



UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Financial Statements with Supplementary Information
June 30, 2018 and 2017
(With Independent Auditors' Report Thereon)

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
2018 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
Loretta Cordova de Ortega , M.D.	Chair, Pediatrics (Regent appointed)
Martha McGrew , M.D.	Executive Vice Dean, UNM School of Medicine (Regent appointed)
Steve McLaughlin , M.D.	Chair, Emergency Medicine (Regent appointed)
Gary Mlady , M.D.	Chair, Radiology (Regent appointed)
Christopher Pacheco	Independent, non-UNM Faculty (Regent appointed)
Kendall Rogers , M.D.	PAG Representative; Division Chief for Hospital Medicine in Department of Internal Medicine
Robert Schenck , M.D.	Chair, Orthopedics (Regent appointed)
Melissa Ivers , D.M.D.	PAG Chair, Assistant Professor of Dental Services

Officers of UNM Medical Group, Inc.

Jill Klar	Chief Executive Officer
Robb McLean , M.D.	Interim Chief Medical 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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Albuquerque, NM 87110-8179

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the 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, 2018 and 2017, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–9 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), individual deposit and investment account balances (schedule 2), indigent care cost and funding report (schedule 3), and calculations of cost of providing indigent care (schedule 4) (Schedules 1–4) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1–4 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 1–4 are fairly stated, in all material respects, in relation to the basic financial statements as a whole, except for the information marked as unaudited.

The information that is marked as unaudited in the accompanying indigent care cost and funding report (schedule 3) and calculations of cost of providing indigent care (schedule 4) has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

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

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2018, 2017 and 2016
(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, 2018, 2017, and 2016. 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 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.

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

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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		
	2018	2017	2016
Assets:			
Current assets	\$ 59,280,198	65,154,375	65,710,538
Capital assets, net	1,853,142	2,554,083	3,284,128
Other noncurrent assets	36,210,003	30,910,206	23,579,073
Total assets	<u>\$ 97,343,343</u>	<u>98,618,664</u>	<u>92,573,739</u>
Liabilities:			
Current liabilities	\$ 35,334,513	38,061,278	36,534,649
Total liabilities	<u>35,334,513</u>	<u>38,061,278</u>	<u>36,534,649</u>
Net position:			
Invested in capital assets	1,853,142	2,554,083	3,284,128
Unrestricted	60,155,688	58,003,303	52,754,962
Total net position	<u>62,008,830</u>	<u>60,557,386</u>	<u>56,039,090</u>
Total liabilities and net position	<u>\$ 97,343,343</u>	<u>98,618,664</u>	<u>92,573,739</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, 2018, total current assets of \$59.3 million included \$26.2 million of cash and cash equivalents compared to \$65.2 million in total current assets and \$27.5 million of cash and cash equivalents at June 30, 2017, and compared to \$65.7 million in total current assets and \$23.8 million of cash and cash equivalents at June 30, 2016. Current assets also include net patient receivables of \$28.6 million, \$30.5 million, and \$28.3 million at June 30, 2018, 2017, and 2016, respectively. Also included in current assets at June 30, 2018 are amounts due from affiliates of \$4.2 million (consisting primarily of \$2.5 million due from UNM Health Sciences Center (UNM HSC), \$1.7 million due from UNM Hospitals (UNMH), and \$0.03 million due from Sandoval Regional Medical Center (SRMC)), compared to \$4.4 million at June 30, 2017 (consisting primarily of \$2.0 million due from UNM HSC, \$2.2 million due from UNMH, and \$0.2 million due from SRMC), and \$5.6 million at June 30, 2016 (consisting primarily of \$2.4 million due from UNM HSC, \$2.9 million due from UNMH, and \$0.3 million due from SRMC). Current assets also include other receivables of \$0.2 million, \$2.7 million, and \$8.0 million at June 30, 2018, 2017, and 2016, respectively, predominantly related to the meaningful use program.

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 \$29.0 million, \$23.4 million, and \$22.8 million at June 30, 2018, 2017, and 2016, respectively. The \$5.6 million increase in

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board-designated investments from fiscal year 2017 to 2018 is predominantly attributable to the following: (i) the receipt of \$2.5 million from the meaningful use program; (ii) the receipt of a \$1.4 million distribution from Lovelace UNM Rehabilitation Hospital, LLC; and (iii) \$1.1 million associated reserves for UNMMG clinic activities. Noncurrent assets include capital assets of \$1.9 million, \$2.6 million, and \$3.3 million at June 30, 2018, 2017, and 2016, respectively. Noncurrent assets also include \$6.5 million and \$6.4 million investment in joint venture, Lovelace UNM Rehabilitation Hospital, LLC, as of June 30, 2018 and 2017, respectively.

Current liabilities are generally defined as amounts due within one year. As of June 30, 2018, total current liabilities of \$35.3 million include purchased services payable to UNM HSC of \$23.8 million. These amounts compare to total current liabilities and purchased services payable to UNM HSC of \$38.1 million and \$23.7 million at June 30, 2017, respectively, and \$36.5 million and \$22.6 million at June 30, 2016, respectively. Also included in current liabilities at June 30, 2018 are amounts payable to UNM of \$2.8 million and other accrued liabilities of \$6.0 million, compared to \$6.6 million and \$5.8 million, respectively, at June 30, 2017 and \$6.2 million and \$5.8 million, respectively, at June 30, 2016.

UNMMG's current ratio, the ratio of current assets available to cover current liabilities, was 1.68, 1.71, and 1.80 at June 30, 2018, 2017, and 2016, respectively. Payment of UNMMG's current liabilities is dependent on UNMMG's ability to collect patient and other receivables.

The total net position of \$62.0 million at June 30, 2018 increased \$1.4 million from \$60.6 million at June 30, 2017, due to the excess of revenue over expenses in 2018 of \$1.4 million.

The total net position of \$60.6 million at June 30, 2017 increased \$4.5 million from \$56.1 million at June 30, 2016, due to the excess of revenue over expenses in 2017 of \$4.5 million.

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Year ended June 30		
	2018	2017	2016
Net operating revenues	\$ 202,684,399	217,264,471	212,759,222
Operating expenses:			
Purchased clinical services	132,575,992	146,164,140	140,580,678
Salaries and benefits	28,296,178	28,482,686	28,153,974
Other	42,951,004	39,467,575	36,868,853
Total operating expenses	<u>203,823,174</u>	<u>214,114,401</u>	<u>205,603,505</u>
Operating (loss) gain	(1,138,775)	3,150,070	7,155,717
Nonoperating revenues	<u>2,590,219</u>	<u>1,368,226</u>	<u>1,520,165</u>
Change in net position	1,451,444	4,518,296	8,675,882
Net position, beginning of year	<u>60,557,386</u>	<u>56,039,090</u>	<u>47,363,208</u>
Net position, end of year	<u>\$ 62,008,830</u>	<u>60,557,386</u>	<u>56,039,090</u>

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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, 2018 decreased \$14.6 million, from \$217.3 million in 2017 to \$202.7 million in 2018, reflecting a decrease of 6.7%. This decrease was primarily associated with the change in funds allocated to support providers at SRMC, as described in the following paragraph. Net operating revenues for 2017 increased \$4.5 million, from \$212.8 million in 2016 to \$217.3 million in 2017, reflecting an increase of 2.1%. Net patient revenues decreased \$5.2 million in 2018, from \$180.9 million in 2017 to \$175.7 million in 2018. Net patient revenues increased \$3.7 million in 2017, from \$177.2 million in 2016 to \$180.9 million in 2017.

Pharmacy revenues increased \$4.1 million in 2018, from \$21.4 million in 2017 to \$25.5 million in 2018, and increased \$4.1 million in 2017, from \$17.3 million in 2016 to \$21.4 million in 2017. The pharmacy revenue growth in 2018 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 \$0.4 million in 2018, \$12.3 million in 2017, and \$9.1 million in 2016 of funds allocated from the UNM Health System to support provider costs incurred by UNMMG for physicians and nonphysician providers providing services at SRMC. The decrease in these revenues of \$11.9 million from 2017 to 2018 directly correlates with a reduction in physician expenses for the aforementioned service providers allocated to UNMMG by UNM HSC.

