



UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Financial Statements with Supplementary Information
June 30, 2019 and 2018
(With Independent Auditors' Report Thereon)

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
2019 Official Roster

Board of Directors

Michael Richards , M.D., MPA, FACEP	Vice Chancellor for Clinical Affairs, UNM Health System Professor of Emergency Medicine, UNM Health Sciences Center
Loretta Cordova de Ortega , M.D.	Chair, Pediatrics (Regent appointed)
Martha McGrew , M.D.	Executive Vice Dean, UNM School of Medicine (Regent appointed)
Steve McLaughlin , M.D.	Chair, Emergency Medicine (Regent appointed)
Gary Mlady , M.D.	Chair, Radiology (Regent appointed)
Christopher Pacheco	Independent, Non-UNM Faculty (Regent appointed)
Kendall Rogers , M.D.	Physician Advisory Group Representative; Division Chief for Hospital Medicine in Department of Internal Medicine
Robert Schenck , M.D.	Chair, Orthopedics (Regent appointed)

Officers of UNM Medical Group, Inc.

Jill Klar	Chief Executive Officer
Robb McLean , M.D.	Chief Medical Officer
Marjorie Goldstein	Chief Financial Officer
Donna Sigl , 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

	Page(s)
Independent Auditors' Report	1–2
Management's Discussion and Analysis	3–9
Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses, and Changes in Net Position	11
Statements of Cash Flows	12
Notes to Financial Statements	13–27
Supplementary Information:	
Schedule 1: Pledged Collateral by Banks	28
Schedule 2: Individual Deposit and Investment Account Balances	29–35
Schedule 3: Indigent Care Cost and Funding Report	36
Schedule 4: Calculations of Cost of Providing Indigent Care	37
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>	38-39
Summary of Audit Results	40
Schedule of Findings and Responses	41–43
Summary Schedule of Prior Audit Findings	44
Exit Conference	45



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Albuquerque, NM 87110-8179

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of UNM Medical Group, Inc. (UNMMG), a component unit of the University of New Mexico, State of New Mexico, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise UNMMG's basic financial statements for the years then ended as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNMMG as of June 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise UNMMG's basic financial statements. The accompanying schedules of pledged collateral by banks (schedule 1), individual deposit and investment account balances (schedule 2), indigent care cost and funding report (schedule 3) and calculations of cost of providing indigent care (schedule 4) (Schedules 1-4) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Schedules 1-4 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Schedules 1-4 are fairly stated, in all material respects, in relation to the basic financial statements as a whole, except for the information marked as unaudited.

The information that is marked as unaudited in the accompanying indigent care cost and funding report (schedule 1) has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2019 on our consideration of UNMMG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of UNMMG's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UNMMG's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
December 10, 2019

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2019 and 2018
(Unaudited)

The following discussion and analysis provides an overview of the financial position and activities of the UNM Medical Group, Inc. (UNMMG) as of and for the years ended June 30, 2019 and 2018. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of UNMMG management.

Using the Annual Financial Report

This annual report consists of financial statements prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board. UNMMG is reporting as a special-purpose government entity engaged in business-type activities (BTA). In accordance with BTA reporting, UNMMG presents management's discussion and analysis, statements of net position, statements of revenues, expenses, and changes in net position, statements of cash flows, and notes to the financial statements. The financial statements are prepared under the accrual basis of accounting, whereby revenues are recognized when the service is provided and expenses are recognized when others provide the service, regardless of when cash is exchanged.

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

The statements of revenues, expenses, and changes in net position present the revenues earned and expenses incurred during each of the years presented. Activities are reported as either operating or nonoperating. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2019 and 2018
(Unaudited)

Overview of Entity

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

Condensed Summary of Net Position

	June 30		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Current assets	\$ 80,127,515	59,280,198	65,154,375
Capital assets, net	2,476,680	1,853,142	2,554,083
Other noncurrent assets	<u>40,279,814</u>	<u>36,210,003</u>	<u>30,910,206</u>
Total assets	<u>\$ 122,884,009</u>	<u>97,343,343</u>	<u>98,618,664</u>
Liabilities:			
Current liabilities	\$ <u>44,271,977</u>	<u>35,334,513</u>	<u>38,061,278</u>
Total liabilities	<u>44,271,977</u>	<u>35,334,513</u>	<u>38,061,278</u>
Net position:			
Invested in capital assets	2,476,680	1,853,142	2,554,083
Unrestricted	<u>76,135,352</u>	<u>60,155,688</u>	<u>58,003,303</u>
Total net position	<u>78,612,032</u>	<u>62,008,830</u>	<u>60,557,386</u>
Total liabilities and net position	<u>\$ <u>122,884,009</u></u>	<u><u>97,343,343</u></u>	<u><u>98,618,664</u></u>

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

Management's Discussion and Analysis

June 30, 2019 and 2018

(Unaudited)

