769,000, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and 2016. 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. The Center's proportion was 0.03540% and 0.04201% at June 30, 2018 and June 30, 2017, respectively.

For fiscal years 2019 and 2018, the Center recognized pension expense of $453,000 and $404,000, respectively. The Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2019	
	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	$ 3,097	80,776
Net difference between projected and actual earning on pension plan investments	9,396	—
Changes in assumptions	874,732	—
Changes in proportion and differences between Center contributions and proportionate share of contributions	86,690	338,118
Center contributions subsequent to the measurement date	140,636	—
	$ 1,114,551	418,894

The $140,636 reported as deferred outflows of resources relates to pensions resulting from Center contributions subsequent to the measurement date at year-end June 30, 2019, will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

	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 Center contributions and proportionate share of contributions	—	335,842
Center contributions subsequent to the measurement date	150,089	—
	$ 1,521,082	412,518

The $150,089 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.

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:	
2020	$ 385,623
2021	217,983
2022	(48,709)
2023	124
	$ 555,021

(e) Actuarial Assumptions

The total pension liability in the June 30, 2018 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 10 years of service.
Investment rate of return	7.25%
Single discount rate	5.69%
Retirement age	Experience based table of rates based on age and service. Adopted by NMERB on April 21, 2017 in conjunction with the six year experience study for the period ended June 30, 2016.
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 ended 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 cost of living adjustment 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.); and structural themes (supply and demand imbalances, capital flows, etc.) These items are developed for each major asset class.

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

Asset class	Target allocation	Estimated rate of return
Equities – Domestic	20 %	7.25 %
Equities – International	14	7.25
Fixed income	27	5.90
Alternatives	38	7.25
Cash	1	3.25
	100 %	

(f) Discount Rate

A single discount rate of 5.69% was used to measure the total pension liability as of June 30, 2018. This single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.62%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were sufficient to finance the benefit payments through the year 2050. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2050 fiscal year, and the municipal bond rate was applied to all benefit payments after that date.

(g) Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Change in the Discount Rate

The following table provides the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents the Plan's net pension liability, if it were calculated using a single discount rate that is one-percentage-point lower (4.69%) or one-percentage-point higher (6.69%) than the single discount rate:

	June 30, 2019		
	1% Decrease (4.69%)	Discount rate (5.69%)	1% Increase (6.69%)
Center's proportionate share of the net pension liability	6,056,202	4,659,990	3,520,768

(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 $404,000 and $347,000 in 2019 and 2018, respectively.

Future minimum lease commitments for operating leases for the years subsequent to June 30, 2019 under noncancelable operating leases and memorandums of understanding are as follows:

		Amount
Years ending June 30:		
2020	$	302,143
2021		292,693
2022		292,693
	$	887,529

Schedule 1

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Comparison of Budgeted and Actual Revenues and Expenses

Years ended June 30, 2019 and 2018

	Budgeted (original)	Budgeted (final)	Actual	Budget variance
Operating revenues:				
Net patient service	$ 31,640,664	31,640,664	33,510,631	1,869,967
Other operating revenues	1,245,204	1,245,204	1,309,897	64,693
Total operating revenues	32,885,868	32,885,868	34,820,528	1,934,660
Operating expenses	(54,712,031)	(54,712,031)	(59,612,963)	(4,900,932)
Operating loss	(21,826,163)	(21,826,163)	(24,792,435)	(2,966,272)
Nonoperating revenues	21,824,960	21,824,960	22,530,130	705,170
Decrease in net assets	$ (1,203)	(1,203)	(2,262,305)	(2,261,102)

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	
	2019	**2018**	**2017**
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	650	87	67
Reimbursement received for services provided to patients qualifying for coverage under EMSA	273	389	—
Charitable contributions received from donors that are designated for funding indigent care	—	—	—
Other sources:			
Other source	—	—	—
Total Funding for Charity Care	923	476	67
Cost of Providing Indigent Care:			
Total cost of care for providing services to:			
Uninsured patients qualifying for indigent care	85,241	38,939	100,329
Patients qualifying for coverage under EMSA	576	14,053	664
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	3,455,921	3,898,166	6,293,821
Direct costs paid to other providers on behalf of patients qualifying for indigent care	—	—	—
Total Cost of Providing Indigent Care	3,541,738	3,951,158	6,394,814
Shortfall of Funding for Charity Care to Cost of Providing Indigent Care	$ (3,540,815)	(3,950,682)	(6,394,747)
Patients Receiving Indigent Care Services (Unaudited):			
Total number of patients receiving indigent care	1,296	4,002	4,593
Total number of patient encounters receiving indigent care	10,381	17,661	15,899

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		
		2019	2018	2017
Uninsured patients qualifying for indigent care:				
Charges for these patients	$	112,170	52,810	137,394
Ratio of cost to charges		76.0 %	73.7 %	73.0 %
Cost for uninsured patients qualifying for indigent care	$	85,241	38,939	100,329
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA):				
Charges for these patients	$	758	19,059	910
Ratio of cost to charges		76.0 %	73.7 %	73.0 %
Cost for Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	$	576	14,053	664
Cost of care related to patient portion of bill for insured patients qualifying for indigent care:				
Indigent/charity care adjustments for these patients	$	4,547,698	5,286,834	8,618,940
Ratio of cost to charges		76.0 %	73.7 %	73.0 %
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	$	3,455,921	3,898,166	6,293,821
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.