In 2018, 2017, and 2016, UNMMG received revenue for ACA enhanced payments for primary care as defined in Section 1202 of the Affordable Care Act. This rule requires payment by State Medicaid agencies of at least the Medicare rates in effect in calendar years 2013 and 2014 for primary care services delivered by a physician with a specialty designation of family medicine, general internal medicine, or pediatric medicine. This rule implemented the statutory payment provisions uniformly across all states. Specifically, this rule defined, for purposes of enhanced federal match, eligible primary care providers, identified eligible primary care services, and specified how the enhanced payment should be calculated. This rule also provided general guidelines for implementing the enhanced payment for managed care services. The State of New Mexico Medicaid Program discontinued the program in 2017. In 2018, primary care enhancements received were \$0.7 million, a decrease of \$0.2 million compared to revenue of \$0.9 million in 2017. In 2017, primary care enhancement revenue decreased \$1.6 million, from \$2.5 million in 2016 to \$0.9 million in 2017.

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 3,340,474 in 2018, representing an increase of 79,461, or 2.4%, from 2017. In 2017, wRVUs of 3,261,013 increased 171,536, or 5.6%, from 2016. UNMMG operated 15 clinics with approximately 39,000 patient visits in 2018, 18 clinics with approximately 37,000 patient visits in 2017, and 20 clinics with approximately 39,000 visits in 2016. Overall, these clinics contributed \$31.5 million, \$29.1 million, and \$26.4 million in revenues in 2018, 2017, and 2016, respectively. Excluding pharmacy revenues, the clinics contributed revenues of \$6.0 million in 2018, \$7.7 million in 2017, and \$9.1 million in 2016.

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A condensed summary of net operating revenues follows:

	Year ended June 30		
	2018	2017	2016
Patient service charges billed at established rates	\$ 509,729,680	504,772,271	482,289,146
Adjustments to charges:			
Contractual adjustments	(284,471,398)	(274,352,790)	(254,399,832)
Charity care	(9,240,044)	(5,951,250)	(8,480,657)
Net patient billings	216,018,238	224,468,231	219,408,657
Provision for uncollectible accounts	(40,365,082)	(43,588,142)	(42,223,340)
Net patient service revenues	175,653,156	180,880,089	177,185,317
Pharmacy revenue	25,548,786	21,360,187	17,270,032
Other revenue	1,482,457	15,024,195	18,303,873
Total net operating revenues	<u>\$ 202,684,399</u>	<u>217,264,471</u>	<u>212,759,222</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, 2018, 2017, and 2016, there were approximately 4,911, 6,715, and 6,812 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, 2018, UNMMG provided, in terms of foregone charges, \$9.2 million in charity care, compared to \$6.0 million in 2017 and \$8.5 million in 2016.

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, 2018, UNMMG recorded \$40.4 million as a provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts, compared to \$43.6 million and \$42.2 million for the years ended June 30, 2017 and 2016, respectively.

UNMMG incurs costs associated with providing charity care and other services for which payment is not received. For the year ended June 30, 2018, the estimated cost of care for providing these services was \$17.5 million, compared to \$17.6 million in 2017 and \$18.2 million in 2016.

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The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record (EHR) technology. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Economic and Clinical Health (HITECH) Act. The HITECH Act's overall public policy is "to promote the adoption and meaningful use of interoperable health information technology and qualified electronic health records (EHRs)." The government's ultimate goal is to promote more effective (quality) and efficient healthcare delivery through the use of technology, reducing the cost of healthcare for all Americans and using the savings to expand access to the healthcare system. In 2018, UNMMG continued the attestation process for eligible providers under this program. UNMMG recorded revenues of \$0.09 million, \$1.8 million, and \$7.8 million in 2018, 2017, and 2016, respectively, under the meaningful use program. UNMMG began receiving funds in July 2012 from the Medicaid program and in December 2012 from the Medicare program. In April 2018, Centers for Medicare and Medicaid Services (CMS) renamed the EHR Incentive Program to Promoting Interoperability to better reflect the focus on improving interoperability and patients' access to health information.

Total operating expenses were \$203.8 million for the year ended June 30, 2018, and \$214.1 million and \$205.6 million for the years ended June 30, 2017 and June 30, 2016, 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 School of Medicine (SOM), which when combined totaled \$144.9 million in 2018, \$156.6 million in 2017, and \$150.8 million in 2016.

The decrease in costs related to the purchase of clinical services from 2017 to 2018 is attributable to the change in expenses allocated by UNM HSC pertaining to providers providing services at SRMC, and directly correlates with the decrease in net operating revenues.

UNM HSC and 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 clinical revenues collected. For 2018, the UNMMG board of directors approved an additional dean's tax of \$2.0 million as part of the fiscal year 2018 budget. Total dean's tax was \$12.3 million in 2018, \$10.4 million in 2017, and \$10.2 million in 2016, and is reported on the statements of revenues, expenses, and changes in net position as an operating expense.

In 2018 and 2017, UNMH provided funding to UNMMG in the amount of \$1.5 million and \$1.5 million, respectively, to provide a portion of support for clinical contract services, process improvement services, 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 \$2.6 million in 2018, \$1.4 million in 2017, and \$1.5 million in 2016 consist primarily of state appropriations, investment income, unrealized gains and losses on investments, and interest income on a money market account. The increase in nonoperating revenues in 2018 is due to a \$1.2 million increase in equity earnings of the Lovelace UNM Rehabilitation Hospital joint venture, due to the joint venture having a full year of operations in 2018, compared to two months of operations in 2017.

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Capital Assets

At June 30, 2018, UNMMG had \$1.9 million invested in capital assets, net of accumulated depreciation of approximately \$7.1 million, compared to \$2.6 million and \$6.6 million at June 30, 2017, respectively, and \$3.3 million and \$6.0 million at June 30, 2016, 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 increase of \$1.4 million from 2017 to 2018 due primarily to nonoperating income, compared to a net increase of \$4.5 million from 2016 to 2017.

Factors Impacting Future Periods

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 schemes 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 has attested 100% of its 1,093 eligible clinicians who should each receive a 2.02% reimbursement increase on qualifying Medicare Part B claims for services provided in calendar year 2019, also referred to as the 2019 MIPS payment year.

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.

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Statements of Net Position

June 30, 2018 and 2017

Assets	2018	2017
Current assets:		
Cash and cash equivalents	\$ 26,209,748	27,497,144
Receivables:		
Net patient receivables (net of allowance for uncollectible accounts of \$38,017,778 in 2018 and \$39,184,053 in 2017)	28,628,684	30,532,845
Due from affiliates	4,229,828	4,393,467
Other	211,938	2,730,919
Total net receivables	<u>33,070,450</u>	<u>37,657,231</u>
Total current assets	<u>59,280,198</u>	<u>65,154,375</u>
Noncurrent assets:		
Board-designated assets:		
Cash and cash equivalents, noncurrent	5,673,093	4,961,539
Investments	23,295,370	18,431,604
Total board-designated assets	<u>28,968,463</u>	<u>23,393,143</u>
Investment in Lovelace UNM Rehab Hospital	6,453,563	6,420,815
Capital assets, net	1,853,142	2,554,083
Other assets	787,977	1,096,248
Total noncurrent assets	<u>38,063,145</u>	<u>33,464,289</u>
Total assets	<u>\$ 97,343,343</u>	<u>98,618,664</u>
Liabilities		
Current liabilities:		
Purchased services due to UNM HSC	\$ 23,780,382	23,694,983
Operating expenses due to UNM	2,768,498	6,634,779
Due to affiliates	2,736,899	1,910,500
Accrued liabilities	6,048,734	5,821,016
Total current liabilities	<u>35,334,513</u>	<u>38,061,278</u>
Net Position		
Investment in capital assets	1,853,142	2,554,083
Unrestricted	<u>60,155,688</u>	<u>58,003,303</u>
Total net position	<u>62,008,830</u>	<u>60,557,386</u>
Total liabilities and net position	<u>\$ 97,343,343</u>	<u>98,618,664</u>

See accompanying notes to financial statements.