Current assets include cash and other assets that are deemed to be consumable or convertible to cash within one year. As of June 30, 2019, total current assets of \$80.1 million included \$30.2 million of cash and cash equivalents compared to \$59.3 million in total current assets and \$26.2 million of cash and cash equivalents at June 30, 2018, and compared to \$65.2 million in total current assets and \$27.5 million of cash and cash equivalents at June 30, 2017. Current assets also include net patient receivables of \$26.7 million, \$28.6 million, and \$30.5 million at June 30, 2019, 2018, and 2017, respectively. Also included in current assets at June 30, 2019 is \$19.8 million related to a new Medicaid managed care supplemental payment program ("new Medicaid supplemental program") effective January 1, 2019. Also included in current assets at June 30, 2019 are amounts due from affiliates of \$3.2 million (consisting primarily of \$2.6 million due from UNM Health Sciences Center (UNM HSC), \$0.5 million due from UNM Hospitals (UNMH), and \$0.06 million due from Sandoval Regional Medical Center (SRMC)), compared to \$4.2 million at June 30, 2018 (consisting primarily of \$2.5 million due from UNM HSC, \$1.7 million due from UNMH, and \$0.03 million due from SRMC), and \$4.4 million at June 30, 2017 (consisting primarily of \$2.0 million due from UNM HSC, \$2.2 million due from UNMH, and \$0.2 million due from SRMC). Current assets also include other receivables of \$0.3 million, \$0.2 million, and \$2.7 million at June 30, 2019, 2018, and 2017, respectively. Other receivables at June 30, 2017 were predominantly related to the meaningful use program.

The most significant component of noncurrent assets is board-designated investments in cash and cash equivalents, money markets, U.S. government securities, and corporate debt securities of \$29.4 million, \$29.0 million, and \$23.4 million at June 30, 2019, 2018, and 2017, respectively. Noncurrent assets include capital assets of \$2.5 million, \$1.9 million, and \$2.6 million at June 30, 2019, 2018, and 2017, respectively. Noncurrent assets also include a \$9.2 million, \$6.5 million, and \$6.4 million investment in a joint venture, Lovelace UNM Rehabilitation Hospital, LLC (LURH), as of June 30, 2019, 2018, and 2017, respectively.

Current liabilities are generally defined as amounts due within one year. As of June 30, 2019, total current liabilities of \$44.3 million include purchased services payable to UNM HSC of \$27.4 million. These amounts compare to total current liabilities and purchased services payable to UNM HSC of \$35.3 million and \$23.8 million at June 30, 2018, respectively, and \$38.1 million and \$23.7 million at June 30, 2017, respectively. Also included in current liabilities at June 30, 2019 are operating expenses payable to UNM of \$2.0 million, due to affiliates of \$6.5 million, and other accrued liabilities of \$8.4 million, compared to \$2.8 million, \$2.8 million, and \$6.0 million, respectively, at June 30, 2018 and \$6.6 million, \$1.9 million, and \$5.8 million, respectively, at June 30, 2017.

UNMMG's current ratio, the ratio of current assets available to cover current liabilities, was 1.81, 1.68, and 1.71 at June 30, 2019, 2018, and 2017, respectively. Payment of UNMMG's current liabilities is dependent on UNMMG's ability to collect patient and other receivables.

The total net position of \$78.6 million at June 30, 2019 increased \$16.6 million from \$62.0 million at June 30, 2018, due to the excess of revenue over expenses in 2019 of \$16.6 million. The primary driver of the change in net position for the period ended June 30, 2019 is the implementation of a new Medicaid supplemental program related to Medicaid Managed Care services. Beginning January 1, 2019, the Centers for Medicare and Medicaid Services (CMS) approved a proposal to provide delivery system and provider payment incentives as submitted by the State of New Mexico. For the period of January 1, 2019 to June 30, 2019, the net revenue related to this program is \$15.8 million.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2019 and 2018
(Unaudited)

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

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Year ended June 30		
	2019	2018	2017
Net operating revenues	\$ 225,588,600	202,684,399	217,264,471
Operating expenses:			
Purchased clinical services	136,764,945	132,575,992	146,164,140
Salaries and benefits	29,183,193	28,296,178	28,482,686
Other	49,102,595	42,951,004	39,467,575
Total operating expenses	<u>215,050,733</u>	<u>203,823,174</u>	<u>214,114,401</u>
Operating gain (loss)	10,537,867	(1,138,775)	3,150,070
Nonoperating revenues	<u>6,065,335</u>	<u>2,590,219</u>	<u>1,368,226</u>
Change in net position	16,603,202	1,451,444	4,518,296
Net position, beginning of year	<u>62,008,830</u>	<u>60,557,386</u>	<u>56,039,090</u>
Net position, end of year	<u>\$ 78,612,032</u>	<u>62,008,830</u>	<u>60,557,386</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 the year ended June 30, 2019 increased \$22.9 million, from \$202.7 million in 2018 to \$225.6 million in 2019, an 11.3% increase. The new Medicaid supplemental program, as previously described, contributed \$15.8 million of this increase in 2019. Net operating revenues for 2018 decreased \$14.6 million, from \$217.3 million in 2017 to \$202.7 million in 2018, reflecting a decrease of 6.7%. Net patient revenues increased \$19.2 million in 2019, from \$175.7 million in 2018 to \$194.9 million in 2019. Net patient revenues decreased \$5.2 million in 2018, from \$180.9 million in 2017 to \$175.7 million in 2018.