	2019	2018	2017	2016	2015
Center's proportion of the net pension liability	0.03540 %	0.04201 %	0.04575 %	0.04516 %	0.05368 %
Center's proportionate share of the net pension liability	$ 4,659,990	$ 4,769,082	3,292,670	2,924,809	3,062,832
Center's covered-employee payroll	1,059,835	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	440 %	382 %	289 %	237 %	207 %
Plan fiduciary net position as a percentage of the total pension liability	52.17 %	52.95 %	61.58 %	63.97 %	66.54 %

See accompanying independent auditors' report.

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				
		2019	2018	2017	2016	2015
Contractually required contribution	$	140,636	150,089	173,387	169,077	203,627
Contributions in relation to the contractually required contribution		140,636	150,089	173,387	169,077	178,415
Contribution deficiency	$	—	—	—	—	25,212
Center's covered-employee payroll	$	992,243	1,059,835	1,247,388	1,138,359	1,232,846
Contributions as a percentage of covered-employee payroll		14.17 %	14.16 %	13.90 %	14.85 %	14.47 %

See accompanying independent auditors' report.

KPMG LLP
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6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the University of New Mexico Behavioral Health Operations (the Center), a division of the University of New Mexico, State of New Mexico, operated by the University of New Mexico Health Sciences Center Clinical Operations, organized as the University of New Mexico Behavioral Health Operations, which comprise the statement of net position as of June 30, 2019, 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 17, 2019.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

We note certain matters that are required to be reported per Section 12-6-5 NMSA 1978, that we have described in the accompanying schedule of findings and responses as item 2019-001 and 2019-002.

The Center's Response to the Finding

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

Purpose of this Report

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

KPMG LLP

Albuquerque, New Mexico
December 17, 2019

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Summary of Audit Results

Fiscal year ended June 30, 2019

Type of auditor report issued: Unmodified

Fiscal year 2019 Findings and responses:

Material weakness: No matters to report

Significant deficiencies: No matters to report

Material non-compliance: No matters to report

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

2019-001 Related Party Transaction Policies and Procedures – Other Matter (finding that does not rise to the level of significant deficiency)

2018-001 Repeat and Modified

Condition

In the 2018 audit, finding 2018-001 identified that the organization did not have specific written policies and procedures governing related party transactions, including associated internal controls. The finding identified that the organization should have written policies and procedures that address the topics in the following "Criteria" section, and expectations about documentation standards for and timeliness of related party agreements.

In 2019, the organization created and adopted written policies and procedures governing related party transactions. These policies and procedures were adopted in the latter half of fiscal year 2019, with the result that many related party transactions occurred prior to the policies and procedures taking full effect.

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.

Effect

Because the policies and procedures were adopted in the latter half of the year, certain aspects of the policies and procedures were not fully implemented in fiscal year 2019. For example:

- We identified agreements that were not signed and/or dated, therefore, we could not determine if payments were made before or after the agreement was finalized in accordance with the procurement policies.

Cause

Written policies and procedures have been developed for related party transactions, but were enacted late in the fiscal year.

Recommendation

Many aspects of this fiscal year 2019 deficiency should be resolved because the policies and procedures will be in effect for the entire fiscal year 2020. As the implementation of these policies and procedures continues, we recommend that written documentation address that related party agreements be executed timely.

Management Response

As noted in the cause statement, the Center's management implemented a related party policy during fiscal year 2019 which formalized the policies surrounding related party transactions. During fiscal year 2020, the Center's management will work with the other UNM Health System entities to further improve coordination of disclosure and timeliness of signed agreements.

(Continued)

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

2019-002 User Access Review –Other Matter (finding that does not rise to the level of significant deficiency)

2018-003 and 2017-001 Repeat and Modified

Condition

In 2018 and 2017, we identified that controls over user access reviews are not operating effectively. In 2019, management adopted procedures to do an annual 100% account review for non-elevated accounts. These policies and procedures were implemented in the latter half of the fiscal year and we noted one terminated user retained active accounts in the Lawson system as of the date of testwork. We verified that these employees did not record any activity in Lawson subsequent to their termination.

Criteria

The entity's 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 entity has a formal policy to periodically review user access to ensure active employees have the proper level of access in the applicable systems, and that terminated employees have been timely deactivated. Based on industry standards, the appropriate disabling of access within IT systems would occur within a reasonable time, 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

The root cause of the failure to disable the Lawson account noted in this finding was due to tasks closed by analysts who are not fully versed in the steps needed to inactivate Lawson accounts. A tracking query has been developed to identify and address this deficiency.

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Summary of Prior Year Findings

Year ended June 30, 2019

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

Current Status – *Repeat and Modified* (see Finding 2019-001)

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

Current Status – *Repeat and Modified (see Finding 2019-002)*

UNIVERSITY OF NEW MEXICO BEHAVIORAL HEALTH OPERATIONS

Exit Conference

Year ended June 30, 2019

An exit conference was conducted on October 8, 2019 with a member of the Finance and Audit Committee of the Board of Trustees and a member of the Center's management. During this meeting, the contents of this report were discussed.

University of New Mexico Behavioral Health Operations

Terry Horn, Compliance and Audit Committee Chair

Jennifer K. Phillips, MD, Compliance and Audit Committee Member

Ava Lovell, Senior Executive Officer for Finance & Administration, HSC

Bonnie White, CFO, UNM Hospitals

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