UNM MEDICAL GROUP, INC.

(A Component Unit of the University of New Mexico)

Statements of Revenues, Expenses and Change in Net Position

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Patient service revenue, net	\$ 175,653,156	180,880,089
Pharmacy revenue	25,548,786	21,360,187
Other revenue	1,482,457	15,024,195
Total net operating revenues	<u>202,684,399</u>	<u>217,264,471</u>
Operating expenses:		
Purchased clinical services from UNM HSC	132,575,992	146,164,140
Salaries and benefits	28,296,178	28,482,686
Pharmacy expenses	13,907,778	12,099,924
Dean's tax	12,306,256	10,429,745
Other administrative	4,391,128	4,327,934
Malpractice insurance	3,813,757	4,444,185
Patient care costs	2,382,616	2,248,464
Data processing costs	2,100,158	1,913,597
Occupancy	1,221,965	1,194,696
Patient registration and enrollment support	1,172,132	1,188,753
Depreciation	924,675	1,066,056
Consulting	730,539	554,221
Total operating expenses	<u>203,823,174</u>	<u>214,114,401</u>
Operating (loss) income	<u>(1,138,775)</u>	<u>3,150,070</u>
Nonoperating revenues (expenses):		
Equity in earnings of Lovelace UNM Rehab Hospital	1,462,009	246,815
State appropriations	1,160,200	1,172,000
Loss on disposition of assets	(3,207)	(51,989)
Investment (loss) income	(28,783)	1,400
Total nonoperating revenue	<u>2,590,219</u>	<u>1,368,226</u>
Change in net position	1,451,444	4,518,296
Net position, beginning of year	<u>60,557,386</u>	<u>56,039,090</u>
Net position, end of year	<u>\$ 62,008,830</u>	<u>60,557,386</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Cash receipts from insurance and patients	\$ 205,698,090	205,410,241
Payments to UNM	(151,486,849)	(158,310,548)
Payments to suppliers	(25,076,930)	(23,535,008)
Payments to employees	(24,263,170)	(23,557,965)
Payments for employee benefits	(4,707,682)	(5,023,497)
Other receipts	1,790,728	14,728,637
Net cash provided by operating activities	1,954,187	9,711,860
Cash flows from noncapital financing activities:		
State appropriations	1,160,200	1,172,000
Net cash provided by noncapital financing activities	1,160,200	1,172,000
Cash flows from investing activities:		
Net purchases of investments	(4,863,766)	(317,983)
Purchase of capital assets	(226,941)	(388,000)
(Loss) gain from investments	(28,783)	1,400
Proceeds from (investment in) Lovelace UNM Rehab Hospital	1,429,261	(6,174,000)
Net cash used in investing activities	(3,690,229)	(6,878,583)
Net (decrease) increase in cash and cash equivalents	(575,842)	4,005,277
Cash and cash equivalents, beginning of year	32,458,683	28,453,406
Cash and cash equivalents, end of year	\$ 31,882,841	32,458,683
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) income	\$ (1,138,775)	3,150,070
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	924,675	1,066,056
Provision for doubtful accounts	40,365,082	43,588,142
Changes in assets and liabilities:		
Patient receivables	(38,460,921)	(45,841,866)
Due from affiliates	163,639	1,213,714
Other receivables	2,518,981	5,304,673
Other assets	308,271	(295,558)
Purchase services due to UNM HSC	85,399	1,100,425
Due to affiliates and operating expenses due to UNM	(3,039,882)	413,383
Accrued liabilities	227,718	12,821
Net cash provided by operating activities	\$ 1,954,187	9,711,860

See accompanying notes to financial statements.

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(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.

(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

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insurance amount of \$250,000. Cash in excess of FDIC insurance is collateralized at June 30, 2018 and 2017 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, 2018 and 2017, 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. 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) 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.

(h) 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

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determined to qualify as charity care, they are not reported as revenue in the statements of revenues, expenses, and changes in net position.

(i) 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 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. UNM Truman Health Clinic also operates an outpatient pharmacy. Total combined pharmacy revenues were \$25.5 million and \$21.4 million for the years ended June 30, 2018 and 2017, respectively. Pharmacy expenses reflect cost of goods sold, pharmacy management, and dispensing fees. Pharmacy expenses were \$13.9 million and \$12.1 million for the years ended June 30, 2018 and 2017, respectively.

(j) 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 are all expenses incurred to provide medical services and the related billing of these services.

(k) 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 UNMMG 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 Finance Committee and the Board will determine and approve the purchase of any additional services.

(l) Salaries and Benefits

At June 30, 2018, the staff of UNMMG comprised 563 UNMMG and 29 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.

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(m) 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)(3). As such, it would be exempt from federal income tax on income generated from activities related to its exempt function. Furthermore, UNMMG previously received a discretionary ruling from the IRS under Revenue Procedure 95-48 excluding it from the requirement to file certain information returns. UNMMG requested reclassification as a public charity described in Section 509(a)(2) of the IRC from the IRS, and received a letter from the IRS on August 14, 2013 confirming the requested reclassification and stating that Form 990 is not required to be filed. Accordingly, no provision for income taxes has been made.

(n) Recent Accounting Pronouncements

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. Statement No. 83 addresses accounting and financial reporting for certain asset retirement obligations, with the establishment of criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. Statement No. 83 is effective for reporting periods beginning after June 15, 2018; early adoption is encouraged. UNMMG is evaluating the impact the standard will have on its financial statements.

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 December 15, 2019; early adoption is encouraged. 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.

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Bank balances as of June 30, 2018 and 2017 are categorized as follows:

	<u>2018</u>	<u>2017</u>
Operating accounts	\$ 31,805,788	31,370,427
Savings account	—	5,496
	<u>31,805,788</u>	<u>31,375,923</u>
Total bank balances	31,805,788	31,375,923
Amount insured by FDIC	<u>250,000</u>	<u>250,000</u>
Amount collateralized with securities held in UNMMG's name	<u>\$ 31,555,788</u>	<u>31,125,923</u>

Also included in cash and cash equivalents at June 30, 2018 is a money market account in the amount of \$0.3 million. 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 \$23,295,370 at June 30, 2018 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

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statistical ratings organizations. A summary of the marketable securities and their respective maturities and their exposure to credit risk at June 30, 2018 and 2017 follows:

2018				
Credit rating (S&P)	Total	U.S. government and agency obligations	Corporate bonds	Other government bonds
AAA	\$ 13,368,449	13,269,479	—	98,970
AA	5,913,605	4,502,327	986,807	424,471
A	3,048,987	—	3,048,987	—
BBB	964,329	—	964,329	—
Total	<u>\$ 23,295,370</u>	<u>17,771,806</u>	<u>5,000,123</u>	<u>523,441</u>

2018				
Investment maturities (in years)				
	Fair value	Less than 1	1 to 5	
U.S. government obligations	\$ 17,771,806	3,920,408	13,851,398	
Corporate bonds	5,000,123	2,117,339	2,882,784	
Other government bonds	523,441	150,685	372,756	
Total	<u>\$ 23,295,370</u>	<u>6,188,432</u>	<u>17,106,938</u>	

2017				
Credit rating (S&P)	Total	U.S. government and agency obligations	Corporate bonds	Other government bonds
AAA	\$ 10,347,541	10,247,437	—	100,104
AA	4,593,708	2,876,764	1,415,011	301,933
A	2,098,116	—	1,972,944	125,172
BBB	1,392,239	—	1,392,239	—
Total	<u>\$ 18,431,604</u>	<u>13,124,201</u>	<u>4,780,194</u>	<u>527,209</u>