Pharmacy revenues increased \$3.1 million in 2019, from \$25.5 million in 2018 to \$28.6 million in 2019, and increased \$4.1 million in 2018, from \$21.4 million in 2017 to \$25.5 million in 2018. The pharmacy revenue growth in 2019 is a result of the increased activity at the outpatient pharmacy at UNM Truman Health Services, and an increase in patients utilizing the pharmacy services. Included in net operating revenues are \$0.7 million in 2019, \$0.4 million in 2018, and \$12.3 million in 2017 of funds allocated from the UNM HSC to support costs incurred by UNMMG for physicians and nonphysician providers providing services at SRMC.

UNMMG measures patient service volume in work relative value units (wRVUs), an industry standard unit of measure of physician clinic effort to provide clinical care. wRVUs were 3,374,417 in 2019, representing an increase of 33,943, or 1.0%, from 2018. In 2018, wRVUs of 3,340,474 increased 79,461, or 2.4%, from 2017.

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

Management's Discussion and Analysis

June 30, 2019 and 2018

(Unaudited)

UNMMG operated 14 clinics with approximately 37,000 patient visits in 2019, 15 clinics with approximately 39,000 patient visits in 2018, and 18 clinics with approximately 37,000 visits in 2017. Including pharmacy revenues, these clinics contributed \$33.1 million, \$31.5 million, and \$29.1 million in revenues in 2019, 2018, and 2017, respectively. Excluding pharmacy revenues, the clinics contributed revenues of \$4.5 million in 2019, \$6.0 million in 2018, and \$7.7 million in 2017.

A condensed summary of net operating revenues follows:

	Year ended June 30		
	2019	2018	2017
Patient service charges billed at established rates	\$ 526,038,410	509,729,680	504,772,271
Adjustments to charges:			
Contractual adjustments	(276,409,968)	(284,471,398)	(274,352,790)
Charity care	(9,929,881)	(9,240,044)	(5,951,250)
Net patient billings	239,698,561	216,018,238	224,468,231
Provision for uncollectible accounts	(44,793,638)	(40,365,082)	(43,588,142)
Net patient service revenues	194,904,923	175,653,156	180,880,089
Pharmacy revenue	28,562,765	25,548,786	21,360,187
Other revenue	2,120,912	1,482,457	15,024,195
Total net operating revenues	<u>\$ 225,588,600</u>	<u>202,684,399</u>	<u>217,264,471</u>

UNMMG encourages all patients to apply for financial assistance and participates in the financial assistance program called UNM Care. This program assigns qualifying patients to primary care providers and allows them to receive care throughout UNM HSC locations. This program is available to Bernalillo County residents whose income is below 300% of the federal poverty level. As of June 30, 2019, 2018, and 2017, there were approximately 7,279, 7,126, and 6,715 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, 2019, UNMMG provided, in terms of foregone charges, \$9.9 million in charity care, compared to \$9.2 million in 2018 and \$6.0 million in 2017.

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.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2019 and 2018
(Unaudited)

For the year ended June 30, 2019, UNMMG recorded \$44.8 million as a provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts, compared to \$40.4 million and \$43.6 million for the years ended June 30, 2018 and 2017, respectively.

UNMMG incurs costs associated with providing charity care and other services for which payment is not received. For the year ended June 30, 2019, the estimated cost of care for providing these services was \$17.8 million, compared to \$17.5 million in 2018 and \$17.6 million in 2017.

Total operating expenses were \$215.1 million for the year ended June 30, 2019, and \$203.8 million and \$214.1 million for the years ended June 30, 2018 and June 30, 2017, respectively. These costs primarily consist of costs related to the purchase of clinical services from UNM HSC and the associated dean's tax from the School of Medicine (SOM), which when combined totaled \$148.9 million in 2019, \$144.9 million in 2018, and \$156.6 million in 2017.

The increase in costs related to the purchase of clinical services from 2018 to 2019 is due to the increase in patient service revenues. The decrease in costs related to the purchase of clinical services from 2017 to 2018 is attributable to the change in expenses allocated by UNM HSC pertaining to providers providing services at SRMC, and directly correlates with the decrease in net operating revenues over the same period.

