



Report of Independent Auditors
and Financial Statements
with Supplementary Information

University of New Mexico Behavioral Health Operations

June 30, 2023 and 2022

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University of New Mexico Behavioral Health Operations
Official Roster
Year Ended June 30, 2023

Board of Trustees

Kurt Riley	Chair (Term expires 6/30/26, All Pueblo Council of Governors, Regent appointed)
Tamra Mason, PhD	Vice-Chair (Term expires 6/30/25, Regent appointed)
Monica Zamora	Secretary (Term expires 6/30/24, Regent appointed)
Adelmo "Del" Archuleta	Member (Term expires 6/30/25, Regent appointed)
Kenneth "Ken" Lucero	Member (Term expires 6/30/25, All Pueblo Council of Governors, Regent appointed)
Terry Horn	Member (Term expires 6/30/23, Regent appointed)
Michael Brasher	Member (Term expires 6/30/23, County appointed)
Trey Hammond	Member (Term expires 6/30/26, County appointed)
Davin Quinn, MD	Member (Term expires 6/30/24, Regent appointed)

Administrative Officers

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

Report of Independent Auditors

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Joseph M. Maestas, P.E.
New Mexico State Auditor

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the University of New Mexico Behavioral Health Operations (the Center), a division of the University of New Mexico, which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2023, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Other Matter

The financial statements of the Center for the year ended June 30, 2022 were audited by another auditor, who expressed an unmodified opinion on those statements on October 12, 2022.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Center's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 6 through 14 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Center's basic financial statements. The accompanying comparison of budgeted and actual revenues and expenses (Schedule 1), pledged collateral by banks (Schedule 2), and schedule of individual deposit and investment accounts (Schedule 3) (collectively Schedules 1-3) for the year ended June 30, 2023, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1-3 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2023, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Albuquerque, New Mexico
October 3, 2023

Management Discussion and Analysis

University of New Mexico Behavioral Health Operations

Management Discussion and Analysis

June 30, 2023 and 2022

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, 2023 and 2022. 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 28 general adult beds, 15 geriatric beds, and 35 pediatric beds.

University of New Mexico Behavioral Health Operations
Management Discussion and Analysis
June 30, 2023 and 2022

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

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

Three year comparison of financial results

Condensed Summary of Net Position			
	June 30,		
	2023	2022	2021
Assets			
Current assets	\$ 18,436,819	\$ 20,427,166	\$ 17,108,186
Capital assets	26,703,850	10,699,026	10,178,095
Right-to-use assets	404,106	725,456	1,049,150
Other noncurrent assets	-	7,271,029	8,801,054
Total assets	\$ 45,544,775	\$ 39,122,677	\$ 37,136,485
Deferred outflows			
Total deferred outflows of resources	\$ 678,594	\$ 1,425,499	\$ 2,577,244
Liabilities			
Current liabilities	\$ 11,909,957	\$ 10,735,018	\$ 11,929,776
Noncurrent liabilities	3,152,816	2,169,918	6,310,872
Total liabilities	\$ 15,062,773	\$ 12,904,936	\$ 18,240,648
Deferred inflows			
Total deferred inflows of resources	\$ 2,265,551	\$ 3,265,415	\$ 657,460
Net position			
Net investment in capital assets	\$ 26,697,211	\$ 10,689,315	\$ 10,178,095
Restricted	342,417	320,510	312,299
Unrestricted	1,855,417	13,368,000	10,325,227
Total net position	\$ 28,895,045	\$ 24,377,825	\$ 20,815,621

University of New Mexico Behavioral Health Operations

Management Discussion and Analysis

June 30, 2023 and 2022

At June 30, 2023, the Center's total assets were \$45.5 million, compared to \$39.1 million at June 30, 2022 and \$37.1 million at June 30, 2021. Total current assets decreased \$2.0 million at June 30, 2023 compared to June 30, 2022. The largest asset is investment in capital assets in the amount of \$26.7 million at June 30, 2023, \$10.7 million at June 30, 2022 and \$10.2 million at June 30, 2021. At June 30, 2023 and 2022, current assets exceeded current liabilities by \$5.8 million and \$9.7 million, respectively. The Center's largest current asset is third-party payor settlements receivable in the amount of \$11.8 million at June 30, 2023, compared to \$14.0 million and \$12.2 million at June 30, 2022 and 2021, respectively. Third-party payor settlements receivable consist of amounts due from Medicare and Medicaid for cost report settlements, Indirect Medical Education, Graduate Medical Education, and Upper Payment Limit directed payments.

The Center's current liabilities increased by \$1.2 million from June 30, 2022 to June 30, 2023 and decreased by \$1.2 million from June 30, 2021 to June 30, 2022. The most significant current liability, accounts payable, increased by \$1.9 million at June 30, 2023 compared to June 30, 2022. This increase was due to a construction invoice associated with the Crisis Triage Center, which was incurred prior to June 30, 2023 and paid subsequent to fiscal year end. The decrease in current liabilities at June 30, 2022 compared to June 30, 2021 was the result of decreased settlements due to payors and the timing of intergovernmental payments to the State of New Mexico.

The Center's noncurrent liabilities, which consist of the net pension liability, lease liability, and due to affiliates increased \$983 thousand from June 30, 2022 to June 30, 2023 and decreased \$4.1 million from June 30, 2021 to June 30, 2022. The most significant noncurrent liability, pension liability, increased by \$856 thousand as of June 30, 2023 and decreased by \$3.8 million as of June 30, 2022. Both the increase in 2023 and the decrease in 2022 were related to changes in investment performance, actuarial assumptions, and changes in the Center's overall proportion of the liability.

Total net position increased by \$4.5 million to \$28.9 million at June 30, 2023 compared to June 30, 2022, which reflects an operating loss of \$29.2 million, offset by nonoperating net revenues of \$27.2 million and contributed capital funding of \$6.6 million. At June 30, 2023, unrestricted net position totaled \$1.9 million while total net position was \$28.9 million.

Total net position increased by \$3.6 million to \$24.4 million at June 30, 2022, which reflects an operating loss of \$22.0 million, offset by nonoperating net revenues of \$24.6 million and contributed capital funding of \$939 thousand. As of June 30, 2022, unrestricted net position totaled \$13.4 million while total net position was \$24.4 million.

University of New Mexico Behavioral Health Operations
Management Discussion and Analysis
June 30, 2023 and 2022

Condensed Summary of Revenues, Expenses, and Changes in Net Position			
	Years Ended June 30,		
	2023	2022	2021
Total operating revenues	\$ 46,252,913	\$ 48,737,763	\$ 45,343,441
Total operating expenses	(75,478,945)	(70,667,479)	(67,079,870)
Operating loss	(29,226,032)	(21,929,716)	(21,736,429)
Net nonoperating revenue	27,178,453	24,553,419	24,566,010
(Decrease) increase in net position before capital funding	(2,047,579)	2,623,703	2,829,581
Capital funding	6,564,799	938,501	-
Increase after capital funding	4,517,220	3,562,204	2,829,581
Net position, beginning of year	24,377,825	20,815,621	17,986,040
Net position, end of year	<u>\$ 28,895,045</u>	<u>\$ 24,377,825</u>	<u>\$ 20,815,621</u>

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

Net patient service revenue is comprised of gross patient service revenue net of contractual allowances, charity care, provision for doubtful accounts, and any third-party settlements. Also included in net patient service revenue are payments received for Indirect Medical Education (IME), Graduate Medical Education (GME), Directed Upper Payment Limit (UPL) and intergovernmental transfer (IGT) expense. Net patient service revenues were \$42.9 million, \$45.2 million and \$42.2 million for the years ended June 30, 2023, 2022 and 2021, respectively.

