



UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Financial Statements with Supplementary Information
June 30, 2020 and 2019
(With Independent Auditors' Report Thereon)

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
2020 Official Roster

Board of Directors

Michael Richards , M.D., MPA, FACEP	Vice Chancellor for Clinical Affairs, UNM Health System Professor of Emergency Medicine, UNM Health Sciences Center
Martha McGrew , M.D.	Executive Vice Dean, UNM School of Medicine
Steve McLaughlin , M.D.	Chair, Emergency Medicine
Gary Mlady , M.D.	Chair, Radiology
Christopher Pacheco	Independent, Non-UNM Faculty
Robert Schenck , M.D.	Chair, Orthopedics
Eve Espey , M.D.	Chair, Obstetrics & Gynecology
David Rakel , M.D.	Chair, Family & Community Medicine
Selina Silva , M.D.	Associate Professor, Pediatric Orthopedic Surgery
Karen Hawley , M.D.	Clinician Ed-Assist Prof, Surgery Head Neck Reconstructive
Robert DeFelice	Non-UNM Faculty, CEO, First Choice Community Healthcare

Officers of UNM Medical Group, Inc.

Robb McLean , M.D.	Interim President and Chief Executive Officer
Jill Klar	Chief Operating Officer
Marjorie Goldstein	Chief Financial Officer
Donna Sigl , M.D.	Secretary, UNMMG Board of Directors Vice Chair of Administration and Finance, Psychiatry

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KPMG LLP
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Albuquerque, NM 87110-8179

Independent Auditors' Report

The Board of Directors
UNM Medical Group, Inc. and
Mr. Brian Colón, New Mexico State Auditor:

Report on the Financial Statements

We have audited the accompanying financial statements of UNM Medical Group, Inc. (UNMMG), a component unit of the University of New Mexico, State of New Mexico, as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise UNMMG's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNMMG as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 – 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise UNMMG's basic financial statements. The accompanying schedules of pledged collateral by banks (schedule 1) and individual deposit and investment account balances (schedule 2) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1 and 2 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, schedules 1 and 2 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 December 8, 2020 on our consideration of UNMMG'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 UNMMG'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 UNMMG's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
December 8, 2020

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2020 and 2019

(Unaudited)

The following discussion and analysis provides an overview of the financial position and activities of the UNM Medical Group, Inc. (UNMMG) as of and for the years ended June 30, 2020 and 2019. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic 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 UNMMG management.

Using the Annual Financial Report

This annual report consists of financial statements prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. UNMMG is reporting as a special-purpose government entity engaged in business-type activities (BTA). In accordance with BTA reporting, UNMMG presents management's discussion and analysis, statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. The financial statements are prepared under the accrual basis of accounting, whereby revenues are recognized when the service is provided and expenses are recognized when others provide the service, 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 UNMMG's financial health when considered with nonfinancial facts such as patient statistics. This statement includes all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting method used by private sector institutions.

The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred during each of the years presented. Activities are reported as either operating or nonoperating. 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, and investing activities.

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Overview of Entity

UNMMG is a New Mexico nonprofit corporation organized under and pursuant to the New Mexico University Research Park and Economic Development Act. Regents of the University of New Mexico (UNM) are the sole members of UNMMG. Pursuant to an agreement with the UNM Regents, UNMMG is responsible for the practice oversight and management of the professional medical practice of UNM.

Condensed Summary of Net Position

	June 30		
	2020	2019	2018
Assets:			
Current assets	\$ 64,879,640	80,127,515	59,280,198
Capital assets, net	3,545,874	2,476,680	1,853,142
Other noncurrent assets	53,404,349	40,279,814	36,210,003
Total assets	<u>\$ 121,829,863</u>	<u>122,884,009</u>	<u>97,343,343</u>
Liabilities:			
Current liabilities	\$ 52,180,945	44,271,977	35,334,513
Total liabilities	<u>52,180,945</u>	<u>44,271,977</u>	<u>35,334,513</u>
Net position:			
Net investment in capital assets	3,545,874	2,476,680	1,853,142
Unrestricted	66,103,044	76,135,352	60,155,688
Total net position	<u>69,648,918</u>	<u>78,612,032</u>	<u>62,008,830</u>
Total liabilities and net position	<u>\$ 121,829,863</u>	<u>122,884,009</u>	<u>97,343,343</u>

Current assets include cash and other assets that are deemed to be consumable or convertible to cash within one year. As of June 30, 2020, total current assets of \$64.9 million included \$20.4 million of cash and cash equivalents compared to \$80.1 million in total current assets and \$30.2 million of cash and cash equivalents at June 30, 2019, and compared to \$59.3 million in total current assets and \$26.2 million of cash and cash equivalents at June 30, 2018. The decline in cash from 2019 to 2020 is due primarily to the decline in patient revenues in the final quarter of the fiscal year resulting from the public health order enacted by the Governor of New Mexico in response to the global COVID-19 pandemic. This public health order halted elective surgeries and significantly curtailed other patient care activities. In addition, \$8.0M was encumbered for designated reserve from funds received under a new Medicaid managed care supplemental program that was effective January 1, 2019. Current assets also include net patient receivables of \$24.5 million, \$26.7 million, and \$28.6 million at June 30, 2020, 2019, and 2018, respectively. Patient receivables were lower at June 30, 2020 due to the decline in patient revenues in the final quarter of the fiscal year. Also included in current assets within net patient receivables at June 30, 2020 and 2019, respectively, is \$11.0 million and \$19.8 million in receivables related to the new Medicaid supplemental program. The decrease from 2019 to 2020 is due to the

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fact that there were two quarters outstanding in 2019 and only one quarter in 2020. Also included in current assets at June 30, 2020 are amounts due from affiliates of \$7.5 million (consisting primarily of \$5.1 million due from UNM Health Sciences Center (UNM HSC), \$1.8 million due from UNM Hospitals (UNMH), and \$0.5 million due from Sandoval Regional Medical Center (SRMC)), compared to \$3.2 million at June 30, 2019 (consisting primarily of \$2.6 million due from UNM HSC, \$0.5 million due from UNMH, and \$0.06 million due from SRMC), and \$4.2 million at June 30, 2018 (consisting primarily of \$2.5 million due from UNM HSC, \$1.7 million due from UNMH, and \$0.03 million due from SRMC). The increase in amounts due from affiliates is largely due to locum services contracted by UNMMG on behalf of the UNM School of Medicine (SOM). Current assets also include other current assets of \$1.5 million, \$0.3 million, and \$0.2 million at June 30, 2020, 2019, and 2018, respectively.

The most significant component of noncurrent assets is board-designated investments in cash and cash equivalents, money markets, U.S. government securities, and corporate debt securities of \$37.8 million, \$29.4 million, and \$29.0 million at June 30, 2020, 2019, and 2018, respectively. The Medicaid managed care supplemental program contributed \$8.0 million of this increase in 2020. Noncurrent assets include capital assets of \$3.5 million, \$2.5 million, and \$1.9 million at June 30, 2020, 2019, and 2018, respectively. Increases in capital assets are related primarily to the expansion of pharmacy operations and the purchase of a mobile outreach unit. Noncurrent assets also include a \$14.1 million, \$9.2 million, and \$6.5 million investment in a joint venture, Lovelace UNM Rehabilitation Hospital, LLC (LURH), as of June 30, 2020, 2019, and 2018, respectively. The LURH joint venture saw significant growth in 2020 as well as favorable reimbursement increases.

Current liabilities are generally defined as amounts due within one year. As of June 30, 2020, total current liabilities of \$52.2 million include purchased services due to UNM HSC of \$21.9 million. These amounts compare to total current liabilities and purchased services due to UNM HSC of \$44.3 million and \$27.4 million at June 30, 2019, respectively, and \$35.3 million and \$23.8 million at June 30, 2018, respectively. Also included in current liabilities at June 30, 2020 are operating expenses due to UNM of \$12.7 million, due to affiliates of \$5.5 million, and other accrued liabilities of \$12.0 million, compared to \$2.0 million, \$6.5 million, and \$8.4 million, respectively, at June 30, 2019 and \$2.8 million, \$2.8 million, and \$6.0 million, respectively, at June 30, 2018. The decrease in purchased services due in 2020 is related to the decline in patient revenues in the fourth quarter of the fiscal year. The increase in operating expense due is for accrued mission support expense to be funded from the Dean's Discretionary reserve that resulted from the additional cash received by UNMMG from the Medicaid managed care supplemental program. The increase in other liabilities is due to amounts owed to vendors that supply locum services as contracted by UNMMG on behalf of the UNM SOM.

UNMMG's current ratio, the ratio of current assets available to cover current liabilities, was 1.24, 1.81, and 1.68 at June 30, 2020, 2019, and 2018, respectively. Payment of UNMMG's current liabilities is dependent on UNMMG's ability to collect patient and other receivables.

The total net position of \$69.6 million at June 30, 2020 decreased \$9.0 million from \$78.6 million at June 30, 2019, due to the excess of expenses over revenue in 2020 of \$9.0 million. The primary driver of the change in net position for the period ended June 30, 2020 is the increase in purchased clinical services, which grew from \$136.8 million in fiscal year 2019 to \$191.3 million in fiscal year 2020, which is partially offset by an increase in patient service revenue, net, which increased from \$194.9 million in fiscal year 2019 to \$224.2 million in fiscal

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year 2020. The increase in both revenues and expenses is related to the Medicaid managed care supplemental program and the resulting mission support provided to the UNM SOM.

The total net position of \$78.6 million at June 30, 2019 increased \$16.6 million from \$62.0 million at June 30, 2018, due to the excess of revenue over expenses in 2019 of \$16.6 million, and largely due to the implementation of the new Medicaid supplemental program related to Medicaid Managed Care services.

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Years ended June 30		
	2020	2019	2018
Net operating revenues	\$ 261,026,111	225,588,600	202,684,399
Operating expenses:			
Purchased clinical services	191,304,979	136,764,945	132,575,992
Salaries and benefits	30,286,028	29,183,193	28,296,178
Other	58,704,465	49,102,595	42,951,004
Total operating expenses	280,295,472	215,050,733	203,823,174
Operating (loss) income	(19,269,361)	10,537,867	(1,138,775)
Nonoperating revenues	10,306,247	6,065,335	2,590,219
Change in net position	(8,963,114)	16,603,202	1,451,444
Net position, beginning of year	78,612,032	62,008,830	60,557,386
Net position, end of year	\$ 69,648,918	78,612,032	62,008,830

Net operating revenues, generated primarily through the delivery of professional clinical services, are reduced by contractual allowances and by a provision for uncollectible accounts. Net operating revenues for the year ended June 30, 2020 increased \$35.4 million, from \$225.6 million in 2019 to \$261.0 million in 2020, a 15.7% increase. The new Medicaid supplemental program, as previously described, contributed \$30.0 million of this increase in 2020. Net operating revenues for 2019 increased \$22.9 million, from \$202.7 million in 2018 to \$225.6 million in 2019, reflecting an increase of 11.3%. The Medicaid supplemental program contributed \$15.8 million of this increase in 2019. Net patient revenues increased \$29.3 million in 2020, from \$194.9 million in 2019 to \$224.2 million in 2020. Net patient revenues increased \$19.2 million in 2019, from \$175.7 million in 2018 to \$194.9 million in 2019. These increases were primarily a result of the Medicaid supplemental program.