The dean's tax, paid to the UNM SOM, is assessed as a fixed percentage of clinical revenues collected. For 2019 and 2018, the UNMMG board of directors approved an additional dean's tax of \$2.0 million as part of the budget. Total dean's tax was \$12.1 million in 2019, \$12.3 million in 2018, and \$10.4 million in 2017, and is reported on the statements of revenues, expenses, and changes in net position as an operating expense.

In 2019 and 2018, UNMH provided funding to UNMMG in the amount of \$1.7 million and \$1.5 million, respectively, to provide a portion of support for clinical contract services, process improvement services, and certain ambulatory and other reporting activities that benefit UNMH and the overall health system. This funding support from UNMH is reported on the statements of revenues, expenses, and changes in net position as a reduction of operating expense. The amount of funding provided is negotiated annually.

Nonoperating revenues of \$6.1 million in 2019, \$2.6 million in 2018, and \$1.4 million in 2017 consist primarily of equity in the earnings of the LURH joint venture, allocations of programmatic support from the UNM HSC, investment income, unrealized gains and losses on investments, and interest income on a money market account. The increase in nonoperating revenues in 2019 is largely due to a \$2.4 million increase in equity earnings of the LURH joint venture. The earnings increase for LURH from 2018 to 2019 was primarily driven by a volume increase of 27.7%, while the change in earnings for 2018, compared to 2017, is attributed to the fact that the venture only recorded two months of operations in 2017.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2019 and 2018
(Unaudited)

Capital Assets

At June 30, 2019, UNMMG had \$2.5 million invested in capital assets, net of accumulated depreciation of approximately \$7.5 million, compared to \$1.9 million and \$7.1 million at June 30, 2018, respectively, and \$2.6 million and \$6.6 million at June 30, 2017, respectively. Capital assets consist primarily of leasehold improvements, application software, and equipment. With the exception of UNMMG clinics, capital assets used to provide clinical services are owned by UNMH and are not reported on UNMMG's financial statements.

Change in Net Position

UNMMG's change in net position reflected a net increase of \$16.6 million from 2018 to 2019 due primarily to an increase in net operating revenues, compared to a net increase of \$1.4 million from 2017 to 2018.

Factors Impacting Future Periods

The Medicare Access and CHIP Reauthorization Act of 2015, referred to as "MACRA", set in motion a new approach to Medicare and physician payment by creating two primary payment schemes that physicians accepting Medicare can choose to be judged under. UNMMG has chosen the Merit-Based Incentive Payment System (MIPS), which administers bonuses or penalties based on how well physicians perform relative to other physicians on a set of quality and value measures. Based on guidance set forth by the CMS MIPS program, UNMMG reported on these quality and safety measures in 2017 which resulted in a 1.88% reimbursement increase on qualifying Medicare Part B claims for services provided in calendar year 2019. These quality and safety measures were again reported by UNMMG in 2018 which will result in a reimbursement increase on qualifying Medicare Part B claims for services provided in calendar year 2020. Currently the reimbursement increase is estimated to be 1.60% for the payment year 2020, but has not been finalized at this time.

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)

Statements of Net Position

June 30, 2019 and 2018

Assets	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 30,194,183	26,209,748
Receivables:		
Net patient receivables (net of allowance for uncollectible accounts of \$45,537,367 in 2019 and \$38,017,778 in 2018)	46,424,181	28,628,684
Due from affiliates	3,192,119	4,229,828
Other	317,032	211,938
Total net receivables	<u>49,933,332</u>	<u>33,070,450</u>
Total current assets	<u>80,127,515</u>	<u>59,280,198</u>
Noncurrent assets:		
Board-designated assets:		
Cash and cash equivalents, noncurrent	2,063,504	5,673,093
Investments	27,301,308	23,295,370
Total board-designated assets	<u>29,364,812</u>	<u>28,968,463</u>
Investment in Lovelace UNM Rehab Hospital	9,235,167	6,453,563
Capital assets, net	2,476,680	1,853,142
Other assets	1,679,835	787,977
Total noncurrent assets	<u>42,756,494</u>	<u>38,063,145</u>
Total assets	<u>\$ 122,884,009</u>	<u>97,343,343</u>
Liabilities		
Current liabilities:		
Purchased services due to UNM HSC	\$ 27,412,673	23,780,382
Operating expenses due to UNM	2,003,377	2,768,498
Due to affiliates	6,498,207	2,736,899
Accrued liabilities	8,357,720	6,048,734
Total current liabilities	<u>44,271,977</u>	<u>35,334,513</u>
Net Position		
Investment in capital assets	2,476,680	1,853,142
Unrestricted	76,135,352	60,155,688
Total net position	<u>78,612,032</u>	<u>62,008,830</u>
Total liabilities and net position	<u>\$ 122,884,009</u>	<u>97,343,343</u>

See accompanying notes to financial statements.

UNM MEDICAL GROUP, INC.