Net patient service revenues decreased \$2.3 million during the year ended June 30, 2023 as compared to the year ended June 30, 2022, which represents a 5% decrease. The decrease in net patient service revenues is primarily due to an increase in regulatory and contractual settlement estimates due to third-party payors.

Net patient service revenues increased \$3.0 million during the year ended June 30, 2022 as compared to the year ended June 30, 2021, which represents a 7% increase. The increase in net patient service revenues are due to a \$1.3 million increase in Medicare cost report settlements and a \$1.4 million decrease in regulatory and contractual settlements due to third-party payors.

University of New Mexico Behavioral Health Operations
Management Discussion and Analysis
June 30, 2023 and 2022

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

	Years Ended June 30,		
	2023	2022	2021
Inpatient days - Adult Psychiatric Center	13,081	13,866	13,661
Inpatient days - Children's Psychiatric Center	6,630	7,655	9,037
Total inpatient days	<u>19,711</u>	<u>21,521</u>	<u>22,698</u>
Discharges	1,417	1,566	2,125
Outpatient visits	229,410	216,905	198,029

For the year ended June 30, 2023, patient days decreased 1,810, or 8.4%, while discharges declined by 149, or 9.5%, from the year ended June 30, 2022. Outpatient visits increased 12,505, or 5.8%, from the year ended June 30, 2022 to the year ended June 30, 2023. The decrease in patient days is due to the closure of four Adult beds, the construction related closure of one cottage at the Children's Psychiatric Center and a 50% reduction in a second cottage's capacity to better care for high acuity patients. Outpatient visits increased as a result of being fully staffed.

For the year ended June 30, 2022, patient days decreased 1,177, or 5.2%, from 2021 to 2022, while discharges declined by 559, or 26.3%, from 2021 to 2022. Outpatient visits increased 18,876, or 9.5%, from 2021 to 2022. The decrease in patient days and discharges is due to a County program that was closed down during December of 2021. The patients from the shuttered program were diverted to the Children's Center, often in crisis. As a result of caring for these very high need pediatric patients, the Center could care for only 3 patients per cottage rather than the normal rate of 8 patients to a facility cottage. Additionally, during the year ended June 30, 2022 there were many construction projects, which required the closure of cottages as they underwent renovations.

The Center offers 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.

University of New Mexico Behavioral Health Operations

Management Discussion and Analysis

June 30, 2023 and 2022

As of June 30, 2023, 2022 and 2021, there were approximately 4,800, 4,300 and 3,900 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. The Center does not pursue collection of amounts determined to qualify as charity care. Charges foregone, based on estimated rates, for the years ended June 30, 2023, 2022 and 2021, are \$2.2 million, \$1.5 million and \$1.7, respectively. The related estimated costs and expenses incurred to provide charity care, for the years ended June 30, 2023, 2022 and 2021, are \$2.2 million, \$1.4 million and \$1.5 million, respectively.

The Center provides care to patients who are either uninsured or underinsured and who do not meet the criteria for financial assistance. These accounts are fully reserved and recorded as provision for uncollectible accounts. Provision expense recorded for the years ended June 30, 2023, 2022 and 2021 were \$321,626, \$1,169,424 and \$738,436, respectively.

The Center recognized intergovernmental transfers (IGTs) to the State of New Mexico in the amounts of \$1.6 million, \$1.3 million and \$1.0 million, respectively, for the years ended June 30, 2023, 2022 and 2021. These amounts are recorded within net patient service revenues.

Operating expenses – Operating expenses for the year ended June 30, 2023, including depreciation of \$1.2 million, totaled \$75.5 million. Overall, expenses increased \$4.8 million compared with the prior year. Employee compensation increased \$3.0 million, or 7.2%, employee benefits increased \$864 thousand, or 10.3%, medical services increased \$672 thousand, or 6%, and purchased services increased \$433 thousand, or 49.9%. The increase in employee compensation is due to increased staffing costs associated with contract labor, which was utilized to supplement employed full-time equivalent (FTE) labor. The increase in employee benefits is due to an increase in expense associated with the New Mexico Educational Retirement Board (NMERB) retirement plan. The increase in medical services is a result of an increase in physician support paid to the UNM School of Medicine. The increase in purchased services is primarily a result of increased employment recruiting costs and referral costs.

Operating expenses for the year ended June 30, 2022, including depreciation of \$1.2 million, totaled \$70.7 million. Overall, expenses increased \$3.6 million compared with the prior year. Employee compensation increased \$2.8 million, or 7%, employee benefits decreased \$1.5 million, or 15.4%, and medical services increased \$1.1 million, or 10.8%. The increase in employee compensation is due to increased staffing costs associated with contract labor, which was utilized to supplement employed FTE labor. The decrease in employee benefits is due to a decrease in expense associated with the NMERB retirement plan. The increase in medical services is a result of an increase in physician support paid to the UNM School of Medicine.

University of New Mexico Behavioral Health Operations
Management Discussion and Analysis
June 30, 2023 and 2022

The operating expense mix for the Center for the years ended June 30, 2023 and 2022 is detailed below:

	<u>2023</u>	<u>2022</u>
Employee compensation	59%	59%
Benefits	12	12
Medical services	16	16
Occupancy	3	3
Medical supplies	2	2
Purchased services	2	1
Depreciation	2	2
Other supplies	1	2
Gross receipts tax	1	1
Equipment	1	1
Other	1	1

Nonoperating revenues and expenses – Revenue from the Bernalillo County mill levy was the most significant source of nonoperating revenue, totaling \$18.1 million, \$17.2 million and \$16.8 million for the years ended June 30, 2023, 2022 and 2021, respectively. The current Memorandum of Understanding (MOU) with Bernalillo County stipulates fifteen percent (15%) of the mill levy revenue will be allocated to the operation and maintenance of the Adult Center and associated behavioral health and substance abuse treatment services that are offered by the Hospital and the Center. During the years ended June 30, 2023, 2022 and 2021, 15% of the mill levy was allocated to the Center.

The state appropriation was the next most significant nonoperating revenue source totaling \$9.3 million, \$7.6 million and \$7.4 million for the years ended June 30, 2023, 2022 and 2021, respectively. The state appropriation is provided to the Children’s Center to fulfill its mission to the State of New Mexico. In 1975, the Center was created by state statute under the authority of the State of New Mexico to supply what were deemed as necessary services to improve the mental health and well-being of New Mexico’s children and adolescents through inpatient services at the Center, at school sites and at patients’ homes. The appropriation also funds the operation of the Mimbres School, a state-supported, on-site school. Included in the current year amount of \$9.3 million is \$393 thousand, which represents proceeds from State tax severance bonds, to be used towards the design of the Children’s Psychiatric replacement building.

Capital assets – At June 30, 2023, the Center had \$45.9 million invested in capital assets, less accumulated depreciation of \$19.2 million. Depreciation charges for the year ended June 30, 2023 totaled \$1.2 million compared to \$1.2 million and \$1.1 million for the years ended June 30, 2022 and 2021, respectively.