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	2017		
	Investment maturities (in years)		
	Fair value	Less than 1	1 to 5
U.S. government obligations	\$ 13,124,201	3,894,063	9,230,138
Corporate bonds	4,780,194	1,758,248	3,021,946
Other government bonds	527,209	225,470	301,739
Total	\$ 18,431,604	5,877,781	12,553,823

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, 2018 and 2017, 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, 2018 and 2017:

		2018			
		Level 1	Level 2	Level 3	Total
Investments at fair value:					
Cash and cash equivalents	\$	31,882,841	—	—	31,882,841
U.S. government obligations		—	17,771,806	—	17,771,806
Corporate bonds		—	5,000,123	—	5,000,123
Other government bonds		—	523,441	—	523,441
Total assets	\$	31,882,841	23,295,370	—	55,178,211

		2017			
		Level 1	Level 2	Level 3	Total
Investments at fair value:					
Cash and cash equivalents	\$	32,458,683	—	—	32,458,683
U.S. government obligations		—	13,124,201	—	13,124,201
Corporate bonds		—	4,780,194	—	4,780,194
Other government bonds		—	527,209	—	527,209
Total assets	\$	32,458,683	18,431,604	—	50,890,287

(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, 2018 and 2017, excluding self-pay, which UNMMG substantially reserves.

	2018	2017
Medicare and Medicaid	66 %	65 %
Commercial insurance	32	33
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, 2018 and 2017, 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, 2018 and 2017, assets are designated for the following purposes:

	2018	2017
Quality reserve	\$ 10,554,489	6,620,151
Department reserve	8,167,671	8,510,110
Other UNMMG reserve	7,888,498	6,791,011
Hardware and technology	2,357,805	1,629,483
Investment reserve	—	(157,612)
	\$ 28,968,463	23,393,143
Total board-designated assets		

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

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

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 an effort to improve access to healthcare in communities throughout New Mexico, and other UNMMG clinic activities

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

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.

(6) Investment in Joint Venture

On May 1, 2017, UNMMG entered into a joint venture agreement 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 of UNM. With its investment of \$6.2 million, UNMMG became a 49% member of the new entity, 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.

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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, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance of investment in LURH	\$ 6,420,815	—
Investment in LURH	—	6,174,000
UNMMG share of LURH net income	1,462,009	246,815
Distributions from LURH	<u>(1,429,261)</u>	<u>—</u>
Ending balance of investment in LURH	<u>\$ 6,453,563</u>	<u>6,420,815</u>

Financial statements of LURH are not publicly available.

(7) Capital Assets

Activity in capital assets for the years ended June 30, 2018 and 2017 is summarized as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Balance, June 30, 2016	\$ 9,237,312	(5,953,184)	3,284,128
Additions	388,000	(1,066,056)	(678,056)
Deletions	<u>(485,461)</u>	<u>433,472</u>	<u>(51,989)</u>
Balance, June 30, 2017	9,139,851	(6,585,768)	2,554,083
Additions	226,941	(924,675)	(697,734)
Deletions	<u>(431,633)</u>	<u>428,426</u>	<u>(3,207)</u>
Balance, June 30, 2018	<u>\$ 8,935,159</u>	<u>(7,082,017)</u>	<u>1,853,142</u>

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(8) Accrued Liabilities

Accrued liabilities consisted of the following at June 30, 2018 and 2017:

	2018	2017
Accrued operating expenses	\$ 2,341,025	1,550,480
Accrued leave	1,551,137	2,234,617
Payroll and benefits liability	1,079,157	1,070,350
Refunds payable	961,202	888,197
Unclaimed property	116,213	77,372
	\$ 6,048,734	5,821,016

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, limited 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 attorney's 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. Malpractice expense was \$3.8 million and \$4.4 million for the years ended June 30, 2018 and 2017, respectively.

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(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 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% and 92% in 2018 and 2017, respectively, of UNMMG's gross patient revenue was derived from third-party payors. Of this, Medicare and Medicaid represented approximately 64% and 65% in 2018 and 2017, respectively. 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 would be impacted as a result of regulatory policy changes.

Managed Care Contracts – UNMMG has also 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, 2018 and 2017 is as follows:

	2018	2017
Patient service charges billed at established rates	\$ 509,729,680	504,772,271
Adjustments to charges:		
Contractual adjustments	(284,471,398)	(274,352,790)
Charity care	(9,240,044)	(5,951,250)
Net patient billing	216,018,238	224,468,231
Provision for uncollectible accounts	(40,365,082)	(43,588,142)
Net patient service revenues	\$ 175,653,156	180,880,089

(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

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following information measures the level of charity care provided during the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Charges forgone, based on established rates	\$ 9,240,044	5,951,250
Estimated costs and expenses incurred to provide charity care	3,695,094	2,511,428
Equivalent percentage of charity care to total gross revenue	1.8 %	1.7 %

(12) Related-Party Transactions

A summary of the related-party balances as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Current assets:		
Due from UNM HSC	\$ 2,503,220	2,039,983
Due from UNMH	1,691,662	2,176,348
Due from SRMC	34,946	177,136
	<u>\$ 4,229,828</u>	<u>4,393,467</u>
Current liabilities:		
Purchased services payable to UNM HSC	\$ 23,780,382	23,694,983
Operating expenses due to UNM HSC	2,757,442	6,609,236
Due to UNMH	2,727,247	1,871,386
Indigent distribution (UNM HSC)	11,056	25,543
Due to SRMC	9,652	39,114
	<u>\$ 29,285,779</u>	<u>32,240,262</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, 2018 and 2017, UNMMG's receivable for these expenses was approximately \$2.5 million and \$2.0 million, respectively. The offset to expenses is shown within the appropriate categories in the statements of revenues, expenses, and changes in net position.

In 2018 and 2017, UNMH provided funding to UNMMG in the amount of \$1.5 million and \$1.5 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.

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 UNMMG Board. The cost is agreed upon annually and UNMMG pays UNM HSC on a monthly basis.

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Prior to 2018, UNMMG and the Sandoval Regional Medical Center, Inc. (SRMC) funded the clinical and academic component cost of the SOM physician and nonphysician provider costs for the services provided at SRMC. These costs were classified as purchased services. UNM Health System reimbursed UNMMG for a portion of these costs. For the year ended June 30, 2017, reimbursements of \$12.3 million were reported as other operating revenue in the statement of revenues, expenses, and changes in net position. For the year ended June 30, 2018, UNMMG did not fund a portion of these costs and did not receive reimbursement from UNM Health System.

For the years ended June 30, 2018 and 2017, total UNMMG purchased services from UNM HSC were \$132.6 million and \$146.2 million, respectively, and are recorded as an operating expense in the statements of revenues, expenses, and changes in net position. The related unpaid amounts of approximately \$23.8 million and \$23.7 million at June 30, 2018 and 2017, respectively, are reported as a current liability in the statements of net position.

UNM processes payroll and various other expenses through its business office on behalf of UNMMG. UNMMG reimburses UNM for the expenses. At June 30, 2018 and 2017, UNMMG's liabilities for these expenses were approximately \$2.8 million and \$6.6 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.

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, 2018 and 2017 was approximately \$3.3 million and \$2.9 million, respectively, and is reported within the appropriate categories in the statements of revenues, expenses, and changes in net position. At June 30, 2018 and 2017, approximately \$2.7 million and \$1.9 million, respectively, are reported in due to affiliates.

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 clinical revenues collected. For 2018, the UNMMG Board approved an additional dean's tax of \$2.0 million as part of the FY 2018 budget. Total dean's tax of approximately \$12.3 million and \$10.4 million for the years ended June 30, 2018 and 2017, respectively, is reported as an operating expense in the statements of revenues, expenses, and changes in net position.