Pharmacy revenues increased \$5.6 million in 2020, from \$28.6 million in 2019 to \$34.2 million in 2020, and increased \$3.1 million in 2019, from \$25.5 million in 2018 to \$28.6 million in 2019. The pharmacy revenue growth in 2020 is a result of the increased activity at the outpatient pharmacy at UNM Truman Health Services, and an increase in patients utilizing the pharmacy services. Included in net operating revenues are \$0.9 million

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in 2020, \$0.7 million in 2019, and \$0.4 million in 2018 of funds allocated from the UNM HSC to support costs incurred by UNMMG for physicians and nonphysician providers providing services at SRMC.

UNMMG measures patient service volume in work relative value units (wRVUs), an industry standard unit of measure of physician clinic effort to provide clinical care. wRVUs were 3,218,382 in 2020, representing a decrease of 156,035, or 4.6%, from 2019. In 2019, wRVUs of 3,374,417 increased 33,943, or 1.0%, from 2018. The decrease in wRVUs is related to the drop in patient services provided in the 4th quarter of the fiscal year during the peak of the COVID-19 related public health order.

UNMMG operated 14 clinics with approximately 37,000 patient visits in 2020, 14 clinics with approximately 37,000 patient visits in 2019, and 15 clinics with approximately 39,000 visits in 2018. Including pharmacy revenues, these clinics contributed \$39.7 million, \$33.1 million, and \$31.5 million in revenues in 2020, 2019, and 2018, respectively. Excluding pharmacy revenues, the clinics contributed revenues of \$6.4 million in 2020, \$4.5 million in 2019, and \$6.0 million in 2018.

A condensed summary of net operating revenues follows:

	Years ended June 30		
	2020	2019	2018
Patient service charges billed at established rates	\$ 501,179,571	526,038,410	509,729,680
Adjustments to charges:			
Contractual adjustments	(235,850,438)	(276,409,968)	(284,471,398)
Charity care	(8,832,785)	(9,929,881)	(9,240,044)
Net patient billings	256,496,348	239,698,561	216,018,238
Provision for uncollectible accounts	(32,283,271)	(44,793,638)	(40,365,082)
Net patient service revenues	224,213,077	194,904,923	175,653,156
Pharmacy revenue	34,192,316	28,562,765	25,548,786
Other revenue	2,620,718	2,120,912	1,482,457
Total net operating revenues	<u>\$ 261,026,111</u>	<u>225,588,600</u>	<u>202,684,399</u>

UNMMG encourages all patients to apply for financial assistance and participates in the financial assistance program called UNM Care. This program assigns qualifying patients to primary care providers and allows them to receive care throughout UNM HSC locations. This program is available to Bernalillo County residents whose income is below 300% of the federal poverty level. As of June 30, 2020, 2019, and 2018, there were approximately 5,917, 7,279, and 7,126 active enrollees, respectively. UNMMG does not pursue collection of amounts that qualify as charity care, and accordingly, they are deducted from gross revenue. For the year ended June 30, 2020, UNMMG provided, in terms of foregone charges, \$8.8 million in charity care, compared to \$9.9 million in 2019 and \$9.2 million in 2018.

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UNMMG also provides services to patients who do not have any form of healthcare insurance or do not qualify under any other financial assistance program and encourages these patients to meet with a financial counselor to develop payment arrangements. Although UNMMG pursues collection of these accounts, usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, nor are liens placed on property or assets or judgments filed against these patients. These accounts are substantially reserved and recorded as provision for uncollectible accounts.

For the year ended June 30, 2020, UNMMG recorded \$32.3 million as a provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts, compared to \$44.8 million and \$40.4 million for the years ended June 30, 2019 and 2018, respectively.

UNMMG incurs costs associated with providing charity care and other services for which payment is not received. For the year ended June 30, 2020, the estimated cost of care for providing these services was \$23.4 million, compared to \$17.8 million in 2019 and \$17.5 million in 2018.

Total operating expenses were \$280.3 million for the year ended June 30, 2020, and \$215.1 million and \$203.8 million for the years ended June 30, 2019 and June 30, 2018, respectively. These costs primarily consist of costs related to the purchase of clinical services from UNM HSC and the associated dean's tax from the UNM School of Medicine (SOM), which when combined totaled \$203.8 million in 2020, \$148.9 million in 2019, and \$144.9 million in 2018.

The increase in costs related to the purchase of clinical services from 2019 to 2020 is due to the increase in distributions to support the mission of the UNM SOM.

The dean's tax, paid to the UNM SOM, is assessed as a fixed percentage of clinical revenues collected. For 2020, 2019, and 2018, the UNMMG board of directors approved an additional dean's tax of \$2.0 million as part of the budget. Total dean's tax was \$12.5 million in 2020, \$12.1 million in 2019, and \$12.3 million in 2018, and is reported on the statements of revenues, expenses, and changes in net position as an operating expense.

In 2020 and 2019, UNMH provided reimbursement to UNMMG in the amount of \$2.1 million and \$1.7 million, respectively, to provide a portion of support for clinical contract services, process improvement services, and certain ambulatory and other reporting activities that benefit UNMH and the overall health system. This funding support from UNMH is reported on the statements of revenues, expenses, and changes in net position as a reduction of operating expense. The amount of funding provided is negotiated annually.

Nonoperating revenues of \$10.3 million in 2020, \$6.1 million in 2019, and \$2.6 million in 2018 consist primarily of equity in the earnings of the LURH joint venture, allocations of programmatic support from UNM HSC, investment income, unrealized gains and losses on investments, and other interest income. The increase in nonoperating revenues in 2020 is largely due to a \$2.2 million increase in equity earnings of the LURH joint venture and \$1.6 million received for CARES Act funding. The earnings increase for LURH from 2019 to 2020 was primarily driven by a volume increase of 7%, an increase in Medicaid reimbursement of 13%, and CARES Act provider relief funding received by LURH of \$0.8 million.

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Capital Assets

At June 30, 2020, UNMMG had \$3.5 million invested in capital assets, net of accumulated depreciation of approximately \$8.5 million, compared to \$2.5 million and \$7.5 million at June 30, 2019, respectively, and \$1.9 million and \$7.1 million at June 30, 2018, respectively. Capital assets consist primarily of leasehold improvements, application software, and equipment. With the exception of UNMMG clinics, capital assets used to provide clinical services are owned by UNMH and are not reported on UNMMG's financial statements.

Change in Net Position

UNMMG's change in net position reflected a net decrease of \$9.0 million from 2019 to 2020 due primarily to an increase in net operating expenses, compared to a net increase of \$16.6 million from 2018 to 2019.

Factors Impacting Future Periods

The CARES Act, which was enacted on March 27, 2020, authorized funding to hospitals and other healthcare providers to be distributed through the Provider Relief Fund (PRF). Payments from the PRF are not subject to repayment, provided management is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services (HHS) initially distributed \$30 billion of this funding based on each provider's share of total Medicare fee-for-service reimbursement in 2019, and later announced that a further \$20 billion in CARES Act funding will be allocated proportional to providers' share of 2018 net patient revenue. HHS indicated that distributions of the \$20 billion second tranche were targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, and to reimburse providers for COVID-19-related treatment of uninsured patients. UNMMG received \$1.6 million in payments from the initial PRF payments, which was recognized as revenue for the year ended June 30, 2020. UNMMG also recognized an additional \$1.6 million in purchased services expense for the year ended June 30, 2020, therefore, there was no bottom line impact to UNMMG for fiscal year 2020 from this funding. The additional purchased services expense was recognized as these funds were distributed to the UNM SOM to offset the decline in revenues resulting from the public health order in New Mexico that halted elective surgeries and curtailed other patient care activities. UNMMG has applied for funds from the supplemental targeted amounts but has not received confirmation that additional funding will be received, and therefore, no additional revenue has been recorded in fiscal year 2020 related to that application.

Due to the recent enactment of the CARES Act, there is still a high degree of uncertainty surrounding its implementation, and the public health emergency continues to evolve. UNMMG continues to assess the potential impact of the CARES Act, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on UNMMG business, results of operations, financial condition, and cash flows.

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The Medicare Access and CHIP Reauthorization Act of 2015, referred to as "MACRA," set in motion a new approach to Medicare and physician payment by creating two primary payment systems that physicians accepting Medicare can choose to be judged under. UNMMG has chosen the Merit-Based Incentive Payment System (MIPS), which administers bonuses or penalties based on how well physicians perform relative to other physicians on a set of quality and value measures. Based on guidance set forth by the CMS MIPS program, UNMMG reported on these quality and safety measures in 2017, which resulted in a 1.88% reimbursement increase on qualifying Medicare Part B claims for services provided in calendar year 2019. These quality and safety measures were again reported by UNMMG in 2018, which will result in a reimbursement increase on qualifying Medicare Part B claims for services provided in calendar year 2020. As a result of policy that CMS established for 2019 MIPS reporting, due to Covid-19, no MIPS participants will receive either penalties or positive adjustments for the 2021 payment year. However, \$500M is set aside by MACRA each year to reward the highest performers. Because UNMMG was identified as an exceptional performer based on data submitted for 2019, a reimbursement increase of 0.77% has been awarded for the payment year 2021. MIPS payments were \$0.3 million and \$0.1 million, for the years ended June 30, 2020 and June 30, 2019, respectively.

Contacting UNMMG's Financial Management

This financial report is designed to provide the public with a general overview of UNMMG's finances. If you have questions about this report or need additional financial information, contact UNMMG's Controller's office at 933 Bradbury Street SE, Suite 2222, Albuquerque, NM 87106-4375.