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Management Discussion and Analysis
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Land and improvements	\$ 2,325,709	\$ 2,072,819	\$ 2,072,819
Buildings and improvements	13,968,345	13,968,345	13,474,902
Buildings and equipment	8,118,126	8,118,126	7,637,603
Major moveable equipment	1,435,411	1,353,619	1,210,465
Fixed equipment	994,561	994,561	710,273
Computer software	25,900	25,900	25,900
Construction in progress	<u>19,061,360</u>	<u>2,270,609</u>	<u>2,097,790</u>
	45,929,412	28,803,979	27,229,752
Less accumulated depreciation	<u>(19,225,562)</u>	<u>(18,104,953)</u>	<u>(17,051,657)</u>
Net property and equipment	<u>\$ 26,703,850</u>	<u>\$ 10,699,026</u>	<u>\$ 10,178,095</u>

During the year ended June 30, 2023, the Center's most significant increase to capital assets is construction in progress with a net increase of \$16.8 million and land improvements of \$253 thousand. This increase is due to the continued expansion of the psychiatric emergency services unit at the Adult Center and new buildings at the Children's Center.

During the year ended June 30, 2022, the Center's most significant net increase to capital assets is buildings and improvements of \$493 thousand and building service equipment of \$481 thousand. This increase is due to the continued expansion of the psychiatric emergency services unit at the Adult Center and chiller replacement at the Children's Center, which began during the year ended June 30, 2019.

Change in net position – Total net position (assets plus deferred outflows minus liabilities minus deferred inflows) is classified by the Center's ability to use these assets to meet operating needs. Total net position can be unrestricted or restricted. Unrestricted net position for the Center may be used to meet all operating needs of the Center. Restricted net position is generated by donations and gifts and is further classified as to the purpose for which it must be used. The Center's total change in net position reflected a net increase of approximately \$4.5 million for the year ended June, 30, 2023 and a net increase of \$3.6 million for the year ended June, 30, 2022.

Factors impacting future periods – On July 27, 2023, Centers for Medicare & Medicaid Services (CMS) released the Federal Fiscal Year (FFY) 2024 Inpatient Psychiatric Facilities (IPF) Prospective Payment System (PPS) Final Rule. The IPF PPS rates will reflect a market basket increase of 3.5% less the productivity reduction for FFY 2024 of 0.2% for a final rate increase of 3.3% for FFY 2024. Teaching payments for FFY 2024 will increase 9.6% while ECT payments will increase 3.2%. The Center's wage index remained unchanged at .9010 for both FFY 2023 and FFY 2024.

The overall impact of the proposed OPSS rule on the Hospital's reimbursement is estimated to be an increase of 2.8% or \$16 thousand.

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

University of New Mexico Behavioral Health Operations

Management Discussion and Analysis

June 30, 2023 and 2022

The Center's facilities are leased from Bernalillo County (the County) by UNM under the 2014 lease agreement, as described under note 1 to the financial statements. Terms of this agreement 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. Neither party requested to reopen the terms and conditions of the lease in 2022. On March 25, 2014, the County Commission approved Administrative Resolution AR 2014-21 to open negotiations with UNM on the lease agreement and to establish a taskforce to provide healthcare expertise to the County in support of the negotiations. The agreement was finalized in February 2018. Under the MOU, the UNM Hospital is required to allocate 15% of the mill levy proceeds to the Center, fund one or more navigational services and a transition planning and case management service, Bernalillo County Re-entry Resource Center (RRC), at \$2.06 million adjusted annually, and to comply with certain reporting and collaboration efforts as described in the MOU. In June 2018, the Hospital and County entered into a program MOU for the RRC, under which the Center would establish within its budget at least \$800 thousand for this program. UNMH also increased the annual funding to the Pathways program to \$1.26 million. The Pathways funding of \$1.26 million and the RRC funding of \$800 thousand fulfill the navigation and case management requirement to Bernalillo County.

The Center will also see an increase in state appropriations for the year ended June 30, 2024 of \$1.3 million.

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

Financial Statements

University of New Mexico Behavioral Health Operations
Statements of Net Position
June 30, 2023 and 2022

	2023	2022
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Cash	\$ 3,675	\$ 3,675
Receivables		
Patient (net of allowance for doubtful accounts and contractual adjustments of approximately \$11,283,000 in 2023 and \$9,960,000 in 2022)	6,009,678	5,976,685
Contracts and grants	22,865	21,342
Due from University of New Mexico entities	66,340	-
Estimated third-party payor settlements	11,849,164	13,995,432
Bernalillo County mill levy	305,263	315,203
Total net receivables	18,253,310	20,308,662
Inventories	131,423	114,829
Prepaid expenses	48,411	-
Total current assets	18,436,819	20,427,166
NONCURRENT ASSETS		
Due from affiliates	-	7,271,029
Capital assets, net	26,703,850	10,699,026
Right-to-use assets, net	404,106	725,456
Total noncurrent assets	27,107,956	18,695,511
TOTAL ASSETS	\$ 45,544,775	\$ 39,122,677
DEFERRED OUTFLOWS		
Total deferred outflows related to pensions	\$ 678,594	\$ 1,425,499

See accompanying notes.

University of New Mexico Behavioral Health Operations
Statements of Net Position
June 30, 2023 and 2022

	2023	2022
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 3,250,072	\$ 1,305,648
Due to University of New Mexico entities	1,768,649	1,394,590
Lease liability - current	130,414	324,422
Accrued compensation and benefits	2,596,135	4,044,632
Estimated third-party payor settlements	4,164,687	3,665,726
Total current liabilities	11,909,957	10,735,018
NONCURRENT LIABILITIES		
Net pension liability	2,614,967	1,759,173
Due to affiliates	257,518	-
Lease liability	280,331	410,745
Total noncurrent liabilities	3,152,816	2,169,918
TOTAL LIABILITIES	\$ 15,062,773	\$ 12,904,936
DEFERRED INFLOWS		
Total deferred inflows related to pensions	\$ 2,265,551	\$ 3,265,415
NET POSITION		
Net investment in capital assets	\$ 26,697,211	\$ 10,689,315
Restricted for expendable grants, bequests, and contributions	342,417	320,510
Unrestricted	1,855,417	13,368,000
TOTAL NET POSITION	\$ 28,895,045	\$ 24,377,825

See accompanying notes.

University of New Mexico Behavioral Health Operations
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2023 and 2022

	2023	2022
OPERATING REVENUES		
Net patient service	\$ 42,895,023	\$ 45,232,423
State and local contracts and grants	3,300,080	3,438,856
Other operating revenues	57,810	66,484
Total operating revenues	46,252,913	48,737,763
OPERATING EXPENSES		
Employee compensation	44,825,350	41,827,364
Benefits	9,265,779	8,401,648
Medical services	11,924,994	11,252,565
Occupancy	2,158,096	2,330,194
Medical supplies	1,409,922	1,623,624
Purchased services	1,300,435	867,281
Depreciation	1,176,641	1,227,151
Other supplies	1,027,172	927,765
Gross receipts tax	820,311	792,181
Equipment	806,621	604,813
Other	763,624	812,893
Total operating expenses	75,478,945	70,667,479
Operating loss	(29,226,032)	(21,929,716)
NONOPERATING REVENUES (EXPENSES)		
Bernalillo County mill levy	18,097,446	17,224,515
State general fund and other state fund appropriations	9,320,374	7,631,101
Bequests and contributions	25,425	14,167
Other nonoperating expense	(264,792)	(316,364)
Net nonoperating revenue	27,178,453	24,553,419
(Decrease) increase in net position before capital funding	(2,047,579)	2,623,703
Capital funding from Bernalillo County	6,564,799	938,501
Increase in net position after capital funding	4,517,220	3,562,204
NET POSITION		
Beginning of year	24,377,825	20,815,621
End of year	\$ 28,895,045	\$ 24,377,825

See accompanying notes.