(A Component Unit of the University of New Mexico)

Statements of Revenues, Expenses and Change in Net Position

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Patient service revenue, net	\$ 194,904,923	175,653,156
Pharmacy revenue	28,562,765	25,548,786
Other revenue	2,120,912	1,482,457
Total net operating revenues	<u>225,588,600</u>	<u>202,684,399</u>
Operating expenses:		
Purchased clinical services from UNM HSC	136,764,945	132,575,992
Salaries and benefits	29,183,193	28,296,178
Pharmacy expenses	16,137,475	13,907,778
Dean's tax	12,126,880	12,306,256
Other administrative	4,531,611	4,391,128
Consulting	4,355,602	730,539
Malpractice insurance	4,260,204	3,813,757
Patient care costs	2,444,671	2,382,616
Data processing costs	2,109,566	2,100,158
Patient registration and enrollment support	1,168,633	1,172,132
Occupancy	1,166,341	1,221,965
Depreciation	801,612	924,675
Total operating expenses	<u>215,050,733</u>	<u>203,823,174</u>
Operating income (loss)	<u>10,537,867</u>	<u>(1,138,775)</u>
Nonoperating revenues (expenses):		
Equity in earnings of Lovelace UNM Rehab Hospital	3,892,009	1,462,009
State appropriations	1,160,200	1,160,200
Investment income (loss)	1,043,523	(28,783)
Loss on disposition of assets	(30,397)	(3,207)
Total nonoperating revenue	<u>6,065,335</u>	<u>2,590,219</u>
Change in net position	16,603,202	1,451,444
Net position, beginning of year	<u>62,008,830</u>	<u>60,557,386</u>
Net position, end of year	<u>\$ 78,612,032</u>	<u>62,008,830</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash receipts from insurance and patients	\$ 205,840,050	205,698,090
Payments to affiliates	(163,898,493)	(162,341,036)
Payments to suppliers	(20,171,347)	(22,316,890)
Payments to employees	(17,559,480)	(18,840,092)
Payments for employee benefits	(2,917,581)	(2,036,613)
Other receipts	1,229,054	1,790,728
Net cash provided by operating activities	2,522,203	1,954,187
Cash flows from noncapital financing activities:		
State appropriations	1,160,200	1,160,200
Net cash provided by noncapital financing activities	1,160,200	1,160,200
Cash flows from investing activities:		
Net purchases of investments	(4,005,938)	(4,863,766)
Purchase of capital assets	(1,455,547)	(226,941)
Gain (loss) from investments	1,043,523	(28,783)
Distributions from Lovelace UNM Rehab Hospital	1,110,405	1,429,261
Net cash used in investing activities	(3,307,557)	(3,690,229)
Net increase (decrease) in cash and cash equivalents	374,846	(575,842)
Cash and cash equivalents, beginning of year	31,882,841	32,458,683
Cash and cash equivalents, end of year	\$ 32,257,687	31,882,841
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 10,537,867	(1,138,775)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	801,612	924,675
Provision for doubtful accounts	44,793,638	40,365,082
Changes in assets and liabilities:		
Patient receivables	(62,589,135)	(38,460,921)
Due from affiliates	1,037,709	163,639
Other receivables	(105,094)	2,518,981
Other assets	(891,858)	308,271
Purchase services due to UNM HSC	3,632,291	85,399
Due to affiliates and operating expenses due to UNM	2,996,187	(3,039,882)
Accrued liabilities	2,308,986	227,718
Net cash provided by operating activities	\$ 2,522,203	1,954,187

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, 2019 and 2018

(1) Description of Business

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

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

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

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation

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

(b) Net Position

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

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

(c) Use of Estimates

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

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements
June 30, 2019 and 2018

(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, 2019 and 2018 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, 2019 and 2018, investments consisted primarily of corporate debt securities, U.S. government and government agency securities, and money markets. Investment income includes interest and realized and unrealized gains and losses. Investment income is reported as nonoperating revenue when earned.

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

(f) Capital Assets

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

(g) Revenue Recognition and Net Patient Receivables

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

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

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

Beginning January 1, 2019, the Centers for Medicare and Medicaid Services (CMS) approved a proposal to provide delivery system and provider payment incentives as submitted by the State of New Mexico under a supplemental provider fee program related to Medicaid Managed Care services. For the period of January 1, 2019 to June 30, 2019, the net revenue related to this program is \$15.8 million. At June 30, 2019, \$19.8 million is recorded in net patient receivables and \$3.9 million is recorded as a current liability due to UNM HSC related to this program.

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

Notes to Financial Statements

June 30, 2019 and 2018

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

(h) Charity Care

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

(i) Pharmacy Revenues and Expenses

UNMMG is contracted, through UNM Truman Health Clinic, with a mail-order pharmacy (contract pharmacy) to supply and bill patients eligible under the Section 340B program, a program designed to allow certain entities to purchase outpatient prescription drugs at favorable discounts. Under the terms of the agreement, the contract pharmacy orders, receives, and dispenses drugs, and charges and collects for the drugs on behalf of UNMMG. UNMMG maintains title to the drugs and, accordingly, pharmacy revenues are recorded at the estimated net realizable value at the time the drugs are dispensed. Pharmacy expenses reflect cost of goods sold, pharmacy management, and dispensing fees. UNM Truman Health Clinic also operates an outpatient pharmacy.