UNM MEDICAL GROUP, INC.
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Statements of Net Position

June 30, 2020 and 2019

Assets	2020	2019
Current assets:		
Cash and cash equivalents	\$ 20,440,060	30,194,183
Receivables:		
Net patient receivables (net of allowance for uncollectible accounts of \$49,984,278 in 2020 and \$45,537,367 in 2019)	35,476,025	46,424,181
Due from affiliates	7,478,257	3,192,119
Total net receivables	42,954,282	49,616,300
Other current assets	1,485,298	317,032
Total current assets	64,879,640	80,127,515
Noncurrent assets:		
Board-designated assets:		
Cash and cash equivalents, noncurrent	9,676,561	2,063,504
Investments	28,162,605	27,301,308
Total board-designated assets	37,839,166	29,364,812
Investment in Lovelace UNM Rehab Hospital, net	14,069,668	9,235,167
Capital assets, net	3,545,874	2,476,680
Other assets	1,495,515	1,679,835
Total noncurrent assets	56,950,223	42,756,494
Total assets	\$ 121,829,863	122,884,009
Liabilities		
Current liabilities:		
Purchased services due to UNM HSC	\$ 21,930,771	27,412,673
Operating expenses due to UNM	12,723,766	2,003,377
Due to affiliates	5,477,130	6,498,207
Accrued liabilities	12,049,278	8,357,720
Total current liabilities	52,180,945	44,271,977
Net Position		
Net investment in capital assets	3,545,874	2,476,680
Unrestricted	66,103,044	76,135,352
Total net position	69,648,918	78,612,032
Total liabilities and net position	\$ 121,829,863	122,884,009

See accompanying notes to financial statements.

UNM MEDICAL GROUP, INC.

(A Component Unit of the University of New Mexico)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating revenues:		
Patient service revenues, net	\$ 224,213,077	194,904,923
Pharmacy revenue	34,192,316	28,562,765
Other revenue	2,620,718	2,120,912
Total net operating revenues	<u>261,026,111</u>	<u>225,588,600</u>
Operating expenses:		
Purchased clinical services from UNM HSC	191,304,979	136,764,945
Salaries and benefits	30,286,028	29,183,193
Pharmacy expenses	21,072,554	16,137,475
Dean's tax	12,506,158	12,126,880
Consulting	6,210,351	4,355,602
Other administrative	5,784,651	4,531,611
Malpractice insurance	4,067,820	4,260,204
Patient care costs	2,858,353	2,444,671
Data processing costs	2,373,711	2,109,566
Occupancy	1,490,990	1,166,341
Patient registration and enrollment support	1,194,071	1,168,633
Depreciation	1,145,806	801,612
Total operating expenses	<u>280,295,472</u>	<u>215,050,733</u>
Operating (loss) income	<u>(19,269,361)</u>	<u>10,537,867</u>
Nonoperating revenues (expenses):		
Equity in earnings of Lovelace UNM Rehab Hospital	6,106,692	3,892,009
CARES Act funding	1,619,761	—
Investment income	1,431,174	1,043,523
State appropriations	1,160,200	1,160,200
Loss on disposition of assets	(11,580)	(30,397)
Total nonoperating revenue	<u>10,306,247</u>	<u>6,065,335</u>
Change in net position	(8,963,114)	16,603,202
Net position, beginning of year	<u>78,612,032</u>	<u>62,008,830</u>
Net position, end of year	<u>\$ 69,648,918</u>	<u>78,612,032</u>

See accompanying notes to financial statements.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)

Statements of Cash Flows

Years ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Cash receipts from insurance and patients	\$ 268,001,177	205,840,050
Payments to affiliates	(225,647,870)	(163,898,493)
Payments to suppliers	(29,177,814)	(20,171,347)
Payments to employees	(18,018,001)	(17,559,480)
Payments for employee benefits	(2,499,045)	(2,917,581)
Other receipts	2,805,038	1,229,054
Net cash (used in) provided by operating activities	(4,536,515)	2,522,203
Cash flows from noncapital financing activities:		
State appropriations	1,160,200	1,160,200
CARES Act funding	1,619,761	—
Net cash provided by noncapital financing activities	2,779,961	1,160,200
Cash flows from capital financing activities:		
Purchase of capital assets	(2,226,580)	(1,455,547)
Net cash used in capital financing activities	(2,226,580)	(1,455,547)
Cash flows from investing activities:		
Net purchases of investments	(861,297)	(4,005,938)
Investment income	1,431,174	1,043,523
Distributions from Lovelace UNM Rehab Hospital	1,272,191	1,110,405
Net cash provided by (used in) investing activities	1,842,068	(1,852,010)
Net (decrease) increase in cash and cash equivalents	(2,141,066)	374,846
Cash and cash equivalents, beginning of year	32,257,687	31,882,841
Cash and cash equivalents, end of year	\$ 30,116,621	32,257,687
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) income	\$ (19,269,361)	10,537,867
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,145,806	801,612
Provision for doubtful accounts	32,283,271	44,793,638
Changes in assets and liabilities:		
Patient receivables	(21,335,115)	(62,589,135)
Due from affiliates	(4,286,138)	1,037,709
Other current assets	(1,168,266)	(105,094)
Other assets	184,320	(891,858)
Purchase services due to UNM HSC	(5,481,902)	3,632,291
Due to affiliates and operating expenses due to UNM	9,699,312	2,996,187
Accrued liabilities	3,691,558	2,308,986
Net cash (used in) provided by operating activities	\$ (4,536,515)	2,522,203

See accompanying notes to financial statements.

UNM MEDICAL GROUP, INC.
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Notes to Financial Statements

June 30, 2020 and 2019

(1) Description of Business

UNM Medical Group, Inc. (UNMMG) is a New Mexico not-for-profit corporation that was organized to promote, advance, and support the clinical, educational, research, and charitable purposes of the School of Medicine (SOM) and the University of New Mexico Health Sciences Center (UNM HSC). UNMMG is a component unit of the University of New Mexico (UNM) and is reported as such in the basic financial statements of UNM. UNMMG has no component units.

UNMMG is a New Mexico nonprofit corporation organized under and pursuant to the New Mexico University Research Park and Economic Development Act. Regents of UNM are the sole members of UNMMG.

Pursuant to the affiliation and management services agreement with the UNM Regents, UNMMG is responsible for the delivery of patient clinical services, practice oversight, and management of the professional medical practice of UNM, which includes the SOM faculty and staff physicians and other professional healthcare providers under the patient care management, supervision, and quality control of the SOM clinical departments.

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB). UNMMG is reporting as a special-purpose government entity engaged in business-type activities.

(b) Net Position

For accounting and reporting purposes, UNMMG reports its net position in the following categories as applicable:

- *Investment in capital assets* – Capital assets, net of accumulated depreciation.
- *Unrestricted* – Net position that is not subject to externally imposed constraints; unrestricted net position may be designated for specific purposes by action of UNMMG Board of Directors (the Board).

(c) Use of Estimates

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

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(d) Cash and Cash Equivalents

UNMMG considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Interest-bearing deposit accounts are subject to FDIC's standard deposit insurance amount of \$250,000. Cash in excess of FDIC insurance is collateralized at June 30, 2020 and 2019 by U.S. government sponsored entity securities held by the financial institution in UNMMG's name.

(e) Marketable Securities

Investments are recorded at fair value. At June 30, 2020 and 2019, investments consisted primarily of corporate debt securities, U.S. government and government agency securities, and money markets. Investment income includes interest and realized and unrealized gains and losses. Investment income is reported as nonoperating revenue when earned.

UNMMG uses the market approach to determine fair value, which uses prices and other relevant information generated by market transactions involving identical or similar items.

(f) Capital Assets

Capital assets consist primarily of leasehold improvements, application software, and equipment and are stated at cost at the date of acquisition. Capital assets with a cost of \$1,000 or greater are capitalized and depreciated over useful lives ranging from three to five years, or over the remaining term of a lease in the case of leasehold improvements. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Repairs and maintenance costs are charged to expense as incurred. With the exception of UNMMG operated clinics, capital assets used to provide clinical services are owned by the University of New Mexico Hospital (UNMH) or Sandoval Regional Medical Center (SRMC) and are not reported in UNMMG's financial statements.

(g) Revenue Recognition and Net Patient Receivables

UNMMG revenues result from providing professional medical services to patients in healthcare facilities of UNM HSC and other locations contracted with UNM or owned/managed by UNMMG.

Net patient revenues and receivables are recorded at the estimated net realizable amount due from patients, third-party payors, and others for services rendered and a provision for doubtful accounts is established when services are provided.

Self-pay patients are referred to and reclassified under financial assistance programs when applicable. Other discounts exist based on income earning levels if no other financial assistance programs are available. Self-pay accounts, regardless of days outstanding, are substantially reserved.

Contractual adjustments resulting from agreements with various organizations to provide services for amounts that differ from billed charges, including services under Medicare, Medicaid, and certain managed care programs, are recorded as deductions from patient revenues.

Allowances for contractual adjustments and doubtful accounts are based on an analysis of historical collectibility of patient accounts. Accounts, when determined to be uncollectible, are charged against the allowance for uncollectible accounts.

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Beginning January 1, 2019, the Centers for Medicare and Medicaid Services (CMS) approved a proposal to provide delivery system and provider payment incentives as submitted by the State of New Mexico under a supplemental provider fee program related to Medicaid Managed Care services. For the years ended June 30, 2020 and 2019, the net revenue related to this program is \$45.8 million and \$15.8 million, respectively. Approximately \$11.0 million of the revenue recorded in fiscal year 2020 is based on estimated payments to be received. Due to uncertainties inherent in the estimation process, actual results could differ from this estimate. At June 30, 2020, \$11.0 million is recorded in net patient receivables and \$15.5 million is recorded as a current liability due to UNM HSC related to this program. At June 30, 2019, \$19.8 million is recorded in net patient receivables and \$3.9 million is recorded as a current liability due to UNM HSC related to this program.

(h) CARES Act Funding

The CARES Act, which was enacted on March 27, 2020, authorized funding to hospitals and other healthcare providers to be distributed through the Provider Relief Fund (PRF). Payments from the PRF are not subject to repayment, provided management is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for healthcare-related expenses or lost revenue attributable to COVID-19. The U.S. Department of Health and Human Services (HHS) initially distributed \$30 billion of this funding based on each provider's share of total Medicare fee-for-service reimbursement in 2019, and later announced that a further \$20 billion in CARES Act funding will be allocated proportional to providers' share of 2018 net patient revenue. HHS indicated that distributions of the \$20 billion second tranche were targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, and to reimburse providers for COVID-19-related treatment of uninsured patients. UNMMG received \$1.6 million in payments from the initial PRF payments, which was recognized as revenue for the year ended June 30, 2020. UNMMG also recognized an additional \$1.6 million in purchased services expense for the year ended June 30, 2020, therefore, there was no bottom line impact to UNMMG for fiscal year 2020 from this funding. The additional purchased services expense was recognized as these funds were distributed to the UNM SOM to offset the decline in revenues resulting from the public health order in New Mexico that halted elective surgeries and curtailed other patient care activities. UNMMG has applied for funds from the supplemental targeted amounts, but has not received confirmation that additional funding will be received, and therefore, no additional revenue has been recorded in fiscal year 2020 related to that application.