University of New Mexico Behavioral Health Operations
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from Medicaid and Medicare	\$ 41,711,682	\$ 32,423,730
Cash received from insurance and patients	3,795,577	8,459,817
Cash received from contracts and grants	3,298,557	3,417,514
Cash payments to employees	(36,631,198)	(35,955,427)
Cash payments to contract labor	(8,433,895)	(5,285,433)
Cash payments to suppliers	(13,883,004)	(14,446,218)
Cash payments to University of New Mexico entities	(12,871,070)	(12,867,919)
Cash received from affiliates	7,528,547	1,530,025
Cash payments to State of New Mexico for gross receipts tax	(820,311)	(792,181)
Other cash receipts	57,810	66,484
Net cash from operating activities	(16,247,305)	(23,449,608)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from Bernalillo County mill levy	18,107,386	17,244,268
Cash received from state general fund and other state fund appropriations	9,320,374	7,631,101
Cash received from contributions for other-than-capital purposes	25,425	14,167
Cash payments for nonoperating sources	(245,557)	(298,149)
Net cash from noncapital financing activities	27,207,628	24,591,387
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Cash received from Bernalillo County for capital funding	6,564,799	938,501
Purchases of capital assets	(17,188,842)	(1,804,072)
Cash payments for leases	(324,422)	(313,983)
Interest payments on leases	(19,235)	-
Cash received from disposal of assets	7,377	37,775
Net cash from capital financing activity	(10,960,323)	(1,141,779)
Net increase in cash and cash equivalents	-	-
CASH, beginning of year	3,675	3,675
CASH, end of year	\$ 3,675	\$ 3,675

See accompanying notes.

University of New Mexico Behavioral Health Operations
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
RECONCILIATION OF OPERATING LOSS TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (29,226,032)	\$ (21,929,716)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation expense	1,176,641	1,227,151
Lease amortization	321,350	323,694
Provision for doubtful accounts	321,626	1,169,424
Change in assets, deferred outflows, liabilities, and deferred inflows		
Patient receivables, net	(354,619)	(2,743,818)
Due to/from affiliates	7,528,547	1,530,025
Contracts and grants receivables	(1,523)	(21,342)
Estimated third-party payor settlements receivables	2,146,268	(1,791,872)
Prepaid expenses	(48,411)	30,952
Inventories	(16,594)	17,923
Due to University of New Mexico entities	307,719	(93,726)
Accounts payable and accrued expenses	495,927	(128,004)
Estimated third-party payor settlements liabilities	498,961	(982,610)
Deferred outflow of resources related to pensions	746,905	1,151,745
Deferred inflow of resources related to pensions	(999,864)	2,607,955
Net pension liability	855,794	(3,817,389)
	855,794	(3,817,389)
Net cash from operating activities	\$ (16,247,305)	\$ (23,449,608)

See accompanying notes.

University of New Mexico Behavioral Health Operations

Notes to Financial Statements

Note 1 – Description of Business

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

The Adult Center was organized under a joint powers agreement between the University of New Mexico (UNM), a state institution of higher education created by the New Mexico Constitution, and Bernalillo County (the County) for the purpose of providing mental health services and for the advancement of human knowledge and education in the mental health field. The UNM Board of Regents and the Board of County Commissioners participate in a lease agreement for operation and lease of County healthcare facilities terminating June 30, 2055. The purpose of the original lease is to operate and maintain the Center in accordance with the provisions of the Hospital Funding Act for the term of the agreement. This agreement continues in force until rescinded or terminated by either party.

The Children's Center, a psychiatric center operated by UNM Health Sciences Center, is certified as a short-term, acute care provider. The Center provides intensive treatment for children and adolescents through its acute inpatient, residential, and outpatient therapy programs. The Children's Center is the state's only comprehensive psychiatric facility dedicated solely to the treatment of seriously emotionally disturbed children and adolescents.

The accompanying financial statements of the Center are intended to present the financial position and changes in financial position and cash flows of only that portion of the business-type activities of UNM, which are attributable to the transactions of the Center. The Center is not a legally separate entity and is, therefore, reported as a division of UNM and included in the basic financial statements of UNM. As a division of UNM, the Center has no component units.

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

Note 2 – Summary of Significant Accounting Policies

Basis of presentation – The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with generally accepted accounting principles for healthcare organizations, and are presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; as amended by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*.

University of New Mexico Behavioral Health Operations

Notes to Financial Statements

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

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

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

Net investment in capital assets – Capital assets and right-to-use assets net of accumulated depreciation, accumulated amortization and related liabilities.

Restricted, expendable – Assets whose use by the Center is subject to externally imposed constraints that can be fulfilled by actions of the Center pursuant to those constraints or that expire by the passage of time.

Unrestricted – Assets that are not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of UNM Hospital Board of Trustees, the UNM Board of Regents, or may otherwise be limited by contractual agreements with outside parties.

Recent accounting pronouncements – GASB Statement No. 96, *Subscription-based Information Technology Arrangements*, was adopted effective July 1, 2022. The objective of this statement is to provide uniform guidance for accounting and financial reporting for transactions that meet the definition of subscription-based information technology arrangements (SBITAs). This statement defines a SBITA, established that a SBITA results in a right-to-use subscription asset and a corresponding subscription liability, provides the capitalization criteria for outlays other than subscription payments, and requires note disclosures regarding a SBITA. The adoption of this standard resulted in no effect to the beginning asset or liability of the Center related to SBITA assets and there was no impact to the net position of the Center.

In June 2022, GASB issued Statement No. 100, *Accounting Changes and Error Corrections*. An amendment to Statement 62, the standard clarifies practice by providing guidance for changes in the financial reporting entity, accounting principles, and estimates used to prepare financial information. The new standard also prescribes the treatment for the correction of errors in previously issued financial statements. The requirements of this statement apply to the financial statements of all state and local governments. The statement is effective for fiscal years beginning after June 15, 2023, the standard will affect the year-end June 30, 2024. The Center is evaluating the impact the standard will have on its financial statements.

University of New Mexico Behavioral Health Operations

Notes to Financial Statements

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. The objectives of this statement are to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this statement apply to the financial statements of all state and local governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2023. The Center is evaluating the impact the standard will have on its financial statements.

Implementation Guide No. 2021-1, *Implementation Guidance Update—2021*. The implementation guide 2021 states that it may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. The amended guidance on capitalization is effective for reporting periods beginning after June 15, 2023. The Center is evaluating the impact the standard will have on its financial statements.

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

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

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

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

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

University of New Mexico Behavioral Health Operations

Notes to Financial Statements

Cash – The Center holds petty cash amounts only as it does not have its own bank accounts. As noted on page 25, Due to/from affiliates, the Hospital receives all cash on behalf of, and pays all obligations for, the Center.

