



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

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
2017 Official Roster

---

**Board of Directors**

---

<b>Michael Richards</b> , M.D., MPA, FACEP	Vice Chancellor for Clinical Affairs, UNM Health System Professor of Emergency Medicine, UNM Health Sciences Center
<b>Loretta Cordova de Ortega</b> , M.D.	Chair, Pediatrics (Regent appointed)
<b>Martha McGrew</b> , M.D.	Chair, Family & Community Medicine (Regent appointed)
<b>Steve McKernan</b>	CEO, UNMH & COO UNM Health System (Regent appointed)
<b>Steven McLaughlin</b> , M.D.	Chair, Emergency Medicine (Regent appointed)
<b>Gary Mlady</b> , M.D.	Chair, Radiology (Regent appointed)
<b>Christopher Pacheco</b>	Independent, non-UNM Faculty (Regent appointed)
<b>Kendall Rogers</b> , M.D.	PAG Chair; Division Chief for Hospital Medicine in Department of Internal Medicine
<b>Robert Schenck</b> , M.D.	Chair, Orthopedics (Regent appointed)

**Officers of UNM Medical Group, Inc.**

<b>Jill Klar</b>	Chief Executive Officer
<b>Robert Fritch</b> , D.O.	Chief Medical Officer
<b>Marjorie Goldstein</b>	Chief Financial Officer
<b>Donna Sigl</b> , M.D.	Secretary, UNMMG Board of Directors Vice Chair of Administration and Finance, Psychiatry

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

**Table of Contents**

	<b>Page(s)</b>
Independent Auditors' Report	1–3
Management's Discussion and Analysis	4–10
Financial Statements:	
Statement of Net Position	11
Statement of Revenues, Expenses, and Change in Net Position	12
Statement of Cash Flows	13
Notes to Financial Statements	14–29
Supplementary Information:	
Schedule 1: Pledged Collateral by Banks	30
Schedule 2: Individual Deposit and Investment Account Balances	31–34
Schedule 3: Indigent Care Cost and Funding Report	35
Schedule 4: Calculations of Cost of Providing Indigent Care	36
Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	37–38
Schedule of Findings and Responses	39
Summary Schedule of Prior Audit Findings	40
Exit Conference	41



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

## Independent Auditors' Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of UNM Medical Group, Inc. (UNMMG), a component unit of the University of New Mexico, State of New Mexico, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise UNMMG's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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, 2017, and the changes in financial position and cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



### ***Emphasis of Matter***

As discussed in note 1, the financial statements present only UNMMG and do not purport to, and do not, present fairly the financial position of the University of New Mexico, as of June 30, 2017, the changes in its financial position or its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4–10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit for the year ended June 30, 2017 was conducted for the purpose of forming an opinion on the financial statements that collectively comprise UNMMG's 2017 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) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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) for the year ended June 30, 2017 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 2017 basic financial statements, except for the information marked as unaudited. Such information, except for the information marked as unaudited, has been subjected to the auditing procedures applied in the audit of the 2017 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 2017 basic financial statements or to the 2017 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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) are fairly stated, in all material respects, in relation to the 2017 basic financial statements as a whole, except for the information marked as unaudited in the accompanying indigent care cost and funding report (schedule 3) and calculations of cost of providing indigent care (schedule 4).

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.



*Restatement of Opening Net Position*

As part of our audit of the fiscal year 2017 financial statements, we also audited the adjustments described in note 2(o) that were applied to restate net position as of June 30, 2016. UNMMG's previously issued financial statements were audited by other auditors. In our opinion, such adjustments are appropriate and have been properly applied.

***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated November 27, 2017 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  
November 27, 2017

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

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, 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 GASB. As a special-purpose government entity engaged in business type activities, UNMMG's financial statements present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenue is recognized when the service is provided, and expenses are recognized when others provide the service, regardless of when cash is exchanged.

The statement of net position includes 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 statement of revenue, expenses, and change in net position presents the revenue earned and expenses incurred during the year 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 statement of cash flows present information related to cash inflows and outflows summarized by operating, capital and noncapital financing, and investing activities, which helps measure the ability to meet financial obligations as they mature.

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

**Overview of Entity**

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

**Condensed Summary of Net Position**

	<b>June 30</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets:</b>		
Current assets	\$ 65,154,375	65,710,538
Capital assets, net	2,554,083	3,284,128
Other noncurrent assets	30,910,206	23,579,073
Total assets	98,618,664	92,573,739
<b>Liabilities:</b>		
Current liabilities	38,061,278	36,534,649
Total liabilities	38,061,278	36,534,649
<b>Net position:</b>		
Invested in capital assets	2,554,083	3,284,128
Unrestricted	58,003,303	52,754,962
Total net position	60,557,386	56,039,090
Total liabilities and net position	\$ 98,618,664	92,573,739

Current assets include cash and other assets that are deemed to be consumable or convertible to cash within one year. As of June 30, 2017, total current assets of \$65.2 million included \$27.5 million of cash and cash equivalents 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 \$30.5 million and \$28.3 million in 2017 and 2016, respectively. Also included in current assets are amounts due from affiliates of \$4.4 million (consisting primarily of \$2.0 million due from UNM Health Sciences Center, \$2.2 million due from UNM Hospitals, and \$0.2 million due from SRMC), compared to \$5.6 million in 2016 (consisting primarily of \$2.4 million due from UNM Health Sciences Center, \$2.9 million due from UNM Hospitals, and \$0.3 million due from SRMC). Current assets also include other receivables of \$2.7 million and \$8.0 million in 2017 and 2016, respectively, related to the meaningful use program.



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

Management's Discussion and Analysis

June 30, 2017 and 2016

The most significant component of noncurrent assets includes board-designated investments in cash and cash equivalents, money markets, U.S. government securities, and corporate debt securities of \$23.4 million in 2017 and \$22.8 million in 2016. Noncurrent assets include capital assets of \$2.6 million and \$3.3 million in 2017 and 2016, respectively. In 2017, noncurrent assets also includes a \$6.4 million investment in a joint venture, Lovelace UNM Rehabilitation Hospital, LLC.

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

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

The total net position of \$60.6 million at June 30, 2017 increased \$4.6 million from \$56.0 million at June 30, 2016, due to the excess of revenue over expenses in 2017 of \$4.6 million.

**Condensed Summary of Revenues, Expenses, and Changes in Net Position**

	<u>Year ended June 30</u>	
	<u>2017</u>	<u>2016</u>
Net operating revenues	\$ 217,264,471	212,759,222
Operating expenses:		
Purchased clinical services	146,164,140	140,580,678
Salaries and benefits	28,482,686	28,153,974
Other	39,467,575	36,868,853
Total operating expenses	<u>214,114,401</u>	<u>205,603,505</u>
Operating gain	3,150,070	7,155,717
Nonoperating revenues	<u>1,368,226</u>	<u>1,520,165</u>
Change in net position	4,518,296	8,675,882
Net position, beginning of year	<u>56,039,090</u>	<u>47,363,208</u>
Net position, end of year	<u>\$ 60,557,386</u>	<u>56,039,090</u>

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 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 increased \$3.7 million, from \$177.2 million in 2016 to \$180.9 million in 2017. The increase in

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

net patient revenues is primarily due to the continued growth of services at the UNM Health System affiliates, UNM Hospital and Sandoval Regional Medical Center.