(i) Charity Care

UNMMG provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because UNMMG does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue in the statements of revenues, expenses, and changes in net position.

(j) Pharmacy Revenues and Expenses

UNMMG is contracted, through UNM Truman Health Clinic, with a mail-order pharmacy (contract pharmacy) to supply and bill patients eligible under the Section 340B program, a program designed to allow certain entities to purchase outpatient prescription drugs at favorable discounts. Under the terms of the agreement, the contract pharmacy orders, receives, and dispenses drugs, and charges and

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collects for the drugs on behalf of UNMMG. UNMMG maintains title to the drugs, and accordingly, pharmacy revenues are recorded at the estimated net realizable value at the time the drugs are dispensed. Pharmacy expenses reflect cost of goods sold, pharmacy management, and dispensing fees. UNM Truman Health Clinic also operates an outpatient pharmacy.

(k) Operating Revenues and Expenses

UNMMG's statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result primarily from the delivery of professional medical services and the related billing of those services to patients and third-party payors and are considered exchange transactions as each party receives and gives up equal value. Operating expenses include expenses incurred to provide medical services and the related billing and collection activities of these services.

(l) Purchase of Clinical Services from UNM HSC

UNMMG has entered into a purchased services agreement with UNM HSC to purchase the clinical effort of various clinical providers primarily from the SOM. This clinical effort is the basis of the clinical services rendered and billed by UNMMG. The cost of the clinical purchased services is negotiated by UNM HSC and the Board and is reported as an operating expense. The cost is agreed upon annually and UNMMG pays UNM HSC on a monthly basis. The agreement allows for renegotiation of the annual cost in the event of material changes in clinical effort during the course of the year. Furthermore, if additional funding is required to support the clinical, educational, and research mission of the SOM, the UNMMG Finance Committee and the Board will determine and approve the purchase of any additional services.

(m) Salaries and Benefits

At June 30, 2020, the staff of UNMMG comprised 556 UNMMG and 22 UNM employees. For staff who are UNM employees, all related salaries and benefits, including all retirement benefits, are paid by UNM. UNM allocates the salary and benefit costs of these employees to UNMMG via a monthly operating expense invoice in accordance with the Master Service Agreement. UNMMG does not have any further obligation or responsibility to pay these individuals beyond the allocated cost from UNM.

(n) Income Taxes

UNMMG has received a determination letter from the Internal Revenue Service (IRS) that it is an organization described in Internal Revenue Code (IRC) Section 501(c)(3) and further classified as an organization described in IRC Section 509(a)(2). As such, it would be exempt from federal income tax on income generated from activities related to its exempt function. However, UNMMG is subject to income taxes on any net income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

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(o) Recent Accounting Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 addresses the accounting and financial reporting for leases, establishing a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Statement No. 87 is effective for reporting periods beginning after June 15, 2021. UNMMG is evaluating the impact the standard will have on its financial statements.

(3) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

UNMMG's cash and cash equivalents are held in demand accounts with a local financial institution in the name of UNMMG. State statute requires financial institutions to pledge qualifying collateral to UNMMG to cover at least 50% of the uninsured deposits.

Bank balances as of June 30, 2020 and 2019 are categorized as follows:

	2020	2019
Operating accounts	\$ 29,939,668	32,614,501
Total bank balances	29,939,668	32,614,501
Amount insured by FDIC	250,000	250,000
Amount collateralized with securities held in UNMMG's name	\$ 29,689,668	32,364,501

Also included in cash and cash equivalents at June 30, 2020 and 2019 is a money market account in the amount of \$0.6 million and \$0.2 million, respectively. This account is subject to minimal interest rate risk as all money markets are less than one year in maturity. The money market fund is invested in short-term, high-quality municipal securities.

(b) Marketable Securities

Interest rate risk – Debt investments: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Currently, UNMMG does not have a specific policy to limit its exposure to interest rate risk.

UNMMG has established an investment policy directing the investment activities of UNMMG. A summary of the marketable securities and their respective maturities and their exposure to interest rate risk is combined with the credit risk disclosure.

Custodial credit risk – Debt investments: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, UNMMG will not be able to recover the value of its investments or collateral that is in the possession of an outside party. Marketable securities of \$28,162,605 at

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June 30, 2020 are insured or are collateralized by securities registered and held by the counterparty's agent in UNMMG's name.

Credit risk – Debt investments: Credit risk is the risk that an issuer or other counterparty to the investment will not fulfill their obligations. UNMMG is required to disclose credit ratings of its debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. government, and nondebt investments are excluded from this requirement. Currently, UNMMG's policy restricts debt investments to specific investment ratings issued by nationally recognized statistical ratings organizations. A summary of the marketable securities and their respective maturities and their exposure to credit risk at June 30, 2020 and 2019 follows:

Credit rating (S&P)	2020			
	Total	U.S. government and agency obligations	Corporate bonds	Other government bonds
AAA	\$ 18,895,729	18,854,069	41,660	—
AA	2,786,708	301,989	1,998,612	486,107
A	5,579,191	—	5,579,191	—
BBB	900,977	—	900,977	—
Total	<u>\$ 28,162,605</u>	<u>19,156,058</u>	<u>8,520,440</u>	<u>486,107</u>

	2020		
	Investment maturities (in years)		
	Fair value	Less than 1	1 to 5
U.S. government obligations	\$ 19,156,058	2,932,232	16,223,826
Corporate bonds	8,520,440	760,866	7,759,574
Other government bonds	486,107	486,107	—
Total	<u>\$ 28,162,605</u>	<u>4,179,205</u>	<u>23,983,400</u>

Credit rating (S&P)	2019			
	Total	U.S. government and agency obligations	Corporate bonds	Other government bonds
AAA	\$ 17,838,231	17,737,881	—	100,350
AA	5,787,617	3,415,439	1,738,287	633,891
A	3,038,066	—	3,038,066	—
BBB	637,394	—	637,394	—
Total	<u>\$ 27,301,308</u>	<u>21,153,320</u>	<u>5,413,747</u>	<u>734,241</u>

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	2019		
	Investment maturities (in years)		
	Fair value	Less than 1	1 to 5
U.S. government obligations	\$ 21,153,320	8,154,340	12,998,980
Corporate bonds	5,413,747	1,521,265	3,892,482
Other government bonds	734,241	251,964	482,277
Total	\$ 27,301,308	9,927,569	17,373,739

Concentration of credit risk – Investments: Concentration of credit risk is the risk of loss attributed to investments in a single issuer. Investments in any one issuer that represent 5% or more of all total investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. UNMMG has a policy to limit its exposure to concentrated risk. The policy states the portfolio will be constructed and maintained to provide prudent diversification with regard to concentration of holdings in individual issues, corporations, or industries.

As of June 30, 2020 and 2019, UNMMG's investment portfolio had no investments exposed to concentration of credit risk.

(c) Fair Value Measurement

UNMMG utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 consist of quoted prices (unadjusted) in the active markets for identical assets or liabilities accessible at the measurement date.

Level 2 include inputs other than quoted prices in Level 1 directly or indirectly observable for the assets or liabilities.

Level 3 are unobservable inputs for the assets or liabilities.

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The table below presents the amounts within each valuation hierarchy level for those assets measured at fair value, cash and cash equivalents and investments, based on the inputs used to value them as of June 30, 2020 and 2019:

		2020			
		Level 1	Level 2	Level 3	Total
Investments at fair value:					
Cash and cash equivalents	\$	30,116,621	—	—	30,116,621
U.S. government obligations		—	19,156,058	—	19,156,058
Corporate bonds		—	8,520,440	—	8,520,440
Other government bonds		—	486,107	—	486,107
Total assets	\$	30,116,621	28,162,605	—	58,279,226

		2019			
		Level 1	Level 2	Level 3	Total
Investments at fair value:					
Cash and cash equivalents	\$	32,257,687	—	—	32,257,687
U.S. government obligations		—	21,153,320	—	21,153,320
Corporate bonds		—	5,413,747	—	5,413,747
Other government bonds		—	734,241	—	734,241
Total assets	\$	32,257,687	27,301,308	—	59,558,995

(4) Concentration of Risk

UNMMG receives payment for professional medical services to patients in healthcare facilities of UNM HSC and other locations contracted with UNM. These payor sources include Medicare, Medicaid, and other third-party payors. The following table summarizes the percent of gross accounts receivable from all payors as of June 30, 2020 and 2019, excluding self-pay, which UNMMG substantially reserves.

	2020	2019
Medicare and Medicaid	63 %	66 %
Commercial insurance	35	32
Other	2	2
	100 %	100 %

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(5) Board-Designated Assets

Board-designated assets are classified in the accompanying statements of net position as noncurrent assets, as these assets are designated by the Board for future use subject to approval by the Board. At June 30, 2020 and 2019, these assets comprise investments in money market funds, debt securities, sovereign securities, and U.S. government securities, and cash and cash equivalents.

As of June 30, 2020 and 2019, assets are designated for the following purposes:

	<u>2020</u>	<u>2019</u>
Department reserve	\$ 9,118,278	9,193,432
Quality reserve	8,733,537	11,467,097
Dean's discretionary reserve	8,001,172	—
Other UNMMG reserve	5,607,085	5,663,505
Investment reserve	4,558,178	549,562
Hardware and technology	<u>1,820,916</u>	<u>2,491,216</u>
Total board-designated assets	<u>\$ 37,839,166</u>	<u>29,364,812</u>

Department reserve – Represents funds designated on behalf of SOM departments for funding of future department initiatives.

Quality reserve – Represents funds designated to support established incentive programs to improve quality of care measurements and initiatives.

Dean's discretionary reserve – Represents funds designated for use by the Dean of the SOM to fund provider compensation, incentives, and other initiatives that support the SOM mission and goals.

Other UNMMG reserve – Represents funds designated on behalf of UNMMG specific programs such as Locum Tenens, whose mission is to advance the strength and sustainability of those UNMMG serves in an effort to improve access to healthcare in communities throughout New Mexico, and other UNMMG clinic activities.

Investment reserve – Represents funds designated for mission support at UNM HSC and new initiatives such as new ambulatory clinics, new lines of clinic services, or expansion of existing initiatives.

Hardware and technology – Represents funds designated to fund future purchases of capital equipment and software.