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

Capital assets – Capital assets are stated at cost on the date of acquisition or at estimated fair value on the date of donation. The Center’s capitalization policy for assets includes all items with a unit cost of more than \$5 thousand and a minimum estimated useful life of three years. Depreciation of capital assets is calculated using the straight-line method over the estimated useful lives of the assets as indicated in the “Estimated Useful Lives of Depreciable Hospital Assets,” Revised 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 the Center. The land and buildings owned by UNM are recorded on the Center’s financial statements. Equipment includes items that have been purchased with funds received in accordance with certain contracts and grants, and title to this equipment is vested with the Center.

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

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

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

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

University of New Mexico Behavioral Health Operations

Notes to Financial Statements

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

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

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

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

Due to/from affiliates – The Hospital receives all cash on behalf of the Center and pays all obligations. Accounts payable and accrued expenses are considered paid and no longer an obligation of the Center when vouchered for payment by the Hospital. Amounts due from affiliates consist mainly of cash collected in excess of expenses paid and do not bear interest. Amounts due to affiliates consist mainly of expenses paid in excess of cash collected and do not bear interest.

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

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

Charity care – The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, they are deducted from gross revenue, with the exception of copayments.

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

University of New Mexico Behavioral Health Operations

Notes to Financial Statements

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 \$204 thousand and \$181 thousand in aggregate, authorized by Bernalillo County, the City of Albuquerque, and the New Mexico Hospital Equipment Loan Council, during the years ended June 30, 2023 and 2022, respectively, as a result of the exemptions and abatements granted.

State appropriation – The funding for the state appropriation is included in the General Appropriation Act, which is approved by the House and Senate of the State Legislature and signed by the governor before going into effect. Funds appropriated for the years ended June 30, 2023 and 2022 totaled \$8.9 million and \$7.6 million, respectively. The General Fund is designated as a nonreverting fund, per House Bill 2, Section 4, Sub-Section J, Higher Education. In addition to the \$8.9 million, the State appropriated \$393 thousand which represents proceeds from State tax severance bonds to be used towards the design of the Children’s Psychiatric replacement building.

Income taxes – As part of a state institution of higher education, the income of the Center is generally excluded from federal and state income taxes under Section 115(1) of the IRC. However, income generated from activities unrelated to the Center’s exempt purpose is subject to income taxes under IRC Section 511(a)(2)(B). During the years ended June 30, 2023 and 2022, there was no income generated from unrelated activities.

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

Intergovernmental transfers – Intergovernmental transfers (IGTs) are recognized in the period in which the Center incurs an obligation to make payments to other governmental entities as evidenced by executed Memoranda of Understanding (MOUs) between the State of New Mexico and the Center. The Center recorded \$1.6 million and \$1.3 million in IGT obligations for years ended June 30, 2023 and 2022, respectively. Due to the nature of the MOUs to fund a portion of the nonfederal share to obtain federal matching funds for the Medicaid “Centennial Care,” and since the Medicaid “Centennial Care” program is for the provision of patient care, IGTs are recorded as a reduction of net patient service.

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

University of New Mexico Behavioral Health Operations

Notes to Financial Statements

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, 2023 and 2022, the estimated amount of the Center’s IBNR and accrued claims was \$477 thousand and \$479 thousand, respectively. The liability balance for the self-insurance plan is included in accrued payroll of the Hospital, which is reflected in the net due to/from affiliate account of the Center. The IBNR liability was based on an actuarial analysis calculated using information provided by BCBSNM. Changes in the reported liability were as follows:

	Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Year End
2022-2023	\$ 478,986	\$ 4,673,794	\$ (4,675,447)	\$ 477,333
2021-2022	\$ 485,221	\$ 4,945,752	\$ (4,951,987)	\$ 478,986

Note 3 – Concentration of Risk

The Center receives payment for services rendered to patients under payment arrangements with payors that include: (i) Medicare and Medicaid; (ii) other third-party payors, including commercial carriers; and (iii) others. The other payor category includes United States Public Health Service, self-pay, counties and other government agencies. The following table summarizes patient accounts receivable and the percentage of gross accounts receivable from all payors as of June 30:

	2023		2022	
Medicaid	\$ 8,908,472	51%	\$ 7,468,678	47%
Patients and their insurance carriers	3,971,820	23%	3,745,361	24%
Medicare	4,411,970	26%	4,723,009	29%
Total patient account receivables	17,292,262	100%	15,937,048	100%
Less allowance of uncollectible account and contractual adjustments	(11,282,584)		(9,960,363)	
Patient accounts receivable, net	\$ 6,009,678		\$ 5,976,685	

University of New Mexico Behavioral Health Operations

Notes to Financial Statements

Note 4 – Capital Assets

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

	Year Ended June 30, 2023				Ending Balance
	Beginning Balance	Additions	Transfers	Retirements	
Center capital assets not being depreciated					
Land	\$ 111,000	\$ -	\$ -	\$ -	\$ 111,000
Construction in progress	2,270,609	17,043,641	(252,890)	-	19,061,360
	<u>\$ 2,381,609</u>	<u>\$ 17,043,641</u>	<u>\$ (252,890)</u>	<u>\$ -</u>	<u>\$ 19,172,360</u>
Center depreciable capital assets					
Land and land improvements	\$ 1,961,819	\$ -	\$ 252,890	\$ -	\$ 2,214,709
Building and building improvements	13,968,345	-	-	-	13,968,345
Building service equipment	8,118,126	-	-	-	8,118,126
Major moveable equipment	1,353,619	145,201	-	(63,409)	1,435,411
Fixed equipment	994,561	-	-	-	994,561
Computer software	25,900	-	-	-	25,900
Total depreciable capital assets	<u>26,422,370</u>	<u>145,201</u>	<u>252,890</u>	<u>(63,409)</u>	<u>26,757,052</u>
Less accumulated depreciation for					
Land and land improvements	(1,211,094)	(125,927)	-	-	(1,337,021)
Building and building improvements	(11,270,108)	(409,211)	-	-	(11,679,319)
Building service equipment	(4,124,121)	(477,852)	-	-	(4,601,973)
Major moveable equipment	(986,685)	(95,028)	-	56,032	(1,025,681)
Fixed equipment	(487,045)	(68,623)	-	-	(555,668)
Computer software	(25,900)	-	-	-	(25,900)
Total accumulated depreciation	<u>(18,104,953)</u>	<u>(1,176,641)</u>	<u>-</u>	<u>56,032</u>	<u>(19,225,562)</u>
Center depreciable capital assets, net	<u>\$ 8,317,417</u>	<u>\$ (1,031,440)</u>	<u>\$ 252,890</u>	<u>\$ (7,377)</u>	<u>\$ 7,531,490</u>
Capital asset summary					
Center capital assets not being depreciate	\$ 2,381,609	\$ 17,043,641	\$ (252,890)	\$ -	\$ 19,172,360
Center depreciable capital assets, at cost	<u>26,422,370</u>	<u>145,201</u>	<u>252,890</u>	<u>(63,409)</u>	<u>26,757,052</u>
Center total cost of capital assets	28,803,979	17,188,842	-	(63,409)	45,929,412
Less accumulated depreciation	<u>(18,104,953)</u>	<u>(1,176,641)</u>	<u>-</u>	<u>56,032</u>	<u>(19,225,562)</u>
Center capital assets, net	<u>\$ 10,699,026</u>	<u>\$ 16,012,201</u>	<u>\$ -</u>	<u>\$ (7,377)</u>	<u>\$ 26,703,850</u>