UNMMG reimburses UNM HSC for the collections from third parties related to the indigent care services provided by UNMMG during the fiscal year. The related outstanding payable amount was approximately \$0.01 million and \$0.03 million as of June 30, 2018 and 2017, respectively.

UNMMG leases office space under an operating lease agreement with UNMH. UNMMG is also committed under facility lease arrangements related to the clinics established under UNMMG. UNMMG's rent expense was \$1.2 million for each of the years ended June 30, 2018 and 2017.

(13) Benefit Plans

UNMMG has a defined-contribution plan covering eligible UNMMG paid employees. The plan was established on July 1, 2008 by the UNMMG Board and can be amended at its discretion. UNMMG provides a dollar for dollar match up to 6% of an employee's elective deferral. The plan document was amended so

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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 2018 and 2017. Total employer contributions were \$1.3 million and \$1.5 million and employee contributions were \$2.3 million and \$2.3 million for the years ended June 30, 2018 and 2017, 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.

(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 \$1.4 million and \$1.3 million in 2018 and 2017, respectively.

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

Years ending June 30:	
2019	\$ 479,380
2020	463,531
2021	353,194
2022	168,842
2023	<u>127,809</u>
	<u>\$ 1,592,756</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 as disclosed in note 9 of \$3.8 million and \$4.4 million, for the years ended June 30, 2018 and 2017, respectively), which was \$0.01 million and \$0.03 million in 2018 and 2017, respectively, and is reported as an operating expense in the statements of revenues, expenses, and changes in net position.

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(16) Other Revenue

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record (EHR) technology. These provisions of ARRA, together with certain of its other provisions, are referred to as the HITECH Act. The HITECH Act's overall public policy is "to promote the adoption and meaningful use of interoperable health information technology and qualified electronic health records (EHRs)." The government's ultimate goal is to promote more effective (quality) and efficient healthcare delivery through the use of technology, reducing the cost of healthcare for all Americans and using the savings to expand access to the healthcare system. In 2012, UNMMG began the attestation process for eligible providers under this program. In 2018 and 2017, UNMMG recorded revenue of \$0.09 million and \$1.8 million, respectively, in the statements of revenues, expenses, and changes in net position. In April 2018, Centers for Medicare and Medicaid Services renamed the EHR Incentive Program to Promoting Interoperability to better reflect the focus on improving interoperability and patients' access to health information.

Schedule 1

UNM MEDICAL GROUP, INC.
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Pledged Collateral by Banks

June 30, 2018

Deposits per bank (Wells Fargo)	\$ 31,805,788
Less:	
FDIC coverage	<u>(250,000)</u>
Total uninsured public funds	<u>\$ 31,555,788</u>
State of New Mexico: Collateral requirement – 50%	\$ 15,777,893
Pledged collateral:	
FNMA, FNMS, 2.50%, 07/01/2030	4,578,517
FNMA, FNMS, 2.50%, 05/01/2031	21,589,662
FNMA, FNMS, 3.50%, 07/01/2043	<u>23,563,501</u>
Total pledged collateral	<u>49,731,680</u>
Over collateralized	<u>\$ 33,953,787</u>

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

See accompanying independent auditors' report.

UNM MEDICAL GROUP, INC.
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Individual Deposit and Investment Account Balances
June 30, 2018

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
Wells Fargo	UNMMG Main Operating	\$ 31,691,848	(220,922)	31,470,926
	Cancer Center	38,940	—	38,940
	Truman RX	75,000	—	75,000
		<u>31,805,788</u>	<u>(220,922)</u>	<u>31,584,866</u>
	Cash on Hand	5,975	—	5,975
Investments:				
Morgan Stanley	Money market:			
Smith Barney	Bank deposit	292,000	—	292,000
	Total money market	<u>292,000</u>	<u>—</u>	<u>292,000</u>
	Total cash and cash equivalents	<u>\$ 32,103,763</u>	<u>(220,922)</u>	<u>31,882,841</u>
	Corporate bonds:			
	Aetna Inc.-00817YAN8	\$ 8,026	—	8,026
	Altera Corp-021441AE0	30,094	—	30,094
	American Express Credit-0258MODP1	60,138	—	60,138
	American Express Credit-0258MODP1	20,046	—	20,046
	American Express Credit-0258MODT3	24,693	—	24,693
	American Express Credit-0258MODT3	4,939	—	4,939
	American Express Credit-0258MODT3	24,693	—	24,693
	American Express Credit-0258MODT3	69,141	—	69,141
	American Express-0258MODT3	9,877	—	9,877
	American Express-0258MODT3	54,325	—	54,325
	American Honda Finance-02665WAC5	80,307	—	80,307
	American Honda Finance-02665WAC5	35,134	—	35,134
	American Honda Finance-02665WAC5	50,192	—	50,192
	AT&T Inc.-00206RCL4	24,622	—	24,622
	AT&T Inc.-00206RCL4	24,622	—	24,622
	AT&T Inc.-00206RCL4	1,970	—	1,970
	AT&T Inc.-00206RCL4	14,773	—	14,773
	AT&T Inc.-00206RCL4	43,335	—	43,335
	AT&T Inc.-00206RCL4	24,622	—	24,622
	AT&T Inc.-00206RCL4	19,698	—	19,698
	AT&T INC.-00206RCL4	64,017	—	64,017
	AT&T INC.-00206RCL4	29,546	—	29,546
	Bank of America-06051GFN4	42,595	—	42,595
	Bank of America-06051GFN4	2,972	—	2,972
	Bank of America-06051GFN4	1,981	—	1,981
	Bank of America-06051GFN4	42,595	—	42,595
	Bank of America-06051GFN4	59,436	—	59,436
	Bank of America-06051GFN4	39,624	—	39,624
	Bank of America-06051GFN4	9,906	—	9,906
	Bank of Montreal-06367TJW1	25,070	—	25,070
	Bank of Montreal-06367VHL2	77,690	—	77,690
	Bank of Montreal-06367VHL2	25,224	—	25,224
	Bank of Montreal-06367VHL2	40,359	—	40,359
	Bank of NY Mellon-06406RAE7	34,640	—	34,640
	Bank of NY Mellon-06406RAE7	29,692	—	29,692
	Bank of NY Mellon-06406RAE7	19,794	—	19,794
	Berkshire Hathaway Energy-59562VAX5	135,051	—	135,051
	Berkshire Hathaway Energy-59562VAX5	50,019	—	50,019