(6) Investment in Joint Venture

UNMMG participates in a joint venture with Lovelace Health System, Inc. (Lovelace), for the purpose of managing, operating, and providing services at a postacute rehabilitation facility. The purpose of the joint venture is to improve the quality and cost efficiency in the delivery of healthcare services in Albuquerque, New Mexico and surrounding areas, to meet the healthcare needs of the community, and to engage in the education and training of medical students, residents, and/or fellows consistent with the academic mission

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of UNM. UNMMG is a 49% member of the joint venture, Lovelace UNM Rehabilitation Hospital, LLC (LURH), a limited liability company under the laws of the State of New Mexico. Lovelace, a 51% member of LURH, serves as its managing partner.

UNMMG and Lovelace each hold three seats on the board of directors of LURH. In the event of a deadlock vote related to a fundamental matter, the issue at hand may be referred to mediation if the members are unable to reach resolution. As a result, neither UNMMG nor Lovelace is considered to hold a controlling financial interest in LURH as neither party has exclusive authority over the decision making related to significant ordinary course of business actions.

Activity in UNMMG's investment in LURH for the years ended June 30, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Beginning balance of investment in LURH	\$ 9,235,167	6,453,563
UNMMG share of LURH net income	6,106,692	3,892,009
Distributions from LURH	<u>(1,272,191)</u>	<u>(1,110,405)</u>
Ending balance of investment in LURH	<u>\$ 14,069,668</u>	<u>9,235,167</u>

Financial statements of LURH are not publicly available.

(7) Capital Assets

Activity in capital assets for the years ended June 30, 2020 and 2019 is summarized as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Balance, June 30, 2018	\$ 8,935,159	(7,082,017)	1,853,142
Additions	1,455,547	(801,612)	653,935
Deletions	<u>(449,067)</u>	<u>418,670</u>	<u>(30,397)</u>
Balance, June 30, 2019	9,941,639	(7,464,959)	2,476,680
Additions	2,226,581	(1,145,806)	1,080,775
Deletions	<u>(86,823)</u>	<u>75,242</u>	<u>(11,581)</u>
Balance, June 30, 2020	<u>\$ 12,081,397</u>	<u>(8,535,523)</u>	<u>3,545,874</u>

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(8) Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2020 and 2019:

	2020	2019
Accrued operating expenses	\$ 7,071,117	4,289,788
Accrued leave	1,959,641	1,565,057
Payroll and benefits liability	1,820,681	1,077,881
Refunds payable	1,050,049	1,234,155
Unclaimed property	147,790	190,839
	\$ 12,049,278	8,357,720

Refunds payable are amounts received in error from third-party payors and/or payments on accounts receivable in excess of the patient account balance.

(9) Malpractice Insurance

As a New Mexico University Research Park and Economic Development Act corporation, UNMMG has sovereign immunity from suit for tort liability except as waived by the New Mexico Legislature. Under the New Mexico Tort Claims Act, the New Mexico Legislature waived the State's and UNMMG's sovereign immunity for claims arising out of negligence in the operation of UNMMG. In addition, the New Mexico Tort Claims Act limits, as an integral part of this waiver of sovereign immunity, the amount of damages that can be assessed against UNMMG on any tort. The New Mexico Tort Claims Act allows damages to be awarded as follows: (a) up to \$300,000 for past and future reasonable economic or property losses incurred or to be incurred by the claimant; (b) up to \$400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant; and (c) up to \$350,000 for family members of the claimant (to the extent they qualify therefore) for loss of consortium. The New Mexico Tort Claims Act also prohibits the award of punitive or exemplary damages against UNMMG. The New Mexico Tort Claims Act requires the Risk Management Division of the State of New Mexico General Services Department to provide coverage to UNMMG through UNM HSC for those torts where the Legislature has waived the State's sovereign immunity up to the damage limits of the New Mexico Tort Claims Act plus the cost incurred in defending any claims and/or lawsuits (including attorneys' fees and expenses), with no deductible and with no self-insured retention by UNMMG. As a result of the foregoing, UNMMG is fully covered for claims and/or lawsuits and does not have any responsibility for claims beyond this premium. UNMMG is allocated a portion of the premium assessed by the State to UNM HSC for this coverage, which is reported as malpractice insurance expense on the statements of revenues, expenses, and changes in net position.

(10) Patient Service Revenues

UNMMG generates net operating revenue through the provision of healthcare services and is reimbursed through the billing and collection of services rendered. The majority of UNMMG revenue is generated through agreements with third-party payors who provide reimbursement at amounts different from established gross charges. Contractual adjustments resulting from these agreements to provide services for amounts that differ from billed charges, including services under Medicare, Medicaid, and certain

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managed care programs, are recorded as deductions from patient revenues. Accounts, when determined to be uncollectible, are charged against the allowance for uncollectible accounts.

Approximately 91% of UNMMG's gross patient revenue was derived from third-party payors in 2020 and 2019. Of this, Medicare and Medicaid represented approximately 65% in 2020 and 64% in 2019. A summary of the basis of reimbursement from major third-party payors follows:

Medicare and Medicaid – Professional services are reimbursed based on a published fee schedule, which is determined by the related governing body of these programs. Continuation of these programs is dependent upon federal and state government policies and funding. There is a reasonable possibility that future revenue streams will be impacted as a result of regulatory policy changes.

Managed Care Contracts – UNMMG has entered into contractual agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The reimbursement of professional services is determined primarily via a negotiated conversion factor and associated fee schedule with each payor. Managed care contract rates are negotiated annually.

A summary of the net patient service revenues for the years ended June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Patient service charges billed at established rates	\$ 501,179,571	526,038,410
Adjustments to charges:		
Contractual adjustments	(235,850,438)	(276,409,968)
Charity care	<u>(8,832,785)</u>	<u>(9,929,881)</u>
Net patient billing	256,496,348	239,698,561
Provision for uncollectible accounts	<u>(32,283,271)</u>	<u>(44,793,638)</u>
Net patient service revenues	<u>\$ 224,213,077</u>	<u>194,904,923</u>

(11) Charity Care

UNMMG maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Charges forgone, based on established rates	\$ 8,832,785	9,929,881
Estimated costs and expenses incurred to provide charity care	4,937,527	4,061,322
Equivalent percentage of charity care to total gross revenue	1.8 %	1.9 %

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(12) Related-Party Transactions

A summary of the related-party balances as of June 30, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Current assets:		
Due from UNM HSC	\$ 5,119,334	2,599,720
Due from UNMH	1,831,717	528,732
Due from SRMC	527,206	63,667
	<u>\$ 7,478,257</u>	<u>3,192,119</u>
Current liabilities:		
Purchased services due to UNM HSC	\$ 21,930,771	27,412,673
Operating expenses due to UNM HSC	15,839,049	2,003,377
Due to UNM HSC	1,307,515	3,914,366
Due to UNMH	1,017,394	2,519,033
Due to SRMC	15,638	44,254
Indigent distribution (UNM HSC)	21,300	20,554
	<u>\$ 40,131,667</u>	<u>35,914,257</u>

UNMMG processes payroll and various other expenses through its business office on behalf of UNM. UNM reimburses UNMMG for the expenses. At June 30, 2020 and 2019, UNMMG's receivable for these expenses was approximately \$5.1 million and \$2.6 million, respectively. The offset to expenses is shown within the appropriate categories in the statements of revenues, expenses, and changes in net position.

Certain transactions that are billed to UNM are not recorded as an offset to expense but are recorded in the appropriate line item within the financial statements. These transactions are primarily related to state appropriations and other revenues that are allocated to UNMMG by UNM to fund programs that support the clinical and research missions of UNM. For the years ended June 30, 2020 and 2019, these revenues were \$1.5 million and \$1.9 million, respectively.

UNM processes payroll and various other expenses through its business office on behalf of UNMMG. UNMMG reimburses UNM for the expenses. At June 30, 2020 and 2019, UNMMG's liabilities for these expenses were approximately \$1.0 million and \$2.0 million, respectively. The related expenses are reported as operating expenses within the appropriate categories in the statements of revenues, expenses, and changes in net position. For the years ended June 30, 2020 and 2019, these expenses were \$12.3 million and \$13.6 million, respectively.

UNMMG is party to a purchased services agreement with UNM HSC to purchase the clinical effort of various clinical providers primarily from the SOM. This clinical effort is the basis of the clinical services rendered and billed by UNMMG. The cost of the clinical purchased services is negotiated by UNM HSC and the Board. The cost is agreed upon annually and UNMMG pays UNM HSC on a monthly basis. For the years ended June 30, 2020 and 2019, total UNMMG purchased services from UNM HSC were

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\$191.3 million and \$136.8 million, respectively, and are recorded as operating expenses in the statements of revenues, expenses, and changes in net position. The related unpaid amounts of approximately \$21.9 million and \$27.4 million at June 30, 2020 and 2019, respectively, are reported as a current liability in the statements of net position.

UNM HSC and the SOM allocate administrative support costs in exchange for administrative services provided to the clinical departments and UNMMG via the assessment of a dean's tax. The tax is assessed as a fixed percentage of professional revenues collected. For 2020 and 2019, the Board approved an additional dean's tax of \$2.0 million as part of the budget. Total dean's tax of approximately \$12.5 million and \$12.1 million for the years ended June 30, 2020 and 2019, respectively, is reported as an operating expense in the statements of revenues, expenses, and changes in net position.

In 2020 and 2019, UNMH provided reimbursement to UNMMG in the amount of \$2.1 million and \$1.7 million, respectively, to provide a portion of support for clinical contract services, process improvement services, and certain ambulatory, quality, and other reporting activities that benefit UNMH and the overall health system. The amount of funding provided is negotiated annually and is reported as an offset of salary and benefit costs in the statements of revenues, expenses, and changes in net position.

UNMH performs patient registration, Medicaid eligibility, certain computer operation services, and clinical support on behalf of UNMMG. UNMMG reimburses UNMH for the cost of these services, which for the years ended June 30, 2020 and 2019 was approximately \$3.4 million and \$4.2 million, respectively. In addition, UNMMG purchases from UNMH various clinical supplies. The cost of these supplies for the years ended June 30, 2020 and 2019 was approximately \$0.8 million and \$1.1 million, respectively. These expenses are reported within the appropriate categories in the statements of revenues, expenses, and changes in net position. At June 30, 2020 and 2019, approximately \$1.3 million and \$2.5 million, respectively, are included on the amounts reported in due to affiliates in the statements of net position.

UNMMG leases office space under operating lease agreements with UNMH and UNM. UNMMG is also committed under facility lease arrangements related to the clinics established under UNMMG. UNMMG's related-party rent expense was \$0.5 million for each of the years ended June 30, 2020 and 2019 and is reported within the occupancy expense in the statements of revenues, expenses, and changes in net position.