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	Year Ended June 30, 2022				
	Beginning Balance	Additions	Transfers	Retirements	Ending Balance
Center capital assets not being depreciated					
Land	\$ 111,000	\$ -	\$ -	\$ -	\$ 111,000
Construction in progress	2,097,790	1,570,987	(1,398,168)	-	2,270,609
	<u>\$ 2,208,790</u>	<u>\$ 1,570,987</u>	<u>\$ (1,398,168)</u>	<u>\$ -</u>	<u>\$ 2,381,609</u>
Center depreciable capital assets					
Land and land improvements	\$ 1,961,819	\$ -	\$ -	\$ -	\$ 1,961,819
Building and building improvements	13,474,902	-	610,735	(117,292)	13,968,345
Building service equipment	7,637,603	-	503,145	(22,622)	8,118,126
Major moveable equipment	1,210,465	233,085	-	(89,931)	1,353,619
Fixed equipment	710,273	-	284,288	-	994,561
Computer software	25,900	-	-	-	25,900
Total depreciable capital assets	<u>25,020,962</u>	<u>233,085</u>	<u>1,398,168</u>	<u>(229,845)</u>	<u>26,422,370</u>
Less accumulated depreciation for					
Land and land improvements	(1,089,293)	(121,801)	-	-	(1,211,094)
Building and building improvements	(10,917,736)	(433,453)	-	81,081	(11,270,108)
Building service equipment	(3,654,187)	(489,099)	-	19,165	(4,124,121)
Major moveable equipment	(947,061)	(113,233)	-	73,609	(986,685)
Fixed equipment	(417,480)	(69,565)	-	-	(487,045)
Computer software	(25,900)	-	-	-	(25,900)
Total accumulated depreciation	<u>(17,051,657)</u>	<u>(1,227,151)</u>	<u>-</u>	<u>173,855</u>	<u>(18,104,953)</u>
Center depreciable capital assets, net	<u>\$ 7,969,305</u>	<u>\$ (994,066)</u>	<u>\$ 1,398,168</u>	<u>\$ (55,990)</u>	<u>\$ 8,317,417</u>
Capital asset summary					
Center capital assets not being depreciated	\$ 2,208,790	\$ 1,570,987	\$ (1,398,168)	\$ -	\$ 2,381,609
Center depreciable capital assets, at cost	25,020,962	233,085	1,398,168	(229,845)	26,422,370
Center total cost of capital assets	27,229,752	1,804,072	-	(229,845)	28,803,979
Less accumulated depreciation	(17,051,657)	(1,227,151)	-	173,855	(18,104,953)
Center capital assets, net	<u>\$ 10,178,095</u>	<u>\$ 576,921</u>	<u>\$ -</u>	<u>\$ (55,990)</u>	<u>\$ 10,699,026</u>

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Note 5 – Leases

As discussed in Note 2, the Center is a lessee for various noncancellable leases of buildings and equipment.

A summary of the lease asset activity during the years ended June 30, 2023 and 2022 is as follows:

	<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2023</u>
Lease assets				
Buildings	\$ 1,356,723	\$ -	\$ -	\$ 1,356,723
Total lease assets	<u>1,356,723</u>	<u>-</u>	<u>-</u>	<u>1,356,723</u>
Less accumulated amortization				
Buildings	<u>(631,267)</u>	<u>(321,350)</u>	<u>-</u>	<u>(952,617)</u>
Total accumulated amortization	<u>(631,267)</u>	<u>(321,350)</u>	<u>-</u>	<u>(952,617)</u>
Total lease assets, net	<u>\$ 725,456</u>	<u>\$ (321,350)</u>	<u>\$ -</u>	<u>\$ 404,106</u>
	<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2022</u>
Lease assets				
Buildings	\$ 1,356,723	\$ -	\$ -	\$ 1,356,723
Total lease assets	<u>1,356,723</u>	<u>-</u>	<u>-</u>	<u>1,356,723</u>
Less accumulated amortization				
Buildings	<u>(307,573)</u>	<u>(323,694)</u>	<u>-</u>	<u>(631,267)</u>
Total accumulated amortization	<u>(307,573)</u>	<u>(323,694)</u>	<u>-</u>	<u>(631,267)</u>
Total lease assets, net	<u>\$ 1,049,150</u>	<u>\$ (323,694)</u>	<u>\$ -</u>	<u>\$ 725,456</u>

Changes in long-term lease liabilities for the years ended June 30, 2023 and 2022 are summarized below:

<u>Balance at June 30, 2022</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2023</u>	<u>Amounts Due Within One Year</u>
<u>\$ 735,167</u>	<u>\$ -</u>	<u>\$ (324,422)</u>	<u>\$ 410,745</u>	<u>\$ 130,414</u>
<u>Balance at June 30, 2021</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2022</u>	<u>Amounts Due Within One Year</u>
<u>\$ 1,049,150</u>	<u>\$ -</u>	<u>\$ (313,983)</u>	<u>\$ 735,167</u>	<u>\$ 324,422</u>

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Future annual lease payments are as follows:

<u>Years Ending June 30,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2024	\$ 130,414	\$ 10,953	\$ 141,367
2025	93,117	7,791	100,908
2026	96,212	4,696	100,908
2027	91,002	1,497	92,499
	<u>\$ 410,745</u>	<u>\$ 24,937</u>	<u>\$ 435,682</u>

Note 6 – Compensated Absences

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

Sick leave – Full-time employees accrue four hours of sick leave each two-week pay period (13 days per annum) up to a maximum of 1,040 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, 2023 and 2022 is \$357 thousand and \$353 thousand, 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.

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Annual leave – Full-time employees accrue annual leave based on their length of employment up to a maximum of 480 hours. Part-time employees who are at least 0.5 FTE earn annual leave on a pro rata basis each pay period. At June 30 of each year, employees have the opportunity to exchange, for cash, up to 80 annual leave hours accumulated in excess of 240 hours. At termination, employees are eligible for payment of unused accumulated hours, not to exceed 480 hours. Accrued annual leave as of June 30, 2023 and 2022 approximates \$1.5 million and \$1.6 million, 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 \$41 thousand in each of the years ended June 30, 2023 and 2022. 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, 2023 and 2022, the following changes occurred in accrued compensated absences:

Balance at July 1, 2022	Increase	Decrease	Balance at June 30, 2023
\$ 1,945,713	\$ 2,352,146	\$ (2,413,153)	\$ 1,884,706
Balance at July 1, 2021	Increase	Decrease	Balance at June 30, 2022
\$ 2,476,367	\$ 2,433,935	\$ (2,964,589)	\$ 1,945,713

Note 7 – Net Patient Service Revenues

The majority of the Center’s revenue is generated through agreements with third-party payors that provide for reimbursement to the Center at amounts different from established charges. Approximately 84% of the Center’s gross patient revenues, for the years ended June 30, 2023 and 2022, 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:

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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:

	2023	2022
Charges at established rates	\$ 75,843,193	\$ 76,321,560
Charity care	(2,184,332)	(1,538,727)
Contractual adjustments	(30,442,212)	(28,380,986)
Provision for doubtful account	(321,626)	(1,169,424)
Net patient services revenues	\$ 42,895,023	\$ 45,232,423

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, 2023, 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 2020 with open settlements to the Centers amounting to \$612 thousand. Retroactively calculated contractual adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Center is reimbursed from the Medicare programs for certain reimbursable items at prospectively established rates with final settlement determined after submission of annual cost reports by the Center. The annual cost reports are subject to audit by the Medicare intermediary. Cost reports through 2018, excluding fiscal year 2005, have been final settled for the Medicare program, with open fiscal years 2005 and 2019 through 2023 amounting to a receivable of \$9.2 million.