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Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	Boeing Capital Corp-097014AL8	\$ 7,236	—	7,236
	Chevron corp 166764AR1	29,810	—	29,810
	Cisco Systems Inc.-17275RAR3	110,498	—	110,498
	Cisco Systems Inc.-17275RAR3	55,249	—	55,249
	Citigroup Inc.-172967HU8	95,570	—	95,570
	Citigroup Inc.-172967HU8	12,072	—	12,072
	CME Group Inc-12572QAE5	9,981	—	9,981
	CME Group Inc-12572QAE5	76,855	—	76,855
	CME Group Inc-12572QAE5	39,925	—	39,925
	CME Group Inc-12572QAE5	24,953	—	24,953
	CME Group Inc-12572QAE5	29,944	—	29,944
	Eaton Corp.-278058DH2	73,359	—	73,359
	Eaton Corp.-278058DH2	57,639	—	57,639
	Eaton Corp.-278062AC8	107,286	—	107,286
	Ecolab-278865AL4	144,873	—	144,873
	Ecolab-278865AT7	40,216	—	40,216
	Fifth Third Bancorp-316773CQ1	60,243	—	60,243
	Gilead Sciences Inc.-375558BB8	64,767	—	64,767
	Gilead Sciences-375558BB8	99,642	—	99,642
	Goldman Sachs Group-38141GWC4	9,822	—	9,822
	Goldman Sachs Group-38141GWC4	9,822	—	9,822
	Goldman Sachs Group-38141GWC4	34,378	—	34,378
	Goldman Sachs Group-38141GWC4	44,200	—	44,200
	Goldman Sachs Grp-38141GWC4	19,645	—	19,645
	International Business Mach.-459200HE4	99,612	—	99,612
	John Deere Capital Corp 24422ESF7	49,892	—	49,892
	John Deere Capital Corp 24422ESF7	12,972	—	12,972
	John Deere Capital Corp 24422ESF7	11,974	—	11,974
	John Deere Capital Corp 24422ETE9	100,628	—	100,628
	JOHN DEERE CAPITAL CORP-24422ESF7	79,826	—	79,826
	JP Morgan Chase-46625HKA7	44,863	—	44,863
	JP Morgan Chase-46625HKA7	4,985	—	4,985
	JPMorgan Chase&Co-46625HKA7	51,842	—	51,842
	JPMorgan Chase&Co-46625HKA7	13,957	—	13,957
	JPMorgan Chase&Co-46625HKA7	69,787	—	69,787
	JPMorgan Chase&Co-46625HKA7	19,939	—	19,939
	Marriot International-571903AR4	48,482	—	48,482
	Marriot International-571903AJ2	25,251	—	25,251
	Marriot International-571903AJ2	55,552	—	55,552
	Marriot International-571903AJ2	20,201	—	20,201
	Marriot International-571903AJ2	20,201	—	20,201
	Marriot International-571903AJ2	50,502	—	50,502
	Marriot International-571903AR4	38,786	—	38,786
	Marsh & McLennan Cos Inc.-571748AW2	10,991	—	10,991
	McKesson Corp.-581557BD6	5,014	—	5,014
	McKesson Corp.-581557BD6	70,202	—	70,202
	McKesson Corp-581557BD6	82,236	—	82,236
	McKesson Corp-581557BD6	3,009	—	3,009
	Midamerican Energy-595620AJ4	50,226	—	50,226
	Novartis Secs Invest Ltd-66989GAA8	51,759	—	51,759
	Novartis Secs Invest Ltd-66989GAA8	51,759	—	51,759
	Oracle Corp.-68389XAX3	112,988	—	112,988
	Oracle Corp.-68389XAX3	54,994	—	54,994

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Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	PACCAR FINL CORP-69371RM60	\$ 25,144	—	25,144
	PACCAR FINL CORP-69371RM60	50,288	—	50,288
	PACCAR FINL CORP-69371RM60	25,144	—	25,144
	Pub Svc Elec.&Gas-74456QBE5	5,029	—	5,029
	Stanley Black & Decker-854502AE1	14,970	—	14,970
	Stanley Black & Decker-854502AE1	72,852	—	72,852
	Stanley Black & Decker-854502AE1	21,955	—	21,955
	Stanley Black & Decker-854502AE1	4,990	—	4,990
	Stanley Black & Decker-854502AE1	19,959	—	19,959
	Time Warner Inc.-887317AT2	11,937	—	11,937
	Toronto-Dominion Bank-89114QAS7	125,572	—	125,572
	Toronto-Dominion Bank-89114QBL1	62,790	—	62,790
	Toronto-Dominion Bank-89114QBL1	9,660	—	9,660
	Toronto-Dominion Bank-89114QBL1	24,150	—	24,150
	Toronto-Dominion Bank-89114QBL1	38,640	—	38,640
	Toronto-Dominion Bank-89114QBL1	48,300	—	48,300
	Toronto-Dominion Bank-89114QBL1	19,320	—	19,320
	Toronto-Dominion Bank-89114QBL1	9,660	—	9,660
	Total Capital SA-89152UAF9	26,084	—	26,084
	Total Capital-89152UAF9	114,770	—	114,770
	Total Capital-89152UAF9	41,735	—	41,735
	VISA INC-92826CAB8	59,084	—	59,084
	VISA INC-92826CAB8	3,939	—	3,939
	VISA INC-92826CAB8	25,603	—	25,603
	VISA INC-92826CAB8	9,847	—	9,847
	VISA INC-92826CAB8	59,084	—	59,084
	VISA INC-92826CAB8	68,932	—	68,932
	VISA INC-92826CAB8	4,925	—	4,925
	Wells Fargo & Co.-94974BFU9	69,887	—	69,887
	Total corporate bonds	5,000,123	—	5,000,123
Government and government sponsored enterprise (GSE) bonds:				
	FED FARM CR BK-3133EG3E3	174,101	—	174,101
	FED FARM CR BK-3133EGD69	48,819	—	48,819
	FED FARM CR BK-3133EGMM4	121,546	—	121,546
	FED FARM CR BK-3133EGVJ1	73,979	—	73,979
	FED FARM CR BK-3133EGWF8	251,577	—	251,577
	FED FARM CR BK-3133EGWF8	98,658	—	98,658
	FED FARM CR BK-3133EHFQ1	73,683	—	73,683
	FED FARM CR BK-3133EHFQ1	122,805	—	122,805
	FED FARM CR BK-3133EHS20	459,746	—	459,746
	FED FARM CR BK-3133EHSB0	97,618	—	97,618
	FED FARM CR BK-3133EHZH9	219,360	—	219,360
	FED FARM CR BK-3133EHZH9	219,360	—	219,360
	FED FARM CR BK-3133EJLA5	350,931	—	350,931
	FED Hm Ln Mtg Corp-3134DSEG6	349,622	—	349,622
	Fed Home Ln BK-3130A9MG3	96,441	—	96,441
	Fed Home Ln BK-3134GSNY7	4,997	—	4,997
	Fed Home Ln Mtg-3134GSNB7	100,250	—	100,250
	Fed Home Ln Mtg-3134GSNY7	124,919	—	124,919
	FED NATL MTG ASSN-3135G0D75	49,003	—	49,003
	FED NATL MTG ASSN-3135G0D75	14,701	—	14,701

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Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	FED NATL MTG ASSN-3135G0F73	\$ 24,363	—	24,363
	FED NATL MTG ASSN-3135G0F73	34,108	—	34,108
	FED NATL MTG ASSN-3135G0F73	209,522	—	209,522
	FED NATL MTG ASSN-3135G0G31	14,987	—	14,987
	FED NATL MTG ASSN-3136G3P25	272,545	—	272,545
	FEDERAL FARM CREDIT BANK-3133EEGMM4	170,165	—	170,165
	FEDERAL FARM CREDIT BANK-3133EFJE8	99,917	—	99,917
	FEDERAL FARM CREDIT BANK-3133EG3E3	149,229	—	149,229
	FEDERAL FARM CREDIT BANK-3133EG3E3	24,872	—	24,872
	FEDERAL FARM CREDIT BANK-3133EGVJ1	19,728	—	19,728
	FEDERAL NATL MTG ASSN-3135G0D75	73,505	—	73,505
	FEDERAL NATL MTG ASSN-3135G0F73	4,873	—	4,873
	FEDERAL NATL MTG ASSN-3135G0F73	19,490	—	19,490
	FEDERAL NATL MTG ASSN-3135G0G31	69,937	—	69,937
	FEDERAL NATL MTG ASSN-3135GOYT4	14,993	—	14,993
	FEDERAL NATL MTG ASSN-3135GOYT4	19,990	—	19,990
	FEDERAL NATL MTG ASSN-3135GOYT4	4,998	—	4,998
	FEDERAL NATL MTG ASSN-3136G3P25	222,991	—	222,991
	U.S. TREASURY NOTE-912828PC8	50,213	—	50,213
	U.S. TREASURY NOTE-912828PC8	100,426	—	100,426
	U.S. TREASURY NOTE-912828PC8	120,511	—	120,511
	U.S. TREASURY NOTE-912828PC8	10,043	—	10,043
	U.S. TREASURY NOTE-912828PC8	20,085	—	20,085
	U.S. TREASURY NOTE-912828PC8	75,320	—	75,320
	U.S. TREASURY NOTE-912828RC6	109,170	—	109,170
	U.S. TREASURY NOTE-912828RC6	4,962	—	4,962
	U.S. TREASURY NOTE-912828RC6	258,038	—	258,038
	U.S. TREASURY NOTE-912828RC6	4,962	—	4,962
	U.S. TREASURY NOTE-912828RC6	19,849	—	19,849
	U.S. TREASURY NOTE-912828RC6	148,868	—	148,868
	U.S. TREASURY NOTE-912828RC6	74,434	—	74,434
	U.S. TREASURY NOTE-912828RC6	14,887	—	14,887
	U.S. TREASURY NOTE-912828RC6	34,736	—	34,736
	U.S. TREASURY NOTE-912828RH5	250,475	—	250,475
	U.S. TREASURY NOTE-912828RH5	125,237	—	125,237
	U.S. TREASURY NOTE-912828RH5	100,190	—	100,190
	U.S. TREASURY NOTE-912828SX9	767,174	—	767,174
	U.S. TREASURY NOTE-912828SX9	49,495	—	49,495
	U.S. TREASURY NOTE-912828SX9	74,243	—	74,243
	U.S. TREASURY NOTE-912828UF5	122,525	—	122,525
	U.S. TREASURY NOTE-912828UF5	112,723	—	112,723
	U.S. TREASURY NOTE-912828UF5	230,347	—	230,347
	U.S. TREASURY NOTE-912828UF5	73,515	—	73,515
	U.S. TREASURY NOTE-912828UF5	490,100	—	490,100
	U.S. TREASURY NOTE-912828UF5	196,040	—	196,040
	U.S. TREASURY NOTE-912828UF5	98,020	—	98,020
	U.S. TREASURY NOTE-912828UN8	14,644	—	14,644
	U.S. TREASURY NOTE-912828UN8	24,406	—	24,406
	U.S. TREASURY NOTE-912828UN8	9,762	—	9,762
	U.S. TREASURY NOTE-912828UN8	14,644	—	14,644
	U.S. TREASURY NOTE-912828UN8	34,169	—	34,169
	U.S. TREASURY NOTE-912828UN8	24,406	—	24,406
	U.S. TREASURY NOTE-912828UV0	58,743	—	58,743