Pharmacy revenues increased \$4.1 million, from \$17.3 million in 2016 to \$21.4 million in 2017. The pharmacy revenue growth in 2017 is a result of the opening of an outpatient pharmacy at Truman Health Services, and the growth of patients utilizing the pharmacy services. Also included in net operating revenues were \$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 UNM Sandoval Regional Medical Center.

In 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 (CYs) 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, and identified eligible primary care services, as well as specifying 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 2017, primary care enhancements were \$0.9 million, a decrease of \$1.5 million compared to revenue of \$2.5 million in 2016.

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 3,261,013 in 2017, representing an increase of 171,536, or 5.6% from 2016. During 2017, UNMMG operated 18 clinics with approximately 37,000 patient visits. Overall, these clinics contributed \$29.1 million in revenues in 2017 and \$26.4 million in 2016. A condensed summary of the net operating revenue follows:

	<b>Year ended June 30</b>	
	<b>2017</b>	<b>2016</b>
Patient service charges billed at established rates	\$ 504,772,271	482,289,146
Adjustments to charges:		
Contractual adjustments	(274,352,790)	(254,399,832)
Charity care	(5,951,250)	(8,480,657)
Net patient billings	224,468,231	219,408,657
Provision for uncollectible accounts	(43,588,142)	(42,223,340)
Net patient service revenues	180,880,089	177,185,317
Pharmacy revenue	21,360,187	17,270,032
Other revenue	15,024,195	18,303,873
Total net operating revenues	<u>\$ 217,264,471</u>	<u>212,759,222</u>

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

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 (FPL). As of June 30, 2017 and 2016, there were approximately 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, 2017, UNMMG provided, in terms of foregone charges, \$6.0 million in charity care compared to \$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, 2017, UNMMG recorded \$43.6 million as a provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts, compared to \$42.2 million for the year ended June 30, 2016.

UNMMG incurs costs associated with providing charity care and other services for which payment is not received. For the year ended June 30, 2017, the estimated cost of care for providing these services was \$15.0 million compared to \$18.2 million in 2016.

Total operating expenses were \$214.1 million for the year ended June 30, 2017, and \$205.6 million for the year ended June 30, 2016. These costs consisted primarily of costs related to the purchase of clinical services from UNM HSC and the associated Dean's and rescission tax from the School of Medicine (SOM), which when combined totaled \$156.6 million in 2017 and \$150.8 million in 2016.

Other expense increases from 2016 to 2017 were attributable to increased salary and benefit costs in UNMMG clinics, increased pharmacy expenses, allocation of UNM Health System costs to UNMMG, increased expenses for clinical coding due to patient billing volume, and continued expansion of UNMMG's ambulatory clinic management, oversight function, and growth in administrative functions. These increases support clinic expansion, as well as the general growth of physician clinical services at Sandoval Regional Medical Center and at UNM Hospital.

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 and rescission tax. Taxes are assessed as a fixed percentage of clinical revenues collected. In the event the Dean's office elects for UNMMG to retain the taxes within a reserve fund or for UNMMG to use the funds to support purchased services, the expense is adjusted accordingly. Total Dean's and rescission taxes were \$10.4 million in 2017 and \$10.2 million in 2016, and are reported on the statement of revenues, expenses, and changes in net position as an operating expense. The Dean's office waived payment of the Dean's and rescission taxes for SRMC professional service revenues in 2016 and 2017.

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

In 2017 and 2016, 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 statement 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 \$1.4 million in 2017 and \$1.5 million in 2016 consisted 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 2016 is largely due to an allocation from the HSC to support the telehealth program, now managed by UNMMG.

**Capital Assets**

At June 30, 2017, UNMMG had \$2.6 million invested in capital assets, net of accumulated depreciation of approximately \$6.6 million, compared to \$3.3 million and \$6.0 million at June 30, 2016. 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 \$4.5 million from 2016 to 2017 due primarily to operating income.

**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 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 2017, UNMMG continued the attestation process for eligible providers under this program. UNMMG recorded revenues of \$1.8 million and \$7.8 million in 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.

**Factors Impacting Future Periods**

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (PPACA). This National Health Reform includes private insurance market reforms, expanded Medicaid eligibility provisions, Medicare and Medicaid funding reforms, value-based purchasing requirements, and amended time periods for filing Medicare fee for-service (FFS) claims to one year from the date of service as one of many provisions aimed at curbing fraud, waste, and abuse in the Medicare program.

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

Medicaid expansion under PPACA includes new eligibility criteria establishing a minimum floor for Medicaid coverage of 133% of the FPL, eliminating other nonincome-based criteria (such as age, disability, or asset testing). This FPL criterion was mandatory for state implementation in January 2014 and was optional for years 2010 through 2013. The population most impacted by the new eligibility criteria is expected to be childless adults. States are prohibited from reducing Medicaid or Children's Health Insurance Program (CHIP) eligibility that was in place on the date of PPACA enactment. PPACA provided additional federal financing through the Federal Medical Assistance Percentage (FMAP) for newly eligible Medicaid patients beginning in 2014.

PPACA includes legislation on Health Exchanges. Health Exchanges are intended to facilitate the purchase of health insurance for qualified individuals and small employers. A qualified individual is a lawful resident with income between 133% and 400% of the FPL. Federal subsidies for premiums under Health Exchanges became available in 2014. Health Exchanges are designed to be "one stop shopping" where participants can compare and purchase insurance coverage. Insurance coverage will have essential health benefits that cover benefit costs ranging from 60% to 90% with out of pocket limits equal to health savings account current law limits.

UNMMG, as a result of PPACA, experienced an increase in patients enrolled in Medicaid, beginning in January 2014. Many of these patients had previously qualified for State Coverage Initiative (SCI), charity care or had no other financial assistance.

**Contacting UNMMG's Financial Management**

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

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

Statement of Net Position

June 30, 2017

**Assets**

Current assets:	
Cash and cash equivalents	\$ 27,497,144
Receivables:	
Net patient receivables (net of allowance for uncollectable accounts and contractual adjustments of \$39,184,053)	30,532,845
Due from affiliates	4,393,467
Other	<u>2,730,919</u>
Total net receivables	<u>37,657,231</u>
Total current assets	<u>65,154,375</u>
Noncurrent assets:	
Board-designated assets:	
Cash and cash equivalents, noncurrent	4,961,539
Investments	<u>18,431,604</u>
Total-board designated assets	23,393,143
Investment in Lovelace UNM Rehab Hospital	6,420,815
Capital assets, net	2,554,083
Other assets	<u>1,096,248</u>
Total noncurrent assets	<u>33,464,289</u>
Total assets	<u>\$ 98,618,664</u>

**Liabilities**

Current liabilities:	
Purchased services due to UNM HSC	\$ 23,694,983
Operating expenses due to UNM	6,634,779
Due to affiliates	1,910,500
Accrued liabilities	<u>5,821,016</u>
Total current liabilities	<u>38,061,278</u>

**Net Position**

Investment in capital assets	2,554,083
Unrestricted	<u>58,003,303</u>
Total net position	<u>60,557,386</u>
Total liabilities and net position	<u>\$ 98,618,664</u>

See accompanying notes to financial statements.