(13) Benefit Plans

UNMMG has a defined-contribution plan covering eligible UNMMG employees. The plan was established on July 1, 2008 by the Board and can be amended at the Board's discretion. UNMMG provides a dollar for dollar match up to 6% of an employee's elective deferral. The plan document was amended so employees hired on or after January 1, 2012 follow a six-year vesting schedule. In addition, for employees hired prior to June 1, 2010, UNMMG may make a discretionary contribution to the employee's plan based on a percentage of the employee's salary. The discretionary contribution percentage was 4% in 2020 and 2019. Total employer contributions were \$1.5 million and \$1.4 million and employee contributions were \$2.3 million and \$2.3 million for the years ended June 30, 2020 and 2019, respectively. Employees of UNM participate in the defined-benefit retirement plan under the Educational Retirement Act of the State. As these are employees of UNM, the net pension liability related to these employees is reflected in the financial statements of UNM.

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(14) Operating Leases

UNMMG is committed under various leases for building and office space and data processing equipment. Rent expense on operating leases and data processing equipment was \$1.5 million and \$1.2 million in 2020 and 2019, respectively. As of February 2019, UNMMG no longer leases data processing equipment.

The following is a schedule of future minimum lease payments for operating leases:

Years ending June 30:		
2021	\$	614,772
2022		241,708
2023		202,503
2024		76,555
2025		—
		<hr/>
	\$	<u>1,135,538</u>

(15) Contingencies

UNMMG is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions and natural disasters. UNMMG is insured through the State of New Mexico for all insurable risks and employee benefits. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded coverage in the past three years. UNMMG is allocated a portion of the premium assessed by the State to UNM HSC (which excludes medical malpractice premiums of \$4.1 million and \$4.3 million, for the years ended June 30, 2020 and 2019, respectively), which was \$0.02 million in both 2020 and 2019 and is reported as an operating expense in the statements of revenues, expenses, and changes in net position.

(16) Subsequent Events

On September 19, 2020, HHS released a notice to PRF recipients regarding post-payment reporting requirements for these grants received under the CARES Act. The notice provided substantive changes to the data elements that recipients must submit as part of the reporting process, including details regarding healthcare related expenses and lost revenues attributed to COVID-19. On October 22, 2020, HHS released further guidance, specifically revising the lost revenue calculation methodology. As of June 30, 2020, UNMMG recognized amounts received to date and is currently evaluating the impact of the notice on reporting of grant receipts in subsequent periods. Management does not believe the application of the new guidance will have a material adverse effect on UNMMG's financial statements.

Schedule 1

UNM MEDICAL GROUP, INC.
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Pledged Collateral by Banks

June 30, 2020

Deposits per bank (Wells Fargo)	\$ 29,939,668
Less:	
FDIC coverage	<u>(250,000)</u>
Total uninsured public funds	<u>29,689,668</u>
State of New Mexico: Collateral requirement – 50%	<u>14,844,834</u>
Pledged collateral:	
FMAC, FEPC, 3.50%, 06/01/47	3,362,884
FMAC, FEPC, 3.50%, 02/01/32	8,392,895
FMAC, FEPC, 3.50%, 06/01/47	5,881,897
FMAC, FEPC, 3.50%, 07/01/47	2,758,603
FMAC, FEPC, 3.50%, 11/01/47	5,691,607
FMAC, FEPC, 3.00%, 10/01/49	2,303,167
FNMA, FNMS, 4.00%, 07/01/47	<u>4,334,108</u>
Total pledged collateral	<u>32,725,161</u>
Over collateralized	<u>\$ 17,880,327</u>

All pledged collateral is held by Wells Fargo's trust departments or their agent in UNMMG's name.

See accompanying independent auditors' report.

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Individual Deposit and Investment Account Balances
June 30, 2020

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
Wells Fargo	UNMMG Main Operating	\$ 29,825,743	(428,239)	29,397,504
	Cancer Center	38,925	—	38,925
	Truman RX	75,000	—	75,000
		<u>29,939,668</u>	<u>(428,239)</u>	<u>29,511,429</u>
	Cash on Hand	6,325	—	6,325
Investments:				
Morgan Stanley	Money market:			
Smith Barney	Bank deposit	598,867	—	598,867
	Total money market	598,867	—	598,867
	Total cash and cash equivalents	<u>\$ 30,544,860</u>	<u>(428,239)</u>	<u>30,116,621</u>
	Corporate bonds:			
	Amazon.com Inc-023135AJ5	\$ 209,795	—	209,795
	American Honda Finance-02665WDF5	76,878	—	76,878
	American Honda Finance-02665WDF5	30,751	—	30,751
	American Honda Finance-02665WDH1	72,240	—	72,240
	American Honda Finance-02665WDH1	30,960	—	30,960
	AON CORP-037389BD4	103,961	—	103,961
	AON CORP-037389DB4	41,584	—	41,584
	Apple Inc-037833DV9	40,462	—	40,462
	Apple-037833DV9	101,156	—	101,156
	Aztrazeneca-046353AR9	103,952	—	103,952
	Aztrazeneca-046353AR9	43,769	—	43,769
	Bank of America-06051GEU9	64,966	—	64,966
	Bank of Nova Scotia-064159SH0	103,427	—	103,427
	Bank of Nova Scotia-064159SH0	41,371	—	41,371
	Bank of NY Mellon-06406RAE7	37,647	—	37,647
	Bank of NY Mellon-06406RAE7	32,269	—	32,269
	Bank of NY Mellon-06406RAE7	102,184	—	102,184
	Bank of NY Mellon-06406RAE7	43,025	—	43,025
	Bank of NY Mellon-06406RAE7	21,512	—	21,512
	Bank of NY Mellon-06406RAE7	59,159	—	59,159
	Bank of NY Mellon-06406RAE7	5,378	—	5,378
	Bank of NY Mellon-06406RAK3	98,579	—	98,579
	Bank of NY Mellon-06406RAK3	41,507	—	41,507
	Berkshire Hathaway Energy-59562VAY3	137,965	—	137,965
	Berkshire Hathaway-084670BF4	47,807	—	47,807
	Berkshire Hathaway-084670BF4	21,247	—	21,247
	BP Capital Markets Amer-10373QAL4	42,398	—	42,398
	Canadian Imperial Bank-13607GKW3	49,719	—	49,719
	Canadian Imperial Bank-13607GKW3	19,888	—	19,888
	Canadian Imperial Bank-13607RAD2	104,616	—	104,616
	Canadian Imperial Bank-13607RAD2	44,049	—	44,049
	Caterpillar Finance-14913Q3A5	36,330	—	36,330
	Caterpillar Finance-14913Q3C1	20,741	—	20,741
	Caterpillar Financial-14913Q3A5	83,041	—	83,041
	Caterpillar Financial-14913Q3C1	51,852	—	51,852
	Chevron-166764BV1	91,690	—	91,690
	Chevron-166764BV1	35,657	—	35,657
	Chubb Ina Holdings-0040EAU1	79,159	—	79,159
	Chubb Ina Holdings-00440EAU1	211,090	—	211,090

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Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	Cigna Corp-125523AF7	\$ 29,772	—	29,772
	Cisco Systems-17275rbj0	51,146	—	51,146
	Cisco Systems-17275RBJ0	20,458	—	20,458
	Citigroup Inc-172967LM1	100,053	—	100,053
	Citigroup Inc-172967LM1	42,128	—	42,128
	Citigroup Inc-17308CC46	51,166	—	51,166
	Citigroup Inc-17308CC46	15,350	—	15,350
	CME Group Inc-12572QAE5	10,638	—	10,638
	CME Group Inc-12572QAE5	81,912	—	81,912
	CME Group Inc-12572QAE5	42,552	—	42,552
	CME Group Inc-12572QAE5	77,657	—	77,657
	CME Group Inc-12572QAE5	26,595	—	26,595
	CME Group Inc-12572QAE5	31,914	—	31,914
	CME Group Inc-12572QAE5	26,595	—	26,595
	Comcast Corp-20030NBR1	101,762	—	101,762
	Comcast-20030NBR1	42,847	—	42,847
	Consumer Energy Co-210518CT1	26,118	—	26,118
	DH Europe Finance-23291KAF2	98,357	—	98,357
	DH Europe Finance-23291KAF2	41,413	—	41,413
	Eaton Corp.-278062AC8	116,188	—	116,188
	Eaton Corp-278062AC8	38,025	—	38,025
	Eaton Corp-278062AC8	4,225	—	4,225
	Eaton Corp-278062AC8	5,281	—	5,281
	Eaton Corp-278062AC8	5,281	—	5,281
	Eaton Corp-278062AC8	26,406	—	26,406
	Ecolab-278865AL4	148,254	—	148,254
	Exxon Mobil-30231GBB7	57,104	—	57,104
	Exxon Mobil-30231GBB7	25,956	—	25,956
	Gilead Sciences Inc.-375558BB8	65,783	—	65,783
	Gilead Sciences-375558BB8	101,204	—	101,204
	Goldman Sachs Group-38141GWC4	10,247	—	10,247
	Goldman Sachs Group-38141GWC4	10,247	—	10,247
	Goldman Sachs Group-38141GWC4	35,864	—	35,864
	Goldman Sachs Group-38141GWC4	46,111	—	46,111
	Goldman Sachs Group-38141GWC4	15,370	—	15,370
	Goldman Sachs Grp-38141GWC4	20,494	—	20,494
	Goldman Sachs Grp-38141GWC4	20,494	—	20,494
	Goldman Sachs Grp-38141GWC4	10,247	—	10,247
	Goldman Sachs Grp-38141GWC4	10,247	—	10,247
	Goldman Sachs Grp-38141GWC4	5,123	—	5,123
	Home Depot-437076BV3	100,753	—	100,753
	Home Depot-437076BV3	42,423	—	42,423
	Honeywell Int.-438516BT2	41,776	—	41,776
	Honeywell Int-438516BT2	99,219	—	99,219
	International Bus. Mach-459200HU8	139,303	—	139,303
	International Business Mach-459200JY8	108,665	—	108,665
	John Deere Capital-24422EVA4	97,807	—	97,807
	John Deere Capital-24422EVA4	41,182	—	41,182
	JP Morgan Chase-46625HJX9	55,454	—	55,454
	JPMorgan Chase&Co-46625HJX9	99,817	—	99,817
	Merck & Co-589331AT4	47,157	—	47,157
	Merck-589331AT4	20,959	—	20,959
	Microsoft-594918BW3	41,660	—	41,660
	Mitsubishi UFJ Financial-606822BA1	99,111	—	99,111
	Mitsubishi UFJ Financial-606822BA1	44,050	—	44,050