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Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	U.S. TREASURY NOTE-912828UV0	\$ 88,114	—	88,114
	U.S. TREASURY NOTE-912828UV0	19,581	—	19,581
	U.S. TREASURY NOTE-912828UV0	63,638	—	63,638
	U.S. TREASURY NOTE-912828UV0	112,590	—	112,590
	U.S. TREASURY NOTE-912828UV0	195,809	—	195,809
	U.S. TREASURY NOTE-912828UV0	97,905	—	97,905
	U.S. TREASURY NOTES-912796PU7	948,176	—	948,176
	U.S. TREASURY NOTES-912828C65	49,960	—	49,960
	U.S. TREASURY NOTES-912828C65	699,440	—	699,440
	U.S. TREASURY NOTES-912828PC8	100,426	—	100,426
	U.S. TREASURY NOTES-912828PC8	50,213	—	50,213
	U.S. TREASURY NOTES-912828PC8	25,107	—	25,107
	U.S. TREASURY NOTES-912828PC8	75,320	—	75,320
	U.S. TREASURY NOTES-912828PC8	50,213	—	50,213
	U.S. TREASURY NOTES-912828PC8	50,213	—	50,213
	U.S. TREASURY NOTES-912828PC8	35,149	—	35,149
	U.S. TREASURY NOTES-912828PC8	50,213	—	50,213
	U.S. TREASURY NOTES-912828PC8	15,064	—	15,064
	U.S. TREASURY NOTES-912828PC8	70,298	—	70,298
	U.S. TREASURY NOTES-912828PC8	75,320	—	75,320
	U.S. TREASURY NOTES-912828PC8	75,320	—	75,320
	U.S. TREASURY NOTES-912828PC8	145,618	—	145,618
	U.S. TREASURY NOTES-912828RC6	79,396	—	79,396
	U.S. TREASURY NOTES-912828RC6	94,283	—	94,283
	U.S. TREASURY NOTES-912828RC6	143,906	—	143,906
	U.S. TREASURY NOTES-912828RC6	99,245	—	99,245
	U.S. TREASURY NOTES-912828RC6	119,095	—	119,095
	U.S. TREASURY NOTES-912828RC6	148,868	—	148,868
	U.S. TREASURY NOTES-912828RC6	14,887	—	14,887
	U.S. TREASURY NOTES-912828RC6	153,830	—	153,830
	U.S. TREASURY NOTES-912828RC6	109,170	—	109,170
	U.S. TREASURY NOTES-912828RC6	24,811	—	24,811
	U.S. TREASURY NOTES-912828RC6	24,811	—	24,811
	U.S. TREASURY NOTES-912828RC6	14,887	—	14,887
	U.S. TREASURY NOTES-912828RC6	49,623	—	49,623
	U.S. TREASURY NOTES-912828RC6	4,962	—	4,962
	U.S. TREASURY NOTES-912828RC6	74,434	—	74,434
	U.S. TREASURY NOTES-912828RC6	272,925	—	272,925
	U.S. TREASURY NOTES-912828RH5	8,015	—	8,015
	U.S. TREASURY NOTES-912828RH5	7,013	—	7,013
	U.S. TREASURY NOTES-912828RH5	335,636	—	335,636
	U.S. TREASURY NOTES-912828RH5	125,237	—	125,237
	U.S. TREASURY NOTES-912828RH5	5,009	—	5,009
	U.S. TREASURY NOTES-912828RH5	150,285	—	150,285
	U.S. TREASURY NOTES-912828SX9	168,283	—	168,283
	U.S. TREASURY NOTES-912828SX9	94,041	—	94,041
	U.S. TREASURY NOTES-912828TR1	123,118	—	123,118
	U.S. TREASURY NOTES-912828TR1	172,366	—	172,366
	U.S. TREASURY NOTES-912828TR1	73,871	—	73,871
	U.S. TREASURY NOTES-912828TR1	221,613	—	221,613
	U.S. TREASURY NOTES-912828UF5	88,218	—	88,218
	U.S. TREASURY NOTES-912828UF5	24,505	—	24,505
	U.S. TREASURY NOTES-912828UF5	44,109	—	44,109

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Individual Deposit and Investment Account Balances
June 30, 2018