**UNM MEDICAL GROUP, INC.**

(A Component Unit of the University of New Mexico)

## Statement of Revenues, Expenses, and Change in Net Position

Year ended June 30, 2017

Operating revenues:	
Patient service revenue, net	\$ 180,880,089
Pharmacy revenue	21,360,187
Other revenue	15,024,195
	<hr/>
Total net operating revenues	217,264,471
	<hr/>
Operating expenses:	
Purchased clinical services from UNM HSC	146,164,140
Salaries and benefits	28,482,686
Dean's and rescission tax	10,429,745
Pharmacy expenses	12,099,924
Malpractice insurance	4,444,185
Other administrative	4,327,934
Patient care costs	2,248,464
Data processing costs	1,913,597
Occupancy	1,194,696
Patient registration and enrollment support	1,188,753
Depreciation	1,066,056
Consulting	554,221
	<hr/>
Total operating expenses	214,114,401
	<hr/>
Operating income	3,150,070
	<hr/>
Nonoperating revenues (expenses):	
State appropriations	1,172,000
Equity in earnings of Lovelace UNM Rehab Hospital	246,815
Investment income	1,400
Loss on disposition of assets	(51,989)
	<hr/>
Total nonoperating revenue	1,368,226
	<hr/>
Change in net position	4,518,296
	<hr/>
Net position, beginning of year as originally reported	48,189,340
Impact of restatement (see note 2(o))	7,849,750
	<hr/>
Net position, beginning of year as restated	56,039,090
	<hr/>
Net position, end of year	\$ 60,557,386
	<hr/>

See accompanying notes to financial statements.

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

Statement of Cash Flows

Year ended June 30, 2017

Cash flows from operating activities:	
Cash receipts from insurance and patients	\$ 205,410,241
Payments to UNM	(158,310,548)
Payments to suppliers	(23,557,965)
Payments to employees	(23,535,008)
Payments for employee benefits	(5,023,497)
Other receipts	<u>14,728,637</u>
Net cash provided by operating activities	<u>9,711,860</u>
Cash flows from noncapital financing activities:	
State appropriations	<u>1,172,000</u>
Net cash provided by noncapital financing activities	<u>1,172,000</u>
Cash flows from investing activities:	
Investment in Lovelace UNM Rehab Hospital	(6,174,000)
Purchase of capital assets	(388,000)
Net purchases from maturity of investments	(317,983)
Proceeds from investments	<u>1,400</u>
Net cash used in investing activities	<u>(6,878,583)</u>
Net increase in cash and cash equivalents	4,005,277
Cash and cash equivalents, beginning of year	<u>28,453,406</u>
Cash and cash equivalents, end of year	<u>\$ 32,458,683</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 3,150,070
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,066,056
Provision for doubtful accounts	43,588,142
Changes in assets and liabilities:	
Patient receivables	(45,841,866)
Due from affiliates	1,213,714
Other receivables	5,304,673
Other assets	(295,558)
Purchase services due to UNM HSC	1,100,425
Due to affiliates	413,383
Accrued liabilities	<u>12,821</u>
Net cash provided by operating activities	<u>\$ 9,711,860</u>

See accompanying notes to financial statements.



**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

**(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 an agreement with the UNM Regents, UNMMG is responsible for the practice oversight and management of the professional medical practice of UNM.

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). As a special-purpose government entity engaged in business type activities, UNMMG's financial statements present financial information in a form similar to that used by corporations.

**(b) Net Position**

For accounting and reporting purposes, UNMMG reports its net position in the following net asset 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.

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

**(d) Cash and Cash Equivalents**

UNMMG considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Interest-bearing deposit accounts are subject to FDIC's standard deposit insurance amount of \$250,000. Cash in excess of FDIC insurance is collateralized at June 30, 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, 2017, investments consisted primarily of corporate debt securities, U.S. government and government agency securities, municipal bonds, sovereign 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 follows GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risk, concentration of risk, investment rate risk, and foreign currency risk, and also requires certain disclosures of investments at fair values that are highly sensitive to changes in interest rates, as well as deposit and investment policies related to the risks identified in the statement.

UNMMG follows GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. 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) 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.

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

Accounts, when determined to be uncollectible, are charged against the allowance for uncollectible accounts.

**(g) Charity Care**

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

**(h) Pharmacy Revenue 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 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. In September 2015, UNM Truman Health Clinic expanded its operations and opened a 340B outpatient pharmacy. Total combined pharmacy revenues were \$21.4 million for the year ended June 30, 2017. Pharmacy expenses reflect cost of goods sold, pharmacy management, and dispensing fees. Pharmacy expenses were \$12.1 million for the year ended June 30, 2017.

**(i) 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.

**(j) Operating Revenues and Expenses**

UNMMG's statement of revenues, expenses, and changes in net position distinguishes 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.

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

**(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 UNMMG Board and is reported as an operating expense. The cost is agreed upon annually and UNMMG is billed monthly by UNM HSC. 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 and Board of Directors Committee of UNMMG will determine and approve the purchase of any additional services.

**(l) Salaries and Benefits**

At June 30, 2017, the staff of UNMMG comprises of 551 UNMMG and 32 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.

**(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 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 Internal Revenue Code from the IRS, and received a letter from the IRS on August 14, 2013 confirming the requested reclassification and 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

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

December 15, 2019; early adoption is encouraged. UNMMG is evaluating the impact the standard will have on its financial statements.

**(o) Restatement of Opening Net Position**

Net position, beginning of the year, has been adjusted in the statement of revenues, expenses and change in net position as a result of the correction of an error identified in the current period related to the previously issued fiscal year 2016 financial statements. The correction relates to \$7.8 million of revenue related to the Health Information Technology for Economic and Clinical Health (HITECH) Act (see note 17) that should have been, but was not, recognized when UNMMG satisfied the criteria for revenue recognition in fiscal year 2016. The effect of the correction on the balance of net position at the beginning of fiscal year 2017 and on the change in net position of fiscal year 2016 is as follows:

	<b>2017</b>
Net position, beginning of year, as originally reported	\$ 48,189,340
Prior period adjustment	7,849,750
Net position, beginning of year, as restated	\$ 56,039,090
	<b>2016</b>
Change in net position, as originally reported	\$ 826,132
Prior period adjustment	7,849,750
Change in net position, as restated	\$ 8,675,882

**(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.

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

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

Operating accounts	\$	31,370,427
Savings account		5,496
Total bank balances		31,375,923
Amount insured by FDIC		250,000
Amount collateralized with securities held in UNMMG's name	\$	31,125,923

Also included in cash and cash equivalents at June 30, 2017 is a money market account in the amount of \$1.4 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 at June 30, 2017. Marketable securities of \$18,431,604 at June 30, 2017 are insured or are collateralized by securities, registered and held by the counterparty's agent in UNMMG's name.