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Current year Medicare cost report settlement estimates, settlements of prior-year cost reports, and changes in prior-year estimates resulted in net increases to net patient service revenue of approximately \$2.1 million and \$2.7 million for the years ended June 30, 2023 and 2022, 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.

Note 8 – Charity Care

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

	2023	2022
Charges foregone, based on established rates	\$ 2,184,332	\$ 1,538,727
Estimated costs and expenses incurred to provide charity care	2,166,118	1,408,982
Equivalent percentage of charity care charges foregone to total gross revenue	3%	2%

Note 9 – Malpractice Insurance

As a part of UNM, the Center has immunity from tort liability except as waived by the New Mexico legislature. In this connection, under the New Mexico Tort Claims Act (NMTCA), the New Mexico Legislature waived the State's and the Center's immunity from liability for claims arising out of negligence out of the operation of the Center, the treatment of the Center's patients, and the healthcare services provided by Center employees. In addition, the NMTCA limits, as an integral part of this waiver of sovereign immunity, the amount of damages that can be assessed against the Center on any tort claim including medical malpractice, professional or general liability claims.

The NMTCA provides that total liability for all claims that arise out of a single occurrence shall not exceed \$750 thousand set forth as follows: (a) \$200 thousand for real property; (b) up to \$300 thousand for past and future medical and medically related expenses; and (c) up to \$400 thousand for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant. While the language of the NMTCA does not expressly provide for third-party claims such as loss of consortium, the New Mexico appellate court decisions have allowed claimants to seek loss of consortium. As a result, if loss of consortium claims are presented, those claims cannot exceed \$350 thousand in the aggregate. Thus, if a claim presents both direct claims and third-party claims, the maximum exposure of the Public Liability Fund, and therefore, the Center, cannot exceed \$1.05 million. The NMTCA prohibits the award of punitive or exemplary damages against the Center.

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The NMTCA requires the State Risk Management Division (RMD) to provide coverage to the Center for those torts where the Legislature has waived the State's immunity from liability up to the damages limits of the NMTCA, as described above, plus the cost incurred in defending any claims and/or lawsuits (including attorney's fees and expenses), with no deductible and with no self-insured retention by the Center. As a result of the foregoing, the Center is fully covered for claims and/or lawsuits relating to medical malpractice or professional liability occurring at the Center.

Note 10 – Related-Party Transactions

UNM provides certain administrative and medical support services for the Center, and the Center provides the use of the Center's facilities and administrative services to UNM's teaching personnel. The Center reported liabilities to UNM entities in the amount of \$1.8 million and \$1.4 million as of June 30, 2023 and 2022, respectively. The Center's expenses for services rendered for the years ended June 30, 2023 and 2022 amounted to approximately \$14.3 million and \$12.7 million, respectively.

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

Note 11 – Defined-Contribution Plans

The Center has a defined-contribution plan covering eligible employees, which provides retirement benefits. The name of the plan is UNM Hospital Tax Sheltered Annuity Plan, formerly known as the University of New Mexico Hospital/Bernalillo Medical Center Tax Sheltered Annuity Plan. The Center contributes either 6% or 8% of an employee's salary to the plan, depending on employment level. The plan was established by UNM Hospital Board of Trustees and can be amended at its discretion. The plan is administered by UNM Hospitals Human Resources Department.

The expense for the defined-contribution plan was \$1.4 million for both years ended June 30, 2023 and 2022. Total employee contributions under this plan were \$1.8 million for both years ended June 30, 2023 and 2022.

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

There was no expense for the deferred compensation plan in years ended June 30, 2023 and 2022, as the Center does not contribute to this plan. Total employee contributions under this plan were \$419 thousand and \$427 thousand in the years ended June 30, 2023 and 2022, respectively.

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In addition, the Center has a 401(a) defined-contribution plan, called the UNM Hospital 401(a) Plan, which was established for the purpose of providing retirement benefits for the eligible participants and their beneficiaries. The 401(a) plan allows for tax-deferred employer contributions based on management's recommendation that is approved by the board on an annual basis. The plan was established by the UNM Hospital Board of Trustees and can be amended at its discretion. All assets of the plan are held in a trust fund, are not considered hospital assets, and are under the direction of a Plan Administrator. The expense for the 401(a) defined-contribution plan was \$7 thousand and \$15 thousand for the years ended June 30, 2023 and 2022, respectively.

Note 12 – Defined-Benefit Plan – Educational Retirement Board

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

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

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

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

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

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

Contributions – For the years ended June 30, 2023 and 2022, employers contributed 17.15% and 15.15%, respectively, of employees’ gross annual salary to the Plan. During years ended June 30, 2023 and 2022, participating employees earning more than \$24 thousand contributed 10.7% and employees earning \$24 thousand or less contributed 7.9%. The Center’s cash contributions to the ERB for the years ended June 30, 2023 and 2022 were \$132 thousand and \$118 thousand, respectively.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions – At June 30, 2023 and 2022, the Center reported a liability of \$2.6 million and \$1.8 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2021, rolled forward to June 30, 2022. For the year ended June 30, 2023, the total pension liability was rolled forward from the valuation date to the plan year ended June 30, 2022 using generally accepted actuarial principles.

The roll-forward incorporates the impact of the new assumptions adopted by the board on April 17, 2020. The Center’s proportion of the net pension liability was based on a projection of the Center’s long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. The Center’s proportion was 0.03105% and 0.02482% at June 30, 2023 and June 30, 2022, respectively.

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For the years ended June 30, 2023 and 2022, the Center recognized pension expense of \$731 thousand and benefit of \$395 thousand, respectively. The Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	June 30, 2023	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 93,846	\$ 42,713
Net difference between projected and actual earning on pension plan investments	-	59,724
Changes in assumptions	440,490	1,453,189
Change in proportion and differences between Center contributions and proportionate share of contributions	16,533	709,925
Center contributions subsequent to the measurement date	127,725	-
	\$ 678,594	\$ 2,265,551

The \$128 thousand reported as deferred outflows of resources relates to pensions resulting from Center contributions subsequent to the measurement date at year end June 30, 2023, will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

	June 30, 2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 138,225	\$ 4,332
Net difference between projected and actual earning on pension plan investments	-	437,471
Changes in assumptions	1,170,996	2,003,418
Change in proportion and differences between Center contributions and proportionate share of contributions	(2,086)	820,194
Center contributions subsequent to the measurement date	118,364	-
	\$ 1,425,499	\$ 3,265,415

The \$118 thousand reported as deferred outflows of resources relates to pensions resulting from Center contributions subsequent to the measurement date at year end June 30, 2022, was recognized as a reduction of the net pension liability in the year ended June 30, 2023.