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	U.S. TREASURY NOTES-912828UF5	\$ 73,515	—	73,515
	U.S. TREASURY NOTES-912828UF5	14,703	—	14,703
	U.S. TREASURY NOTES-912828UF5	53,911	—	53,911
	U.S. TREASURY NOTES-912828UF5	24,505	—	24,505
	U.S. TREASURY NOTES-912828UF5	225,446	—	225,446
	U.S. TREASURY NOTES-912828UF5	24,505	—	24,505
	U.S. TREASURY NOTES-912828UF5	916,487	—	916,487
	U.S. TREASURY NOTES-912828UF5	14,703	—	14,703
	U.S. TREASURY NOTES-912828UF5	9,802	—	9,802
	U.S. TREASURY NOTES-912828UF5	73,515	—	73,515
	U.S. TREASURY NOTES-912828UF5	49,010	—	49,010
	U.S. TREASURY NOTES-912828UN8	122,031	—	122,031
	U.S. TREASURY NOTES-912828UN8	9,762	—	9,762
	U.S. TREASURY NOTES-912828UN8	24,406	—	24,406
	U.S. TREASURY NOTES-912828UN8	107,387	—	107,387
	U.S. TREASURY NOTES-912828UN8	4,881	—	4,881
	U.S. TREASURY NOTES-912828UV0	39,162	—	39,162
	U.S. TREASURY NOTES-912828UV0	232,034	—	232,034
	U.S. TREASURY NOTES-912828UV0	24,476	—	24,476
	U.S. TREASURY NOTES-912828UV0	20,560	—	20,560
	U.S. TREASURY NOTES-912828UV0	4,895	—	4,895
	U.S. TREASURY NOTES-912828UV0	124,339	—	124,339
	U.S. TREASURY NOTES-912828UV0	9,790	—	9,790
	U.S. TREASURY NOTES-912828UV0	122,381	—	122,381
	U.S. TREASURY NOTES-912828UV0	4,895	—	4,895
	U.S. TREASURY NOTES-912828UV0	73,429	—	73,429
	U.S. TREASURY NOTES-912828UV0	48,952	—	48,952
	U.S. TREASURY NOTES-912828UV0	161,543	—	161,543
	U.S. TREASURY NOTES-912828UV0	97,905	—	97,905
	U.S. TREASURY NOTES-912828UV0	58,743	—	58,743
	U.S. TREASURY NOTES-912828VF4	4,898	—	4,898
	U.S. TREASURY NOTES-912828VF4	19,591	—	19,591
	U.S. TREASURY NOTES-912828VF4	29,387	—	29,387
	U.S. TREASURY NOTES-912828VF4	29,387	—	29,387
	U.S. TREASURY NOTES-912828VF4	333,040	—	333,040
	Total government bonds	<u>17,771,806</u>	—	<u>17,771,806</u>
	Municipal bonds:			
	Oregon St. Dept-68607VS89	98,970	—	98,970
	State of Fl. St. Board of Admin-341271AA2	30,137	—	30,137
	State of Fl. St. Board of Admin-341271AB0	75,283	—	75,283
	State of Florida Board-341271AA2	30,137	—	30,137
	State of Florida Board-341271AA2	80,365	—	80,365
	State of Florida Board-341271AA2	10,046	—	10,046
	UNIV. PITTSBURGH PA-914805ER3	124,064	—	124,064
	UNIV. PITTSBURGH PA-914805ER3	74,439	—	74,439
	Total municipal bonds	<u>523,441</u>	—	<u>523,441</u>
	Total investments	<u>\$ 23,295,370</u>	—	<u>23,295,370</u>

See accompanying independent auditors' report.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Indigent Care Cost and Funding Report

	Year ended June 30		
	2018	2017	2016 Unaudited
Funding for indigent care:			
State appropriations specified for indigent care	\$ —	—	—
County indigent funds received	—	—	—
Out of county indigent funds received	—	—	—
Payments and copayments received from uninsured patients qualifying for indigent care	68,632	92,063	179,703
Reimbursement received for services provided to patients qualifying for coverage under EMSA	671,557	910,222	643,368
Charitable contributions received from donors that are designated for funding indigent care	—	—	—
Other sources:			
Other source	—	—	—
Total funding for indigent care	<u>740,189</u>	<u>1,002,285</u>	<u>823,071</u>
Cost of providing indigent care:			
Total cost of care for providing services to:			
Uninsured patients qualifying for indigent care	2,141,602	1,301,748	1,150,391
Patients qualifying for coverage under EMSA	907,424	1,105,291	1,235,980
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	1,553,492	1,209,680	1,228,933
Direct costs paid to other providers on behalf of patients qualifying for indigent care	—	—	—
Other costs of providing indigent care	—	—	—
Total cost of providing indigent care	<u>4,602,518</u>	<u>3,616,719</u>	<u>3,615,304</u>
Excess (shortfall) of funding for charity care to cost of providing indigent care	<u>\$ (3,862,329)</u>	<u>(2,614,434)</u>	<u>(2,792,233)</u>
Patients receiving indigent care services (unaudited):			
Total number of patients receiving indigent care	11,687	11,631	11,648
Total number of patient encounters receiving indigent care	53,987	47,876	46,045

See accompanying independent auditors' report.

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

Calculations of Cost of Providing Indigent Care

	Year ended June 30		
	<u>2018</u>	<u>2017</u>	<u>2016</u> Unaudited
Uninsured patients qualifying for indigent care:			
Charges for these patients	\$ 5,355,344	3,084,710	2,698,549
Ratio of cost to charges	<u>40.0 %</u>	<u>42.2 %</u>	<u>42.6 %</u>
Cost for uninsured patients qualifying for indigent care	<u>\$ 2,141,602</u>	<u>1,301,748</u>	<u>1,150,391</u>
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA):			
Charges for these patients	\$ 2,269,128	2,619,172	2,899,320
Ratio of cost to charges	<u>40.0 %</u>	<u>42.2 %</u>	<u>42.6 %</u>
Cost for patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	<u>\$ 907,424</u>	<u>1,105,291</u>	<u>1,235,980</u>
Cost of care related to patient portion of bill for insured patients qualifying for indigent care:			
Indigent care adjustments for these patients	\$ 3,884,700	2,866,540	2,882,788
Ratio of cost to charges	<u>40.0 %</u>	<u>42.2 %</u>	<u>42.6 %</u>
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	<u>\$ 1,553,492</u>	<u>1,209,680</u>	<u>1,228,933</u>
Direct costs paid to other providers on behalf of patients qualifying for indigent care:			
Payments to other providers for care of these patients	\$ —	—	—
	<u>\$ —</u>	<u>—</u>	<u>—</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. Wayne Johnson, New Mexico State Auditor:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of UNM Medical Group, Inc. (UNMMG), which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses, and change in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 11, 2018.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 2018-002.

UNMMG’s Responses to Findings

UNMMG’s responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. UNMMG’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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 11, 2018

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2018

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

Condition

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

Criteria

Management should design, implement and maintain controls to:

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

Effect

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

Cause

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

Recommendation

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

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

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2018

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

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

Management Response

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

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

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

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

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

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

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2018

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

2018-002. User Access Review – Findings That Do Not Rise To The Level Of A Significant Deficiency Condition

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

For the Lawson and IDX systems, we noted documentation supporting various components of management's fiscal year 2018 user access review was not sufficient to evidence the control is operating effectively. For example, the documentation of the review of the complete population of users and the actions resulting from management's review (user access changes or removals) was not maintained to evidence that the control process took place such that it could be re-performed.

Criteria

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

Effect

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

Cause

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

Recommendation

We recommend that the disabling of user access within IT systems should take place within a reasonable time, or five working days of termination of employment. Management should continue to enhance its review of user access, which should occur periodically during the year. A departmental manager or individual responsible for the functional data should perform the review. Evidence of the performance of the review, including remedial action taken, should be maintained.

Management Response

When a separation notice is received from Human Resources, the IT Operations Team sets the accounts (IDX and Active Directory, Net ID) to be disabled for the date of separation. Each month, Human Resources emails a list of separated employees. IT verifies that the IDX and Active Directory accounts have been disabled for each employee.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2018

The monthly separation list will be maintained by IT Operations with documentation indicating what additional action, if any, might have been required beyond verification that the employees' accounts had been disabled. The Chancellor for Health Sciences will be responsible for this policy, with a completion date of April 30, 2019.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings
Fiscal year ended June 30, 2018

2017-001. Evaluation of Accounting Requirements for Unusual Transactions – Material Weakness

Current status: Resolved

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Exit Conference
Fiscal year ended June 30, 2018

An exit conference was conducted on September 26, 2018 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:

Dr. Robert Schenck	Chair – Department of Orthopedics
Chris Pacheco	UNM Medical Group, Chairman of Board
Jill C. Klar	Chief Executive Officer
Marjorie Goldstein	Vice President & Chief Financial Officer
Angela V. Hawthorne	Executive Director Finance/Controller
Purvi Mody	Chief Compliance & Internal Audit Officer, UNM Health System
Rebecca Ruddell	Executive Director Operations
Jared Udall	Senior Executive Director Financial Planning
Mary Swanson	Executive Director Finance
Kelly Perea	Director Human Resources
Sharon Nir	Interim Executive Director IT
Manu Patel	Director Internal Audit, UNM
Aubrey Hernandez	Internal Audit, UNM
Catherine Russell	Assistant University Counsel
Mark E. McComb	Engagement Partner, KPMG
Jaime Cavin	Senior Manager, KPMG
Ruth Senior	Manager, KPMG

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