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

Notes to Financial Statements

June 30, 2017

*Credit Risk – Debt Investments:* Credit risk is the risk that an issuer or other counterparty to the investment will not fulfill their obligations. UNMMG is required to disclose credit ratings of its debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. government, and nondebt investments are excluded from this requirement. Currently, UNMMG’s policy restricts debt investments to specific investment ratings issued by nationally recognized statistical rating organizations. A summary of the marketable securities and their respective maturities and their exposure at June 30, 2017 to credit risk follows:

<u>Credit rating (S&amp;P)</u>	<u>Total</u>	<u>U.S. Government and agency obligations</u>	<u>Corporate bonds</u>	<u>Other government bonds</u>
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>

	<u>Investment maturities (in years)</u>		
	<u>Fair value</u>	<u>Less than 1</u>	<u>1 to 5</u>
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	<u>\$ 18,431,604</u>	<u>5,877,781</u>	<u>12,553,823</u>

*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 represents 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, 2017, UNMMG’s investment portfolio had no investments exposed to concentration of credit risk.

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

**(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.

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, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>\$ 32,458,683</u>	<u>18,431,604</u>	<u>—</u>	<u>50,890,287</u>

**(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, excluding self-pay, which UNMMG substantially reserves.

	<u>2017</u>
Medicare and Medicaid	65 %
Commercial insurance	33
Other	2
	<u>100 %</u>



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

Notes to Financial Statements

June 30, 2017

**(5) Board-Designated Assets**

Board-designated assets are classified in the accompanying statement 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, 2017, these assets comprise investments in money market funds, debt securities, sovereign securities and U.S. government securities, and cash and cash equivalents.

In 2009, the Board voted to designate additional assets to fund future clinical initiatives and improvement in quality measurements and outcomes for the medical group (i.e., quality and investment funding).

As of June 30, 2017, assets are designated for the following purposes:

Department reserve	\$	8,510,110
Other MG reserve		6,791,011
Quality reserve		6,620,151
Hardware and technology		1,629,483
Investment reserve		<u>(157,612)</u>
Total board-designated assets	\$	<u><u>23,393,143</u></u>

*Investment reserve* – Represents funds designated for future initiatives UNMMG wishes to fund, such as ramp up support of faculty of SRMC, new ambulatory clinics, new lines of clinic services, or expansion of existing initiatives. The existing negative reserve will largely be replenished in year ending June 30, 2018 through the withholding of purchased services payments to the SOM departments.

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

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

*Other MG 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 we serve in 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.

**(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 its 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, NM 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

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

Notes to Financial Statements

June 30, 2017

under the laws of the State of New Mexico. Lovelace, a 51% member of LURH, serves as the managing partner of LURH.

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.

UNMMG's investment in LURH comprises of the following:

	<b>2017</b>
Beginning balance of Lovelace UNM Rehabilitation Hospital, LLC	\$ —
Investment in Lovelace UNM Rehabilitation Hospital, LLC	6,174,000
UNM Medical Group, Inc. share of net income	246,815
Distributions from Lovelace UNM Rehabilitation Hospital, LLC	—
	\$ 6,420,815

Financial statements of LURH are not publicly available.

Professional medical services provided at LURH by physicians and other clinicians of the UNM Health System will be billed by the UNMMG.

**(7) Capital Assets**

Activity in capital assets that consist of furniture and equipment is summarized as follows:

	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>
Balance, June 30, 2016	\$ 9,237,312	5,953,184	3,284,128
Additions	388,000	1,066,056	(678,056)
Deletions	485,461	433,472	51,989
Balance, June 30, 2017	\$ 9,139,851	6,585,768	2,554,083

**(8) Refunds Payable**

Refunds payable are amounts received in error from third-party payors and/or payments on accounts receivable in excess of the patient account balance. At June 30, 2017, refunds payable were \$0.9 million. The amount is included in accrued liabilities on the accompanying statement of net position.

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

**(9) Accrued Liabilities**

Accrued liabilities consisted of the following at June 30:

	<b>2017</b>
Accrued leave	\$ 2,234,617
Accrued operating expenses	1,550,480
Payroll and benefits liability	1,070,350
Refunds payable	888,197
Unclaimed property	77,372
	\$ 5,821,016

**(10) Malpractice Insurance**

As a New Mexico University Research Park and Economic Development Act corporation, UNMMG has sovereign immunity from suit for tort liability except as waived by the New Mexico legislature. Under the New Mexico Tort Claims Act, the New Mexico Legislature waived the State's and UNMMG's sovereign immunity for claims arising out of negligence in the operation of UNMMG. In addition, the New Mexico Tort Claims Act limits, as an integral part of this waiver of sovereign immunity, the amount of damages that can be assessed against UNMMG on any tort. The New Mexico Tort Claims Act allows damages to be awarded as follows: (a) up to \$300,000 for past and future reasonable economic or property losses incurred or to be incurred by the claimant; (b) up to \$400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant; and (c) up to \$350,000 for family members of the claimant (to the extent they qualify therefore) for loss of consortium. The New Mexico Tort Claims Act also prohibits the award of punitive or exemplary damages against UNMMG. The New Mexico Tort Claims Act requires the Risk Management Division of the State of New Mexico General Services Department (State RMD) 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 statement of revenues, expenses, and changes in net position. Malpractice expense was \$4.4 million for the year ended June 30, 2017.

**(11) Patient Service Revenue**

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 revenue. Accounts, when determined to be uncollectible, are charged against the allowance for uncollectible accounts.

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

Approximately 92% of UNMMG's gross patient revenue was derived from third-party payors in 2017. Of this, Medicare and Medicaid represented approximately 65% in 2017. A summary of the basis of reimbursement from major third-party payors is as 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 revenue follows for the years ended June 30, 2017:

Patient service charges billed at established rates	\$ 504,772,271
Adjustments to charges:	
Contractual adjustments	(274,352,790)
Charity care	<u>(5,951,250)</u>
Net patient billing	224,468,231
Provision for uncollectible accounts	<u>(43,588,142)</u>
Net patient service revenue	<u>\$ 180,880,089</u>

**(12) Charity Care**

UNMMG maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the year ended June 30, 2017:

Charges forgone, based on established rates	\$ 5,951,250
Estimated costs and expenses incurred to provide charity care	2,511,428
Equivalent percentage of charity care to total gross revenue	1.2 %

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

**(13) Related-Party Transactions**

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

Current assets:	
Due from UNM HSC	\$ 2,039,983
Due from SRMC	177,136
Due from UNMH	<u>2,176,348</u>
	<u>\$ 4,393,467</u>
Current liabilities:	
Purchased services payable to UNM HSC	\$ 23,694,983
Due to UNMH	1,871,386
Operating expenses due to UNM HSC	6,609,236
Indigent distribution (UNM HSC)	25,543
Due to SRMC	<u>39,114</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, 2017, UNMMG's receivable for these expenses were approximately \$2.0 million. The offset to expenses is shown within the appropriate categories in the statement of revenues, expenses, and changes in net position.