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June 30, 2020

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	Morgan Stanley-61746BD2	\$ 103,760	—	103,760
	Morgan Stanley-61746BDJ2	43,688	—	43,688
	Novartis Capital-66989HAM0	46,823	—	46,823
	Novartis Capital-66989HAM0	20,810	—	20,810
	Oracle Corp.-68389XAP0	52,554	—	52,554
	Oracle Corp.-68389XBB0	129,638	—	129,638
	Oracle Corp.-68389XBB0	25,928	—	25,928
	Oracle Corp.-68389XBB0	51,855	—	51,855
	Qualcomm-747525AR4	100,747	—	100,747
	Qualcomm-747525AR4	42,420	—	42,420
	Raytheon Tech-913017DB2	1,097	—	1,097
	Raytheon Tech-913017DB2	3,290	—	3,290
	Royal Bank of Canada-78015K7D0	98,807	—	98,807
	Royal Bank of Canada-78015K7D0	41,603	—	41,603
	Shell International-822582AX0	43,677	—	43,677
	Stanley Black & Decker-854502AD3	52,968	—	52,968
	Stanley Black & Decker-854502AD3	11,653	—	11,653
	Stanley Black & Decker-854502AD3	4,237	—	4,237
	Stanley Black & Decker-854502AD3	42,374	—	42,374
	Sumito Mitsui Financial-86562MBB5	104,804	—	104,804
	Sumitomo Mitsui Fin.-86562MBB5	44,128	—	44,128
	Target-87612EAZ9	100,091	—	100,091
	Target-87612EAZ9	42,144	—	42,144
	Toronto-Dominion Bank-89114QBL1	66,487	—	66,487
	Toronto-Dominion Bank-89114QBL1	10,229	—	10,229
	Toronto-Dominion Bank-89114QBL1	25,572	—	25,572
	Toronto-Dominion Bank-89114QBL1	40,915	—	40,915
	Toronto-Dominion Bank-89114QBL1	61,372	—	61,372
	Toronto-Dominion Bank-89114QBL1	51,144	—	51,144
	Toronto-Dominion Bank-89114QBL1	20,457	—	20,457
	Toronto-Dominion Bank-89114QBL1	10,229	—	10,229
	Total Capital SA-89152UAF9	25,983	—	25,983
	Total Capital-89152UAF9	114,325	—	114,325
	Total Capital-89152UAF9	41,573	—	41,573
	Total Capital-89152UAF9	36,376	—	36,376
	Toyota Motor Credit-89236TGW3	106,582	—	106,582
	Toyota Motor Credit-89236TGW9	42,633	—	42,633
	Truist Financial05531FBJ1	99,230	—	99,230
	Truist Financial-05531FBJ1	41,781	—	41,781
	United Parcel Service-911312AQ9	99,571	—	99,571
	United Parcel Service-911312AQ9	41,925	—	41,925
	Unitedhealth Group-91324PDD1	99,869	—	99,869
	Unitedhealth Group-91324PDD1	42,050	—	42,050
	VISA INC-92826CAB8	60,454	—	60,454
	VISA INC-92826CAB8	4,030	—	4,030
	VISA INC-92826CAB8	26,197	—	26,197
	VISA INC-92826CAB8	10,076	—	10,076
	VISA INC-92826CAB8	60,454	—	60,454
	VISA INC-92826CAB8	70,530	—	70,530
	VISA INC-92826CAB8	5,038	—	5,038
	VISA INC-92826CAG7	52,274	—	52,274
	VISA INC-92826CAG7	104,547	—	104,547
	Walmart-931142EJ8	97,705	—	97,705
	Walmart-931142EJ8	41,139	—	41,139
	Waste Management-94106LBD0	99,571	—	99,571

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June 30, 2020

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	Waste Management-94106LBD0	\$ 41,925	—	41,925
	Wells Fargo & Co-949746SK8	157,426	—	157,426
	Wells Fargo & Co-949746SK8	41,974	—	41,974
	Total corporate bonds	8,520,440	—	8,520,440
	Government and government sponsored enterprise (GSE) bonds:			
	FED NATL MTG ASSN-3135G0F73	25,166	—	25,166
	FED NATL MTG ASSN-3135G0F73	35,232	—	35,232
	FED NATL MTG ASSN-3135G0F73	216,425	—	216,425
	FEDERAL NATL MTG ASSN - 3135G0F73	5,033	—	5,033
	FEDERAL NATL MTG ASSN - 3135G0F73	20,133	—	20,133
	U.S. TREASURY NOTE-9128282S8	134,797	—	134,797
	U.S. TREASURY NOTE-9128282W9	99,079	—	99,079
	U.S. TREASURY NOTE-9128282W9	192,944	—	192,944
	U.S. TREASURY NOTE-9128285D8	82,052	—	82,052
	U.S. TREASURY NOTE-9128285U0	168,102	—	168,102
	U.S. TREASURY NOTE-9128287C8	78,013	—	78,013
	U.S. TREASURY NOTE-9128287C8	421,272	—	421,272
	U.S. TREASURY NOTE-912828M80	52,283	—	52,283
	U.S. TREASURY NOTE-912828M80	31,370	—	31,370
	U.S. TREASURY NOTE-912828M80	5,228	—	5,228
	U.S. TREASURY NOTE-912828M80	15,685	—	15,685
	U.S. TREASURY NOTE-912828M80	26,141	—	26,141
	U.S. TREASURY NOTE-912828M80	26,141	—	26,141
	U.S. TREASURY NOTE-912828M80	20,913	—	20,913
	U.S. TREASURY NOTE-912828M80	5,228	—	5,228
	U.S. TREASURY NOTE-912828M80	26,141	—	26,141
	U.S. TREASURY NOTE-912828M80	52,283	—	52,283
	U.S. TREASURY NOTE-912828M80	104,566	—	104,566
	U.S. TREASURY NOTE-912828RC6	5,148	—	5,148
	U.S. TREASURY NOTE-912828RC6	267,711	—	267,711
	U.S. TREASURY NOTE-912828RC6	5,148	—	5,148
	U.S. TREASURY NOTE-912828RC6	20,593	—	20,593
	U.S. TREASURY NOTE-912828RC6	154,449	—	154,449
	U.S. TREASURY NOTE-912828RC6	77,224	—	77,224
	U.S. TREASURY NOTE-912828RC6	15,445	—	15,445
	U.S. TREASURY NOTE-912828RC6	36,038	—	36,038
	U.S. TREASURY NOTE-912828UN8	15,828	—	15,828
	U.S. TREASURY NOTE-912828UN8	26,379	—	26,379
	U.S. TREASURY NOTE-912828UN8	10,552	—	10,552
	U.S. TREASURY NOTE-912828UN8	15,828	—	15,828
	U.S. TREASURY NOTE-912828UN8	36,931	—	36,931
	U.S. TREASURY NOTE-912828UN8	26,379	—	26,379
	U.S. TREASURY NOTE-912828UN8	237,414	—	237,414
	U.S. TREASURY NOTE-912828UN8	26,379	—	26,379
	U.S. TREASURY NOTE-912828UN8	52,759	—	52,759
	U.S. TREASURY NOTE-912828UN8	26,379	—	26,379
	U.S. TREASURY NOTE-912828UN8	26,379	—	26,379
	U.S. TREASURY NOTE-912828UN8	26,379	—	26,379
	U.S. TREASURY NOTE-912828UN8	158,276	—	158,276
	U.S. TREASURY NOTE-912828UN8	105,517	—	105,517
	U.S. TREASURY NOTE-912828V80	292,265	—	292,265
	U.S. TREASURY NOTE-912828V80	27,062	—	27,062
	U.S. TREASURY NOTE-912828W55	165,509	—	165,509

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Individual Deposit and Investment Account Balances
June 30, 2020

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	U.S. TREASURY NOTE-912828W55	\$ 501,700	—	501,700
	U.S. TREASURY NOTE-912828XW5	190,824	—	190,824
	U.S. TREASURY NOTE-912828Z60	455,953	—	455,953
	U.S. TREASURY NOTE-912828ZR4	189,878	—	189,878
	U.S. TREASURY NOTES -9128282S8	824,336	—	824,336
	U.S. TREASURY NOTES -9128282W9	401,533	—	401,533
	U.S. TREASURY NOTES -9128282W9	219,018	—	219,018
	U.S. TREASURY NOTES -9128283C2	339,890	—	339,890
	U.S. TREASURY NOTES -9128283C2	26,145	—	26,145
	U.S. TREASURY NOTES -9128283C2	52,291	—	52,291
	U.S. TREASURY NOTES -9128283C2	78,436	—	78,436
	U.S. TREASURY NOTES -9128283C2	26,145	—	26,145
	U.S. TREASURY NOTES -9128283C2	104,582	—	104,582
	U.S. TREASURY NOTES -9128283C2	418,326	—	418,326
	U.S. TREASURY NOTES -9128283C2	261,454	—	261,454
	U.S. TREASURY NOTES -9128285D8	202,395	—	202,395
	U.S. TREASURY NOTES -9128287C8	343,259	—	343,259
	U.S. TREASURY NOTES -9128287C8	847,746	—	847,746
	U.S. TREASURY NOTES -912828M80	26,141	—	26,141
	U.S. TREASURY NOTES -912828M80	235,273	—	235,273
	U.S. TREASURY NOTES -912828M80	52,283	—	52,283
	U.S. TREASURY NOTES -912828M80	104,566	—	104,566
	U.S. TREASURY NOTES -912828M80	78,424	—	78,424
	U.S. TREASURY NOTES -912828M80	78,424	—	78,424
	U.S. TREASURY NOTES -912828M80	209,132	—	209,132
	U.S. TREASURY NOTES -912828M80	78,424	—	78,424
	U.S. TREASURY NOTES -912828M80	52,283	—	52,283
	U.S. TREASURY NOTES -912828M80	130,707	—	130,707
	U.S. TREASURY NOTES -912828M80	261,415	—	261,415
	U.S. TREASURY NOTES -912828RC6	82,373	—	82,373
	U.S. TREASURY NOTES -912828RC6	97,818	—	97,818
	U.S. TREASURY NOTES -912828RC6	149,301	—	149,301
	U.S. TREASURY NOTES -912828RC6	102,966	—	102,966
	U.S. TREASURY NOTES -912828RC6	123,559	—	123,559
	U.S. TREASURY NOTES -912828RC6	154,449	—	154,449
	U.S. TREASURY NOTES -912828RC6	15,445	—	15,445
	U.S. TREASURY NOTES -912828RC6	159,597	—	159,597
	U.S. TREASURY NOTES -912828RC6	113,263	—	113,263
	U.S. TREASURY NOTES -912828RC6	25,741	—	25,741
	U.S. TREASURY NOTES -912828RC6	25,741	—	25,741
	U.S. TREASURY NOTES -912828RC6	15,445	—	15,445
	U.S. TREASURY NOTES -912828RC6	51,483	—	51,483
	U.S. TREASURY NOTES -912828RC6	5,148	—	5,148
	U.S. TREASURY NOTES -912828RC6	77,224	—	77,224
	U.S. TREASURY NOTES -912828RC6	283,156	—	283,156
	U.S. TREASURY NOTES -912828RC6	5,148	—	5,148
	U.S. TREASURY NOTES -912828RC6	102,966	—	102,966
	U.S. TREASURY NOTES -912828RC6	211,080	—	211,080
	U.S. TREASURY NOTES -912828UN8	131,897	—	131,897
	U.S. TREASURY NOTES -912828UN8	10,552	—	10,552
	U.S. TREASURY NOTES -912828UN8	26,379	—	26,379
	U.S. TREASURY NOTES -912828UN8	116,069	—	116,069
	U.S. TREASURY NOTES -912828UN8	5,276	—	5,276
	U.S. TREASURY NOTES -912828UN8	26,379	—	26,379
	U.S. TREASURY NOTES -912828UN8	8,441	—	8,441