(j) Operating Revenues and Expenses

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

(k) Purchase of Clinical Services from UNM HSC

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

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements
June 30, 2019 and 2018

(l) Salaries and Benefits

At June 30, 2019, the staff of UNMMG comprised 536 UNMMG and 28 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 (IRC) Section 501(c)(3) and further classified as an organization described in IRC Section 509(a)(2). As such, it would be exempt from federal income tax on income generated from activities related to its exempt function. However, UNMMG is subject to income taxes on any net income that is derived from a trade or business regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the consolidated financial statements taken as a whole.

(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. GASB Statement No. 83 was adopted by UNMMG for the year ended June 30, 2019 and had no impact on the financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. Statement No. 87 addresses the accounting and financial reporting for leases, establishing a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Statement No. 87 is effective for reporting periods beginning after December 15, 2019. UNMMG is evaluating the impact the standard will have on its financial statements.

(o) Reclassifications

As discussed in note 12, UNM processes payroll and various other expenses through its business office on behalf of UNMMG. UNMMG has historically presented such disbursements as payments to suppliers and employees and for employee benefits in the statement of cash flows. In 2019, to conform with UNM presentation practices, such disbursements have been presented as payments to affiliates. 2018 amounts have been reclassified to conform with the 2019 presentation, resulting in an increase in 2018 payments to affiliates of \$10.9 million, with offsetting decreases in payments to suppliers and employees and for employee benefits. These 2018 reclassifications had no impact on cash provided by operating activities.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements
June 30, 2019 and 2018

(3) Cash, Cash Equivalents, and Investments

(a) Cash and Cash Equivalents

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

Bank balances as of June 30, 2019 and 2018 are categorized as follows:

	2019	2018
Operating accounts	\$ 32,614,501	31,805,788
Total bank balances	32,614,501	31,805,788
Amount insured by FDIC	250,000	250,000
Amount collateralized with securities held in UNMMG's name	\$ 32,364,501	31,555,788

Also included in cash and cash equivalents at June 30, 2019 and 2018 is a money market account in the amount of \$0.2 million and \$0.3 million, respectively. This account is subject to minimal interest rate risk as all money markets are less than one year in maturity. The money market fund is invested in short-term, high-quality municipal securities.

(b) Marketable Securities

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

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

Custodial credit risk – Debt investments: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, UNMMG will not be able to recover the value of its investments or collateral that is in the possession of an outside party. Marketable securities of \$27,301,308 at June 30, 2019 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, 2019 and 2018

Credit risk – Debt investments: Credit risk is the risk that an issuer or other counterparty to the investment will not fulfill their obligations. UNMMG is required to disclose credit ratings of its debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. government, and nondebt investments are excluded from this requirement. Currently, UNMMG's policy restricts debt investments to specific investment ratings issued by nationally recognized statistical ratings organizations. A summary of the marketable securities and their respective maturities and their exposure to credit risk at June 30, 2019 and 2018 follows:

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

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

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

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements
June 30, 2019 and 2018

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

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

As of June 30, 2019 and 2018, UNMMG’s investment portfolio had no investments exposed to concentration of credit risk.

(c) Fair Value Measurement

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

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

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

Level 3 are unobservable inputs for the assets or liabilities.

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

Notes to Financial Statements

June 30, 2019 and 2018

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, 2019 and 2018:

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

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

(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, 2019 and 2018, excluding self-pay, which UNMMG substantially reserves.

	2019	2018
Medicare and Medicaid	66 %	66 %
Commercial insurance	32	32
Other	2	2
	100 %	100 %

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements
June 30, 2019 and 2018

(5) Board-Designated Assets

Board-designated assets are classified in the accompanying statements of net position as noncurrent assets, as these assets are designated by the Board for future use subject to approval by the Board. At June 30, 2019 and 2018, these assets comprise investments in money market funds, debt securities, sovereign securities, and U.S. government securities, and cash and cash equivalents.

As of June 30, 2019 and 2018, assets are designated for the following purposes:

	<u>2019</u>	<u>2018</u>
Quality reserve	\$ 11,467,097	10,554,489
Department reserve	9,193,432	8,167,671
Other UNMMG reserve	5,663,505	7,888,498
Hardware and technology	2,491,216	2,357,805
Investment reserve	<u>549,562</u>	<u>—</u>
Total board-designated assets	<u>\$ 29,364,812</u>	<u>28,968,463</u>

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

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

Other UNMMG reserve – Represents funds designated on behalf of UNMMG specific programs such as Locum Tenens, whose mission is to advance the strength and sustainability of those UNMMG serves 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.