In 2017, UNMH provided funding to UNMMG in the amount of \$1.5 million to provide a portion of support for clinical contract services, process improvement services, 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 statement 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. In the event that additional funding is required to support the clinical, educational, and research mission of the SOM, the finance and board of directors committee of UNMMG will determine and approve the purchase of any additional services.

For the year ended June 30, 2017, total UNMMG purchased services were \$146.2 million, and are recorded as an operating expense in the statement of revenues, expenses, and changes in net position. The related unpaid amounts of approximately \$23.7 million at June 30, 2017 are reported as a current liability on the statements of net position.

Under a Master Services Agreement among UNMMG, UNM Sandoval Regional Medical Center (SRMC) and UNM HSC, provider staffing levels for clinical services at SRMC have been established. Under the

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

Notes to Financial Statements

June 30, 2017

terms of this agreement, UNMMG and SRMC fund the clinical and academic component cost of the SOM physician and nonphysician provider costs for the services provided at SRMC. These costs have been classified as purchased services. Under the Master Service Agreement, UNM Health System reimburses UNMMG for a portion of these costs. For the year ended June 30, 2017, the reimbursements were \$12.3 million.

UNM processes payroll and various other expenses through its business office on behalf of UNMMG. UNMMG reimburses UNM for the expenses. At June 30, 2017, UNMMG's liabilities for these expenses were approximately \$6.6 million. The related expenses are reported as operating expenses within the appropriate categories on the statement of revenues, expenses, and changes in net position.

UNMH performs patient registration, Medicaid eligibility, certain computer operation services, clinical support, and Health System support on behalf of UNMMG. UNMMG reimburses UNMH for the cost of these services, which for the year ended June 30, 2017 was approximately \$2.9 million, and is reported within the appropriate categories in the statement of revenues, expenses, and changes in net position. At June 30, 2017, approximately \$1.9 million was 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 Dean's and rescission taxes; taxes assessed as a fixed percentage of clinical revenue collected. In the event the Dean's office elects for UNMMG to retain the taxes within a reserve fund or for UNMMG to use the funds to support purchased services, the expense is adjusted accordingly. Total Dean's and rescission taxes of approximately \$10.4 million for the year ended June 30, 2017 are reported as an operating expense in the statement 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 is approximately \$0.03 million as of June 30, 2017.

UNMMG leases office space under an operating lease agreement with UNMH. See note 15 for further discussion.

**(14) 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 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 2017. Total employer contributions were \$1.5 million and employee contributions were \$2.3 million for the year ended June 30, 2017. Employees paid under UNM participate in the defined benefit retirement plan under the Educational Retirement Act of the State of New Mexico. As these are employees of UNM, the net pension liability related to these employees is reflected in the financial statements of UNM.

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

**(15) Operating Leases**

UNMMG subleases 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 for the year ended June 30, 2017 was \$1.2 million.

UNMMG is committed under various leases for building and office space and data processing equipment. Rental expense on operating leases and data processing equipment was \$1.3 million in 2017.

**(a) Minimum Lease Payments**

The following is a schedule of future minimum lease payments for operating leases at June 30, 2017:

Years ending June 30:		
2018	\$	470,875
2019		369,870
2020		356,512
2021		317,230
2022		168,842
2023		<u>127,809</u>
	\$	<u><u>1,811,138</u></u>

**(16) 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 (the State) 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 10 of \$4.4 million), which was \$0.03 million in 2017, and is reported as an operating expense on the statement of revenues, expenses, and changes in net position.

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Notes to Financial Statements  
June 30, 2017

**(17) 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 2017, UNMMG recorded revenue of \$1.8 million on the statement of revenues, expenses, and changes in net position.

In 2017, UNM Health System provided \$12.3 million in revenue support to help cover provider costs for SRMC.



**Schedule 1**

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

Pledged Collateral by Banks

June 30, 2017

Deposits per bank (Wells Fargo)	\$ 31,375,923
Less:	
FDIC Coverage	<u>(250,000)</u>
Total uninsured public funds	<u>31,125,923</u>
State of New Mexico: Collateral Requirement – 50%	<u>15,562,961</u>
Pledged collateral:	
FNMA, FNMS, 3.000%, 04/01/2043	6,071,279
FNMA, FNMS, 3.000%, 09/01/2035	<u>40,135,095</u>
Total pledged collateral	<u>46,206,374</u>
Over collateralized	<u>\$ 30,643,413</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.**  
(A Component Unit of the University of New Mexico)  
Individual Deposit and Investment Account Balances  
June 30, 2017

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
Wells Fargo	UNMMG Main Operating	\$ 31,226,511	(314,628)	30,911,883
	Cancer Center	68,916	—	68,916
	Truman RX	75,000	—	75,000
	Savings	5,496	—	5,496
			<u>31,375,923</u>	<u>(314,628)</u>
	Cash on Hand	5,600	—	5,600
Investments: Morgan Stanley Smith Barney	Money Market:			
	Bank Deposit	1,391,788	—	1,391,788
	Total Money Market	<u>1,391,788</u>	<u>—</u>	<u>1,391,788</u>
	Total cash and cash equivalents	<u>\$ 32,773,311</u>	<u>(314,628)</u>	<u>32,458,683</u>
Corporate Bonds:				
	Aetna Inc.-00817YAN8	\$ 8,098	—	8,098
	American Express Credit-0258MODP1	61,023	—	61,023
	American Express Credit-0258MODT3	25,285	—	25,285
	American Express Credit-0258MODT3	5,057	—	5,057
	American Express Credit-0258MODT3	25,285	—	25,285
	American Express-0258MODT3	10,114	—	10,114
	American Express-0258MODT3	55,627	—	55,627
	American Honda Finance-02665WAC5	80,892	—	80,892
	American Honda Finance-02665WAC5	35,390	—	35,390
	American Honda Finance-02665WAC5	50,558	—	50,558
	Apple Inc-037833AJ9	109,776	—	109,776
	Apple Inc-037833AJ9	4,990	—	4,990
	APPLE INC-037833AJ9	139,715	—	139,715
	AT&T Inc.-00206RBM3	100,030	—	100,030
	AT&T INC.-00206RBM3	125,037	—	125,037
	AT&T INC.-00206RBM3	25,007	—	25,007
	AT&T Inc.-00206RCL4	25,129	—	25,129
	AT&T Inc.-00206RCL4	25,129	—	25,129
	AT&T Inc.-00206RCL4	2,010	—	2,010
	AT&T Inc.-00206RCL4	15,077	—	15,077
	AT&T INC.-00206RCL4	65,334	—	65,334
	Bank of America-060505DP6	86,832	—	86,832
	Bank of America-06051GFN4	43,203	—	43,203
	Bank of America-06051GFN4	3,014	—	3,014
	Bank of America-06051GFN4	2,009	—	2,009
	Bank of America-06051GFN4	43,203	—	43,203
	Bank of America-06051GFN4	40,189	—	40,189
	Bank of America-06051GFN4	10,047	—	10,047
	Bank of Montreal-06367VHL2	78,480	—	78,480
	Bank of Montreal-06367VHL2	25,480	—	25,480
	Bank of Montreal-06367VHL2	40,769	—	40,769
	Boeing Capital Corp-097014AL8	7,526	—	7,526
	Brown Forman-115637AN0	110,159	—	110,159
	Brown-Forman Corp-115637AN0	160,231	—	160,231
	Chevron Corp 166764AE0	150,371	—	150,371
	Chevron Corp 166764AE0	9,022	—	9,022
	Chevron Corp 166764AR1	30,282	—	30,282
	Cisco Systems Inc.-17275RAR3	111,665	—	111,665
	Cisco Systems Inc.-17275RAR3	55,832	—	55,832
	Citigroup Inc.-172967HU8	96,849	—	96,849
	Citigroup Inc.-172967HU8	12,234	—	12,234
	CSX Corp-126408GT4	52,555	—	52,555
	CSX Corp-126408GT4	18,920	—	18,920
	Dominion Resources Inc.-25746UBR9	11,044	—	11,044
	EATON CORP-278062AB0	10,026	—	10,026
	EATON CORP-278062AB0	65,170	—	65,170
	Fifth Third Bancorp-316773CQ1	60,700	—	60,700
	General Electric Capital-36962G6K5	10,024	—	10,024
	General Electric Capital-36962G6K5	100,239	—	100,239
	GEORGE WASHINGTON UNIV.-372546AR2	150,922	—	150,922
	Gilead Sciences Inc.-375558BB8	66,485	—	66,485