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Individual Deposit and Investment Account Balances
June 30, 2020

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	U.S. TREASURY NOTES -912828UN8	\$ 17,938	—	17,938
	U.S. TREASURY NOTES -912828UN8	79,138	—	79,138
	U.S. TREASURY NOTES -912828UN8	26,379	—	26,379
	U.S. TREASURY NOTES -912828UN8	105,517	—	105,517
	U.S. TREASURY NOTES -912828UN8	52,759	—	52,759
	U.S. TREASURY NOTES -912828UN8	237,414	—	237,414
	U.S. TREASURY NOTES -912828UN8	211,035	—	211,035
	U.S. TREASURY NOTES -912828UN8	263,793	—	263,793
	U.S. TREASURY NOTES -912828UN8	158,276	—	158,276
	U.S. TREASURY NOTES -912828UN8	105,517	—	105,517
	U.S. TREASURY NOTES -912828W55	543,077	—	543,077
	U.S. TREASURY NOTES -912828XT2	471,249	—	471,249
	U.S. TREASURY NOTES -912828XW5	293,972	—	293,972
	U.S. TREASURY NOTES -912828Z60	1,034,860	—	1,034,860
	U.S. TREASURY NOTES -912828ZR4	304,805	—	304,805
	U.S. TREASURY NOTE-9127963C1	269,995	—	269,995
	U.S. TREASURY NOTE-912796UB3	420,000	—	420,000
	U.S. TREASURY NOTES -912796UB3	605,000	—	605,000
	U.S. TREASURY NOTES -9128284G2	117,553	—	117,553
	U.S. TREASURY NOTES -9128284G2	229,995	—	229,995
	U.S. TREASURY NOTES -9128284G2	76,665	—	76,665
	U.S. TREASURY NOTES -912828PC8	101,226	—	101,226
	U.S. TREASURY NOTES -912828PC8	50,613	—	50,613
	U.S. TREASURY NOTES -912828PC8	25,307	—	25,307
	U.S. TREASURY NOTES -912828PC8	75,920	—	75,920
	U.S. TREASURY NOTES -912828PC8	50,613	—	50,613
	U.S. TREASURY NOTES -912828PC8	50,613	—	50,613
	U.S. TREASURY NOTES -912828PC8	35,429	—	35,429
	U.S. TREASURY NOTES -912828PC8	50,613	—	50,613
	U.S. TREASURY NOTES -912828PC8	15,184	—	15,184
	U.S. TREASURY NOTES -912828PC8	70,858	—	70,858
	U.S. TREASURY NOTES -912828PC8	75,920	—	75,920
	U.S. TREASURY NOTES -912828PC8	75,920	—	75,920
	U.S. TREASURY NOTES -912828PC8	146,778	—	146,778
	U.S. TREASURY NOTES -912828PC8	86,050	—	86,050
	Total government bonds	<u>19,156,058</u>	<u>—</u>	<u>19,156,058</u>
	Municipal bonds:			
	State of Fl. St. Board of Admin-341271AB0	77,531	—	77,531
	State of Fl. St. Board of Admin-341271AB0	51,687	—	51,687
	State of Florida Board-341271AB0	5,169	—	5,169
	State of Florida Board-341271AB0	25,844	—	25,844
	State of Florida Board-341271AB0	124,050	—	124,050
	UNIV. PITTSBURGH PA-914805ER3	126,142	—	126,142
	UNIV. PITTSBURGH PA-914805ER3	75,684	—	75,684
	Total municipal bonds	<u>486,107</u>	<u>—</u>	<u>486,107</u>
	Total investments	<u>\$ 28,162,605</u>	<u>—</u>	<u>28,162,605</u>

See accompanying independent auditors' report.



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

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

The Board of Directors
UNM Medical Group, Inc. and
Mr. Brian Colón, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of UNM Medical Group, Inc. (UNMMG), which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 8, 2020.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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



We note a certain matter that is required to be reported per Section 12-6-5 NMSA 1978, that we have described in the accompanying schedule of findings and responses as item 2020-001.

UNMMG's Response to Finding

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

Purpose of this Report

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

KPMG LLP

Albuquerque, New Mexico
December 8, 2020

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Summary of Audit Results
Fiscal year ended June 30, 2020

Type of auditor report issued: Unmodified opinion

Fiscal year 2020 findings and responses:

Material weaknesses: No matters to report

Significant deficiencies: No matters to report

Material noncompliance: No matters to report

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2020

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

2020-001. User Access Review – Other Matter

2019-002, 2018-001 and 2017-001 Repeated and Modified

Condition

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

This was validated in the following:

- We identified two terminated users in the Cerner system and one user in the IDX System that retained active accounts in the systems as of the date of testwork. We verified that the applicable terminated employees did not record activity in the systems subsequent to their termination date.
- For all in-scope systems (Cerner, Lawson, IDX) lookback procedures were not completed after the user access reviews for the individuals identified for access change (termination, user change, etc.) to determine whether the user(s) performed any inappropriate activity from the time the applicable change was noted/requested to the time they were removed from the application.
- For the Cerner application April 2020 user access review, we noted that a number of accounts were verified, however, there was no documented review of the appropriateness/completeness of the accounts (determine whether they are terminated or no longer required access, etc.) performed for the period.
- For the Lawson application, the user access review was not fully completed for the February 2020 period. The listing was reviewed, however, there was no documentation to evidence the accounts requiring modifications (if any) for the period under review or those modifications being completed.

In years 2018 and 2019 we identified certain controls over user access reviews were not operating effectively. Management updated processes and procedures to address the specific deficiencies identified, which included implementing increased training initiatives and user access review audits, formalizing the processes for exit checklist and service desk creation of termination tickets, and querying tasks closed by analyst of other groups. Within the UNM Health System, there are several IT applications and components to the user access controls of those systems. The UNM Health System reorganized the IT department and individuals' responsibilities during FY 2020 and updated the following controls and procedures: the complete employee listings are to be reviewed during the quarterly internal audit process, and the terminations are to be independently reviewed monthly. These organizational and process changes were implemented mid-year.

Criteria

The entity's system processes, records, and stores information that is vital to its daily operations and certain systems contain protected health information of its patients. It is critical that access to this system is properly maintained to prevent inappropriate transactions from occurring, data from being lost, and protected health information from being released. The entity has a formal policy to periodically review user access to ensure active employees have the proper level of access in the applicable systems and that terminated employees have been timely deactivated. Based on industry standards, the appropriate disabling of access within IT systems would occur within a reasonable time, or five working days of termination.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2020

Effect

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

Cause

The user access review process was not operating effectively and aspects of its performance could not be evidenced through documentation retained.

Recommendation

We recommend that the disabling of user access within IT systems should take place within a reasonable time, or five working days of termination of employment. Management should continue to enhance its review of user access, which should occur periodically during the year.

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

Management Response

The processes of UNM Health System agree with the expectation of account disabling within 5 business days of termination. Information Technology departments have instituted daily automated reporting from the Health System Human Resources systems to notify if an employee has been termed in the system. Quarterly account reviews have been scheduled to determine if the disable process was completed successfully, and to identify if any HR records were changed from Active with a backdated termination date that is not picked up on the daily reports.

Account review processes for the different UNM Health System departments will be reviewed and updated to include retention of finding, action taken, and retention of the quarterly reviews for documentation purposes.

Additionally, the creation and implementation of a monthly listing of terminated employees will be created and provided to the Health System Management over each system to verify the termination and processing has been completed by the personnel tasked with account disabling.

The Chief Information Officer will be responsible for the corrective action plan, with a completion date of March 31, 2021.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings
Fiscal year ended June 30, 2020

Finding 2019-001. Related-Party Transaction Policies and Procedures – Other Matter

Current Status: Resolved

Finding 2019-002. User Access Review – Other Matter

Current Status: Repeated and modified as finding 2020-001

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Exit Conference
Fiscal year ended June 30, 2020

An exit conference was conducted on October 12, 2020 with a member of the board of directors and members of UNMMG management. During this meeting, the contents of this report were discussed with the following board members, management personnel, and KPMG LLP representatives present:

Chris Pacheco	Audit Committee Chair, CEO – Titan Development
Dr. Robert C Schenck	Chair – Orthopedics
Dr. Karen A Hawley	Chair – Surgery
Dr. David P Rakel	Chair – Family Community Medicine
Arthur L Culpepper, Ph.D.	Chief Compliance Officer – UNM Hospitals
Angela M Vigil	Exec. Director Compliance – UNM Hospitals
Sarah Rebecca Ramer	Internal Auditor – UNM Hospitals
Laura J Putz	Privacy Officer – UNM Hospitals
Victor A Griego	Interim Director, Internal Audit – UNM Hospitals
Robb McLean	Interim CEO and President – UNM Medical Group
Marjorie Goldstein	CFO – UNM Medical Group
Jill C Klar	COO – UNM Medical Group
Mary E Swanson	Exec. Director, Finance – UNM Medical Group
Cory McDowell	University Counsel
Dawn R Harrington	CIO – UNM Hospitals
David D Grisham, Ph.D.	IT Security Manager – UNM Hospitals
Robert D Morgan	Engineer, IT Systems Security – UNM Hospitals
John Kennedy	Partner, KPMG LLP
Jaime Cavin	Managing Director, KPMG LLP
Ruth Senior	Senior Manager, KPMG LLP