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

Dean's discretionary reserve – In 2019, a reserve was established in the amount of \$11.7 million comprised of current receivables. It represents funds designated for use by the Dean of the SOM to fund provider compensation, incentives, and other initiatives that support the SOM mission and goals.

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

Notes to Financial Statements

June 30, 2019 and 2018

(6) Investment in Joint Venture

UNMMG participates in a joint venture with Lovelace Health System, Inc. (Lovelace), for the purpose of managing, operating, and providing services at a post-acute rehabilitation facility. The purpose of the joint venture is to improve the quality and cost efficiency in the delivery of healthcare services in Albuquerque, New Mexico and surrounding areas, to meet the healthcare needs of the community, and to engage in the education and training of medical students, residents, and/or fellows consistent with the academic mission of UNM. UNMMG is a 49% member of the joint venture, Lovelace UNM Rehabilitation Hospital, LLC (LURH), a limited liability company under the laws of the State of New Mexico. Lovelace, a 51% member of LURH, serves as its managing partner.

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

Activity in UNMMG's investment in LURH for the years ended June 30, 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance of investment in LURH	\$ 6,453,563	6,420,815
UNMMG share of LURH net income	3,892,009	1,462,009
Distributions from LURH	<u>(1,110,405)</u>	<u>(1,429,261)</u>
Ending balance of investment in LURH	<u>\$ 9,235,167</u>	<u>6,453,563</u>

Financial statements of LURH are not publicly available.

(7) Capital Assets

Activity in capital assets for the years ended June 30, 2019 and 2018 is summarized as follows:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Balance, June 30, 2017	\$ 9,139,851	(6,585,768)	2,554,083
Additions	226,941	(924,675)	(697,734)
Deletions	<u>(431,633)</u>	<u>428,426</u>	<u>(3,207)</u>
Balance, June 30, 2018	8,935,159	(7,082,017)	1,853,142
Additions	1,455,547	(801,612)	653,935
Deletions	<u>(449,067)</u>	<u>418,670</u>	<u>(30,397)</u>
Balance, June 30, 2019	<u>\$ 9,941,639</u>	<u>(7,464,959)</u>	<u>2,476,680</u>

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements
June 30, 2019 and 2018

(8) Accrued Liabilities

Accrued liabilities consist of the following at June 30, 2019 and 2018:

	2019	2018
Accrued operating expenses	\$ 4,289,788	2,341,025
Accrued leave	1,565,057	1,551,137
Refunds payable	1,234,155	961,202
Payroll and benefits liability	1,077,881	1,079,157
Unclaimed property	190,839	116,213
	\$ 8,357,720	6,048,734

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

(9) Malpractice Insurance

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

(10) Patient Service Revenues

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

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

Notes to Financial Statements

June 30, 2019 and 2018

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

Approximately 91% of UNMMG's gross patient revenue was derived from third-party payors in 2019 and 2018. Of this, Medicare and Medicaid represented approximately 64% in both 2019 and 2018. A summary of the basis of reimbursement from major third-party payors follows:

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

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

A summary of the net patient service revenues for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Patient service charges billed at established rates	\$ 526,038,410	509,729,680
Adjustments to charges:		
Contractual adjustments	(276,409,968)	(284,471,398)
Charity care	<u>(9,929,881)</u>	<u>(9,240,044)</u>
Net patient billing	239,698,561	216,018,238
Provision for uncollectible accounts	<u>(44,793,638)</u>	<u>(40,365,082)</u>
Net patient service revenues	<u>\$ 194,904,923</u>	<u>175,653,156</u>

(11) Charity Care

UNMMG maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Charges forgone, based on established rates	\$ 9,929,881	9,240,044
Estimated costs and expenses incurred to provide charity care	4,061,322	3,695,094
Equivalent percentage of charity care to total gross revenue	1.9 %	1.8 %

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements
June 30, 2019 and 2018

(12) Related-Party Transactions

A summary of the related-party balances as of June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Current assets:		
Due from UNM HSC	\$ 2,599,720	2,503,220
Due from UNMH	528,732	1,691,662
Due from SRMC	<u>63,667</u>	<u>34,946</u>
	<u>\$ 3,192,119</u>	<u>4,229,828</u>
Current liabilities:		
Purchased services payable to UNM HSC	\$ 27,412,673	23,780,382
Operating expenses due to UNM HSC	2,003,377	2,757,442
Due to UNM HSC	3,914,366	—
Due to UNMH	2,519,033	2,727,247
Due to SRMC	44,254	9,652
Indigent distribution (UNM HSC)	<u>20,554</u>	<u>11,056</u>
	<u>\$ 35,914,257</u>	<u>29,285,779</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, 2019 and 2018, UNMMG's receivable for these expenses was approximately \$2.6 million and \$2.5 million, respectively. The offset to expenses is shown within the appropriate categories in the statements of revenues, expenses, and changes in net position.