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Individual Deposit and Investment Account Balances  
June 30, 2017

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	Gilead Sciences-375558BB8	\$ 102,284	—	102,284
	Goldman Sachs Group-38141GRC0	7,813	—	7,813
	Goldman Sachs Group-38141GRC0	75,406	—	75,406
	Goldman Sachs Group-38141GRC0	34,505	—	34,505
	International Business Mach.-459200HE4	100,522	—	100,522
	John Deere Capital Corp 24422ESF7	50,296	—	50,296
	John Deere Capital Corp 24422ESF7	13,077	—	13,077
	John Deere Capital Corp 24422ESF7	12,071	—	12,071
	JOHN DEERE CAPITAL CORP-24422ESF7	80,474	—	80,474
	JP Morgan Chase-46625HKA7	45,581	—	45,581
	JP Morgan Chase-46625HKA7	5,065	—	5,065
	JPMorgan Chase&Co-46625HKA7	52,671	—	52,671
	JPMorgan Chase&Co-46625HKA7	14,181	—	14,181
	Marriot International-571903AJ2	25,630	—	25,630
	Marriot International-571903AJ2	56,386	—	56,386
	Marsh & McLennan Cos Inc.-571748AW2	11,151	—	11,151
	McKesson Corp.-581557BD6	5,062	—	5,062
	McKesson Corp.-581557BD6	70,868	—	70,868
	McKesson Corp.-581557BD6	83,017	—	83,017
	McKesson Corp.-581557BD6	3,037	—	3,037
	Midamerican Energy-59562VAX5	135,639	—	135,639
	Midamerican Energy-59562VAX5	50,237	—	50,237
	Oracle Corp.-68389XAX3	114,971	—	114,971
	Oracle Corp.-68389XAX3	55,959	—	55,959
	PACCAR FINL CORP-69371RM60	25,243	—	25,243
	PACCAR FINL CORP-69371RM60	25,243	—	25,243
	Pub Svc Elec.&Gas-74456QBE5	5,074	—	5,074
	Royal Bank of Canada-78008SVD5	55,394	—	55,394
	Royal Bank of Canada-78008SVD5	35,251	—	35,251
	Royal Bank of Canada-78008SVD5	120,860	—	120,860
	Royal Bank of Canada-78008SVD5	25,179	—	25,179
	Royal Bank of Canada-78008SVD5	20,143	—	20,143
	Royal Bank of Canada-78008SVD5	5,036	—	5,036
	Time Warner Inc.-887317AT2	12,025	—	12,025
	Toronto-Dominion Bank-89114QAS7	126,926	—	126,926
	Toronto-Dominion Bank-89114QBL1	74,098	—	74,098
	Toronto-Dominion Bank-89114QBL1	9,880	—	9,880
	Toronto-Dominion Bank-89114QBL1	49,399	—	49,399
	Verizon Communications-92343VBP8	103,291	—	103,291
	Verizon Communications-92343VBP8	51,645	—	51,645
	VISA INC-92826CAB8	60,560	—	60,560
	VISA INC-92826CAB8	4,037	—	4,037
	VISA INC-92826CAB8	26,243	—	26,243
	VISA INC-92826CAB8	70,654	—	70,654
	Wells Fargo & Co.-94974BFG0	10,065	—	10,065
	Total Corporate Bonds	4,780,194	—	4,780,194
	Government and Government Sponsored Enterprise (GSE) Bonds:			
	FED FARM CR BK-3133EG3E3	176,237	—	176,237
	FED FARM CR BK-3133EGD69	49,545	—	49,545
	FED FARM CR BK-3133EGMM4	123,571	—	123,571
	FED FARM CR BK-3133EGVJ1	74,540	—	74,540
	FED FARM CR BK-3133EHEK5	25,129	—	25,129
	FED FARM CR BK-3133EHFQ1	74,908	—	74,908
	FED FARM CR BK-3133EHFQ1	124,847	—	124,847
	Fed Home Ln BK-3130A9MG3	98,261	—	98,261
	FED NATL MTG ASSN-3135G0D75	49,895	—	49,895
	FED NATL MTG ASSN-3135G0D75	14,968	—	14,968
	FED NATL MTG ASSN-3135G0F73	24,878	—	24,878
	FED NATL MTG ASSN-3135G0F73	34,829	—	34,829
	FED NATL MTG ASSN-3135G0F73	213,949	—	213,949
	FED NATL MTG ASSN-3135G0G31	15,012	—	15,012
	FED NATL MTG ASSN-3136G3P25	273,848	—	273,848
	FEDERAL FARM CREDIT BANK-3133EEGMM4	173,000	—	173,000
	FEDERAL FARM CREDIT BANK-3133EFJE8	99,762	—	99,762
	FEDERAL FARM CREDIT BANK-3133EG3E3	151,061	—	151,061
	FEDERAL FARM CREDIT BANK-3133EG3E3	25,177	—	25,177

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Individual Deposit and Investment Account Balances  
June 30, 2017