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

Years Ending June 30,

2024	\$ (875,121)
2025	(619,468)
2026	(129,123)
2027	<u>(90,970)</u>
Total	<u>\$ (1,714,682)</u>

Actuarial assumptions – The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
Inflation	2.3%
Salary increases	Composed of 2.3% inflation, plus 0.70% productivity increase rate, plus step rate promotional increases for members with less than 15 years of service.
Investment rate of return	7.0%
Retirement age	Experience based table of rates based on age and service. Adopted by NMERB on April 17, 2020 in conjunction with the six year experience study for the period ended June 30, 2019.
Mortality	<i>Healthy Males</i> – RP-2000 GRS Southwest Region Teacher Mortality Table, set back one year and scaled at 95%. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2020. <i>Healthy Females</i> – GRS Southwest Region Teacher Mortality Table, set back one year. Generational mortality improvements in accordance with the Ultimate MP scales are projected from the year 2020.

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

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

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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	Allocation	Rate of Return
Equities - domestic	17%	
Equities - international	14%	
Fixed income	24%	
Alternatives	44%	
Cash	1%	
Total	<u>100%</u>	<u>7%</u>

Discount rate – A single discount rate of 7.00% was used to measure the total pension liability as of June 30, 2022. This single discount rate was based on the expected long-term rate of return on pension plan investments of 7.00%.

Based on the stated assumptions and the projection of cash flows, the pension plan’s fiduciary net position and future contributions were sufficient to finance all projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Center’s proportionate share of the net pension liability to change in the discount rate – The following table provides the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents the Plan’s net pension liability, if it were calculated using a single discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the single discount rate:

	June 30, 2023		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Center's proportionate share of the net pension liability	<u>\$ 3,545,676</u>	<u>\$ 2,614,967</u>	<u>\$ 1,845,748</u>
	June 30, 2022		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Center's proportionate share of the net pension liability	<u>\$ 2,490,793</u>	<u>\$ 1,759,173</u>	<u>\$ 1,154,562</u>

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued Plan financial report available at www.erb.nm.gov.

University of New Mexico Behavioral Health Operations

Notes to Financial Statements

Note 13 – Commitments and Contingencies

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

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

The Center began construction on a Crisis Triage Center and Adult Psychiatric Replacement Hospital during the year ended June 30, 2022. The total budgeted cost of the project is \$40.0 million to be funded by a \$20.0 million capital investment from Bernalillo County and a \$20.0 million capital expenditure by the Center. As of June 30, 2023, the total construction cost incurred on the project is \$16.4 million with an estimated \$23.6 million committed budget remaining. The Center has incurred costs of \$9.1 million with an estimated \$10.9 million committed budget remaining as of June 30, 2023.

Note 14 – Subsequent Events

The Center has evaluated subsequent events from the date of the statement of net position through October 3, 2023, the date at which the financial statements were available to be issued. No matters requiring adjustment to the financial statement have been identified.

Supplementary Information

University of New Mexico Behavioral Health Operations
Comparison of Budgeted and Actual Revenues and Expenses – Schedule 1
Year Ended June 30, 2023

	Budgeted (Original)	Budgeted (Final)	Actual	Budget Variance
Operating revenues				
Net patient service	\$ 42,718,661	\$ 42,146,979	\$ 42,895,023	\$ 748,044
Other operating revenues	3,885,053	3,251,689	3,357,890	106,201
Total operating revenues	46,603,714	45,398,668	46,252,913	854,245
Operating expenses	72,662,709	75,594,998	75,478,945	(116,053)
Operating loss	(26,058,995)	(30,196,330)	(29,226,032)	970,298
Net nonoperating revenues	27,459,619	35,468,479	27,178,453	(8,290,026)
Increase (decrease) in net assets before capital funding	1,400,624	5,272,149	(2,047,579)	(7,319,728)
Capital funding Bernalillo County	-	-	6,564,799	6,564,799
Increase in net position after capital funding	\$ 1,400,624	\$ 5,272,149	\$ 4,517,220	\$ (754,929)

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 report of independent auditors.

University of New Mexico Behavioral Health Operations
Schedule of the Center's Proportionate Share of the Net Pension Liability – Schedule 2
Last 10 Fiscal Years
Year Ended June 30, 2023

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 eight 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,								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Center's proportion of the net pension liability	0.03105%	0.02482 %	0.02772 %	0.03429 %	0.03540 %	0.04201 %	0.04575 %	0.04516 %	0.05368 %
Center's proportionate share of the net pension liability	\$ 2,614,967	\$ 1,759,173	\$ 5,576,562	\$ 2,719,983	\$ 4,659,990	\$ 4,769,082	\$ 3,292,670	\$ 2,924,809	\$ 3,062,832
Center's covered-employee payroll	\$ 721,427	\$ 845,250	\$ 734,718	\$ 852,958	\$ 992,243	\$ 1,059,835	\$ 1,247,388	\$ 1,138,359	\$ 1,232,846
Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	362%	208%	759%	319%	470%	450%	264%	257%	248%
Plan fiduciary net position as a percentage of the total pension liability	64.87%	69.77%	39.11%	64.13%	52.17%	52.95%	61.58%	63.97%	66.54%

See accompanying report of independent auditors.

University of New Mexico Behavioral Health Operations
Schedule of Center Contributions – Schedule 3
Last 10 Fiscal Years
Year Ended June 30, 2023

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 eight 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,								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 127,725	\$ 118,364	\$ 106,514	\$ 128,737	\$ 140,636	\$ 150,089	\$ 173,387	\$ 169,077	\$ 203,627
Contributions in relation to the contractually required contribution	127,725	118,364	106,514	128,737	140,636	150,089	173,387	169,077	178,415
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,212
Center's covered-employee payroll	721,427	845,250	734,718	852,958	992,243	1,059,835	1,247,388	1,138,359	1,232,846
Contributions as a percentage of covered-employee payroll	17.70%	14.00%	14.50%	15.09%	14.17%	14.16%	13.90%	14.85%	14.47%

See accompanying report of independent auditors.



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

The University of New Mexico Health Sciences Center
Board of Trustees and
Mr. Joseph M. Maestas, P.E.
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the University of New Mexico Behavioral Health Operations (the Center), a division of the University of New Mexico, which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Center's basic financial statements, and have issued our report thereon dated October 3, 2023.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Moss Adams LLP".

Albuquerque, New Mexico
October 3, 2023

University of New Mexico Behavioral Health Operations
Summary of Audit Results
Year Ended June 30, 2023

Type of auditor report issued: Unmodified

Fiscal year 2023 findings and responses:

Material weakness: No matters to report

Significant deficiencies: No matters to report

Material noncompliance: No matters to report

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

No matters to report

**University of New Mexico Behavioral Health Operations
Summary of Prior Audit Findings
Year Ended June 30, 2023**

None

University of New Mexico Behavioral Health Operations
Exit Conference
Year Ended June 30, 2023

An exit conference was conducted on October 2, 2023 with a member of the Finance and Audit Committee of UNM Hospital 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

Kate Becker, UNM Hospital Chief Executive Officer

Bonnie White, UNM Hospital Chief Financial Officer

Julie Alliman, Executive Director of Finance, UNM Hospitals

Angela Vigil, Executive Director of Compliance, UNM Hospitals

Sara M. Frasch, UNM Hospital Chief Human Resources Officer

Jennifer R. James, Senior Associate University Hospital

Monica Zamora, Vice Chair

Adelmo Archuleta, Board Member

Dr. Anjali Taneja, Board Member

Moss Adams LLP

Josh Lewis, Partner

Lauren Kistin, Senior Manager