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	FEDERAL FARM CREDIT BANK-3133EGVJ1	\$ 19,877	—	19,877
	FEDERAL NATL MTG ASSN-3135GOD75	74,842	—	74,842
	FEDERAL NATL MTG ASSN-3135GOF73	4,976	—	4,976
	FEDERAL NATL MTG ASSN-3135GOF73	19,902	—	19,902
	FEDERAL NATL MTG ASSN-3135GOG31	70,055	—	70,055
	FEDERAL NATL MTG ASSN-3135GOYT4	15,074	—	15,074
	FEDERAL NATL MTG ASSN-3135GOYT4	20,098	—	20,098
	FEDERAL NATL MTG ASSN-3135GOYT4	5,025	—	5,025
	FEDERAL NATL MTG ASSN-3136G1KD0	199,813	—	199,813
	FEDERAL NATL MTG ASSN-3136G1KD0	399,627	—	399,627
	FEDERAL NATL MTG ASSN-3136G3P25	224,058	—	224,058
	U S TREASURY NOTE-912828PC8	51,770	—	51,770
	U S TREASURY NOTE-912828PC8	103,539	—	103,539
	U S TREASURY NOTE-912828PC8	124,247	—	124,247
	U S TREASURY NOTE-912828RC6	112,418	—	112,418
	U S TREASURY NOTE-912828RC6	5,110	—	5,110
	U S TREASURY NOTE-912828RH5	250,952	—	250,952
	U S TREASURY NOTE-912828RH5	125,476	—	125,476
	U S TREASURY NOTE-912828TW0	400,041	—	400,041
	U S TREASURY NOTE-912828TW0	40,004	—	40,004
	U S TREASURY NOTE-912828TW0	370,038	—	370,038
	U S TREASURY NOTE-912828TW0	30,003	—	30,003
	U S TREASURY NOTE-912828TW0	160,016	—	160,016
	U S TREASURY NOTE-912828UF5	123,970	—	123,970
	U S TREASURY NOTE-912828UF5	114,052	—	114,052
	U S TREASURY NOTE-912828UF5	233,064	—	233,064
	U S TREASURY NOTE-912828UF5	74,382	—	74,382
	U S TREASURY NOTE-912828UF5	495,880	—	495,880
	U S TREASURY NOTE-912828UF5	198,352	—	198,352
	U S TREASURY NOTE-912828UF5	99,176	—	99,176
	U S TREASURY NOTE-912828UU2	49,908	—	49,908
	U S TREASURY NOTE-912828UU2	49,908	—	49,908
	U S TREASURY NOTE-912828UV0	59,547	—	59,547
	U S TREASURY NOTE-912828UV0	89,320	—	89,320
	U S TREASURY NOTE-912828UV0	19,849	—	19,849
	U S TREASURY NOTE-912828UV0	64,509	—	64,509
	U S TREASURY NOTE-912828UV0	114,131	—	114,131
	U S TREASURY NOTES-912828C65	50,427	—	50,427
	U S TREASURY NOTES-912828G20	325,063	—	325,063
	U S TREASURY NOTES-912828G20	100,019	—	100,019
	U S TREASURY NOTES-912828G20	325,063	—	325,063
	U S TREASURY NOTES-912828G20	10,002	—	10,002
	U S TREASURY NOTES-912828G20	225,044	—	225,044
	U S TREASURY NOTES-912828G20	125,024	—	125,024
	U S TREASURY NOTES-912828G20	5,001	—	5,001
	U S TREASURY NOTES-912828G20	50,010	—	50,010
	U S TREASURY NOTES-912828G20	10,002	—	10,002
	U S TREASURY NOTES-912828G20	55,011	—	55,011
	U S TREASURY NOTES-912828PC8	103,539	—	103,539
	U S TREASURY NOTES-912828PC8	51,770	—	51,770
	U S TREASURY NOTES-912828PC8	25,885	—	25,885
	U S TREASURY NOTES-912828PC8	77,654	—	77,654
	U S TREASURY NOTES-912828PC8	51,770	—	51,770
	U S TREASURY NOTES-912828PC8	51,770	—	51,770
	U S TREASURY NOTES-912828PC8	36,239	—	36,239
	U S TREASURY NOTES-912828PC8	51,770	—	51,770
	U S TREASURY NOTES-912828PC8	15,531	—	15,531
	U S TREASURY NOTES-912828PC8	72,477	—	72,477
	U S TREASURY NOTES-912828PC8	77,654	—	77,654
	U S TREASURY NOTES-912828RC6	81,759	—	81,759
	U S TREASURY NOTES-912828RC6	97,089	—	97,089
	U S TREASURY NOTES-912828RC6	148,188	—	148,188
	U S TREASURY NOTES-912828RC6	102,198	—	102,198
	U S TREASURY NOTES-912828RC6	122,638	—	122,638
	U S TREASURY NOTES-912828RC6	153,298	—	153,298
	U S TREASURY NOTES-912828RC6	15,330	—	15,330
	U S TREASURY NOTES-912828RH5	8,030	—	8,030

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Individual Deposit and Investment Account Balances  
June 30, 2017

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	U S TREASURY NOTES-912828RH5	\$ 7,027	—	7,027
	U S TREASURY NOTES-912828RH5	336,276	—	336,276
	U S TREASURY NOTES-912828RH5	125,476	—	125,476
	U S TREASURY NOTES-912828RH5	5,019	—	5,019
	U S TREASURY NOTES-912828TR1	124,148	—	124,148
	U S TREASURY NOTES-912828TR1	173,808	—	173,808
	U S TREASURY NOTES-912828TR1	74,489	—	74,489
	U S TREASURY NOTES-912828TW0	303,031	—	303,031
	U S TREASURY NOTES-912828TW0	57,006	—	57,006
	U S TREASURY NOTES-912828TW0	15,002	—	15,002
	U S TREASURY NOTES-912828TW0	20,002	—	20,002
	U S TREASURY NOTES-912828TW0	55,006	—	55,006
	U S TREASURY NOTES-912828TW0	90,009	—	90,009
	U S TREASURY NOTES-912828TW0	100,010	—	100,010
	U S TREASURY NOTES-912828UF5	89,258	—	89,258
	U S TREASURY NOTES-912828UF5	24,794	—	24,794
	U S TREASURY NOTES-912828UF5	44,629	—	44,629
	U S TREASURY NOTES-912828UF5	74,382	—	74,382
	U S TREASURY NOTES-912828UF5	14,876	—	14,876
	U S TREASURY NOTES-912828UF5	54,547	—	54,547
	U S TREASURY NOTES-912828UF5	24,794	—	24,794
	U S TREASURY NOTES-912828UF5	228,105	—	228,105
	U S TREASURY NOTES-912828UF5	24,794	—	24,794
	U S TREASURY NOTES-912828UF5	927,296	—	927,296
	U S TREASURY NOTES-912828UF5	14,876	—	14,876
	U S TREASURY NOTES-912828UF5	9,918	—	9,918
	U S TREASURY NOTES-912828UU2	19,963	—	19,963
	U S TREASURY NOTES-912828UU2	44,917	—	44,917
	U S TREASURY NOTES-912828UU2	159,705	—	159,705
	U S TREASURY NOTES-912828UU2	99,815	—	99,815
	U S TREASURY NOTES-912828UV0	39,698	—	39,698
	U S TREASURY NOTES-912828UV0	235,210	—	235,210
	U S TREASURY NOTES-912828UV0	24,811	—	24,811
	U S TREASURY NOTES-912828UV0	20,841	—	20,841
	U S TREASURY NOTES-912828UV0	4,962	—	4,962
	U S TREASURY NOTES-912828UV0	126,041	—	126,041
	U S TREASURY NOTES-912828UV0	9,924	—	9,924
	U S TREASURY NOTES-912828UV0	124,056	—	124,056
	U S TREASURY NOTES-912828UV0	4,962	—	4,962
	U S TREASURY NOTES-912828UV0	74,433	—	74,433
	U S TREASURY NOTES-912828UV0	49,622	—	49,622
	U S TREASURY NOTES-912828VF4	4,982	—	4,982
	Total Government Bonds	<u>13,124,201</u>	<u>—</u>	<u>13,124,201</u>
	Municipal Bonds:			
	Houston Tex Util-4424354U4	100,298	—	100,298
	OAKLAND UNIV MICH-673588EH8	55,076	—	55,076
	OAKLAND UNIV-673588EH8	70,096	—	70,096
	Oregon St. Dept-68607VS89	100,104	—	100,104
	UNIV. PITTSBURGH PA-914805ER3	126,022	—	126,022
	UNIV. PITTSBURGH PA-914805ER3	75,613	—	75,613
	Total Municipal Bonds	<u>527,209</u>	<u>—</u>	<u>527,209</u>
	Total Investments	<u>\$ 18,431,604</u>	<u>—</u>	<u>18,431,604</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		
	2017	2016	2015
		Unaudited	Unaudited
<b>Funding for Indigent Care:</b>			
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	92,063	179,703	121,722
Reimbursement received for services provided to patients qualifying for coverage under EMSA	910,222	643,368	994,410
Charitable contributions received from donors that are designated for funding indigent care	—	—	—
Other sources:			
Other source	—	—	—
Total Funding for Indigent Care	<u>1,002,285</u>	<u>823,071</u>	<u>1,116,132</u>
<b>Cost of Providing Indigent Care:</b>			
Total cost of care for providing services to:			
Uninsured patients qualifying for indigent care	1,301,748	1,150,391	1,759,938
Patients qualifying for coverage under EMSA	1,105,291	1,235,980	1,441,635
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	1,209,680	1,228,933	859,374
Direct costs paid to other providers on behalf of patients qualifying for indigent care	—	—	—
Other costs of providing Indigent Care (please specify)	—	—	—
Total Cost of Providing Indigent Care	<u>3,616,719</u>	<u>3,615,304</u>	<u>4,060,947</u>
Excess (Shortfall) of Funding for Charity Care to Cost of Providing Indigent Care	<u>\$ (2,614,434)</u>	<u>(2,792,233)</u>	<u>(2,944,815)</u>
<b>Patients Receiving Indigent Care Services (Unaudited):</b>			
Total number of patients receiving indigent care	11,631	11,648	12,701
Total number of patient encounters receiving indigent care	47,876	46,045	49,343

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

Calculations of Cost of Providing Indigent Care

	<b>Year ended June 30</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
		Unaudited	Unaudited
Uninsured patients qualifying for indigent care:			
Charges for these patients	\$ 3,084,710	2,698,549	4,103,375
Ratio of cost to charges	42.2%	42.6%	42.9%
Cost for uninsured patients qualifying for indigent care	<u>\$ 1,301,748</u>	<u>1,150,391</u>	<u>1,759,938</u>
Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA):			
Charges for these patients	\$ 2,619,172	2,899,320	3,361,237
Ratio of cost to charges	42.2%	42.6%	42.9%
Cost for Patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	<u>\$ 1,105,291</u>	<u>1,235,980</u>	<u>1,441,635</u>
Cost of care related to patient portion of bill for insured patients qualifying for indigent care:			
Indigent care adjustments for these patients	\$ 2,866,540	2,882,788	2,003,671
Ratio of cost to charges	42.2%	42.6%	42.9%
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	<u>\$ 1,209,680</u>	<u>1,228,933</u>	<u>859,374</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>



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. Timothy Keller, New Mexico State Auditor:

We have audited, 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, the financial statements of UNM Medical Group Inc. (UNMMG), a component unit of the University of New Mexico, State of New Mexico, which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 27, 2017. Our report included a paragraph regarding the restatement of opening net position.

### **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 opinions 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 have not been identified. We did identify a deficiency in internal control, described as item 2017-001 in the accompanying schedule of findings and responses, that we consider to be a material weakness.

### **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.





### **UNMMG's Response to the Finding**

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

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

*KPMG LLP*

Albuquerque, New Mexico  
November 27, 2017

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Schedule of Findings and Responses  
Fiscal year ended June 30, 2017

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

*Criteria*

In accordance with generally accepted accounting principles, revenue should be recognized on the accrual basis of accounting.

*Condition*

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. UNMMG qualifies to receive meaningful use incentive payments. In fiscal year 2017 UNMMG recognized meaningful use revenue when incentive cash payments were received. However, in accordance with generally accepted accounting principles the revenue should have been recognized when UNMMG satisfied the criteria for revenue recognition, which was in the fiscal year prior to the receipt of cash.

*Cause*

UNMMG management did not evaluate the meaningful use revenue to ensure that it was recorded in accordance with generally accepted accounting principles. In addition, management does not have a formal process to evaluate and document its policies regarding these types of unusual transactions.

*Effect*

The June 30, 2016 financial statements were restated to record \$7.8 million of meaningful use revenue in the correct period. In addition, an audit adjustment was proposed to accrue \$2.4 million of meaningful use revenue at June 30, 2017.

*Recommendation*

We recommend that management develop internal control processes to ensure that the unusual transaction is reviewed and evaluated for proper accounting treatment and that the resulting accounting policy is formally documented.

*Management Response*

UNMMG Controller will meet with the Director of Meaningful Use on a quarterly basis, beginning in October 2017, to review the list of providers and evaluate the criteria needed to recognize meaningful use revenue. An accrual will be recorded if the criteria has been met. In addition, a procedure outlining the process was developed and implemented effective October 1, 2017.

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Summary Schedule of Prior Audit Findings  
Fiscal year ended June 30, 2017

**Prior Year Findings**

None

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Summary Schedule of Prior Audit Findings  
Fiscal year ended June 30, 2017

An exit conference was conducted on October 5, 2017 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:

Dr. Michael Richards	Vice Chancellor for Clinical Affairs, UNM Health System and UNMMG Board of Directors, Chairperson
Dr. Steve McLaughlin	Chair – Department of Emergency Medicine (Regent Appointed) UNMMG Board of Directors Member
Chris Pacheco	Independent, non-UNM Faculty (Regent Appointed) UNMMG Board of Directors, Audit Committee Chair
Jill C. Klar	Chief Executive Officer and Chief Operating Officer, UNMMG
Ava J. Lovell	Senior Executive Officer for Finance & Administration, UNM Health Sciences Center
Marjorie Goldstein	Vice President & Chief Financial Officer, UNMMG
Angela V. Hawthorne	Executive Director Finance/Controller, UNMMG
Rebecca Ruddell	Executive Director Revenue Cycle Management, UNMMG
Purvi Mody	Chief Compliance & Internal Audit Officer, UNM Health System
Mario Garcia	Internal Auditor
Diana Heider	Assistant University Counsel, UNM
John Kennedy	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.