Certain transactions that are billed to UNM are not recorded as an offset to expense but are recorded appropriately within the financial statements. These transactions are primarily related to State Appropriations and other revenues that are allocated to UNMMG by UNM to fund programs that support the clinical and research missions of UNM. For the years ended June 30, 2019 and 2018, these revenues were \$1.9 million and \$2.0 million respectively.

UNM processes payroll and various other expenses through its business office on behalf of UNMMG. UNMMG reimburses UNM for the expenses. At June 30, 2019 and 2018, UNMMG's liabilities for these expenses were approximately \$2.0 million and \$2.8 million, respectively. The related expenses are reported as operating expenses within the appropriate categories in the statements of revenues, expenses, and changes in net position. For the years ended June 30, 2019 and 2018, these expenses were \$13.6 million and \$11.8 million, respectively.

UNMMG is party to a purchased services agreement with UNM HSC to purchase the clinical effort of various clinical providers primarily from the SOM. This clinical effort is the basis of the clinical services rendered and billed by UNMMG. The cost of the clinical purchased services is negotiated by UNM HSC and the UNMMG Board. The cost is agreed upon annually and UNMMG pays UNM HSC on a monthly basis. For the years ended June 30, 2019 and 2018, total UNMMG purchased services from UNM HSC

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

Notes to Financial Statements

June 30, 2019 and 2018

were \$136.8 million and \$132.6 million, respectively, and are recorded as operating expenses in the statements of revenues, expenses, and changes in net position. The related unpaid amounts of approximately \$27.4 million and \$23.8 million at June 30, 2019 and 2018, respectively, are reported as a current liability in the statements of net position.

UNM HSC and the SOM allocate administrative support costs in exchange for administrative services provided to the clinical departments and UNMMG via the assessment of a dean's tax. The tax is assessed as a fixed percentage of professional revenues collected. For 2019 and 2018, the UNMMG Board approved an additional dean's tax of \$2.0 million as part of the budget. Total dean's tax of approximately \$12.1 million and \$12.3 million for the years ended June 30, 2019 and 2018, respectively, is reported as an operating expense in the statements of revenues, expenses, and changes in net position.

In 2019 and 2018, UNMH provided funding to UNMMG in the amount of \$1.7 million and \$1.5 million, respectively, to provide a portion of support for clinical contract services, process improvement services, and certain ambulatory, quality, and other reporting activities that benefit UNMH and the overall health system. The amount of funding provided is negotiated annually and is reported as an offset of salary and benefit costs in the statements of revenues, expenses, and changes in net position.

UNMH performs patient registration, Medicaid eligibility, certain computer operation services, and clinical support on behalf of UNMMG. UNMMG reimburses UNMH for the cost of these services, which for the years ended June 30, 2019 and 2018 was approximately \$4.2 million and \$3.3 million, respectively. In addition, UNMMG purchases from UNMH various clinical supplies. The cost of these supplies for the years ended June 30, 2019 and 2018 was approximately \$1.1 million and \$0.7 million, respectively. These expenses are reported within the appropriate categories in the statements of revenues, expenses, and changes in net position. At June 30, 2019 and 2018, approximately \$2.5 million and \$2.7 million, respectively, are reported in due to affiliates in the statements of net position.

UNMMG leases office space under operating lease agreements with UNMH and UNM. UNMMG is also committed under facility lease arrangements related to the clinics established under UNMMG. UNMMG's related party rent expense was \$0.5 million for each of the years ended June 30, 2019 and 2018 and is reported within the occupancy expense in the statements of revenues, expenses, and changes in net position.

(13) Benefit Plans

UNMMG has a defined-contribution plan covering eligible UNMMG employees. The plan was established on July 1, 2008 by the 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 2019 and 2018. Total employer contributions were \$1.4 million and \$1.3 million and employee contributions were \$2.3 million and \$2.3 million for the years ended June 30, 2019 and 2018, respectively. Employees of UNM participate in the defined-benefit retirement plan under the Educational Retirement Act of the State. As these are employees of UNM, the net pension liability related to these employees is reflected in the financial statements of UNM.

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

Notes to Financial Statements

June 30, 2019 and 2018

(14) Operating Leases

UNMMG is committed under various leases for building and office space and data processing equipment. Rent expense on operating leases and data processing equipment was \$1.2 million and \$1.4 million in 2019 and 2018, respectively. As of February 2019, UNMMG no longer leases data processing equipment.

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

Years ending June 30:	
2020	\$ 719,307
2021	598,332
2022	241,708
2023	202,503
2024	<u>76,555</u>
	<u>\$ 1,838,405</u>

(15) Contingencies

UNMMG is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions and natural disasters. UNMMG is insured through the State of New Mexico for all insurable risks and employee benefits. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded coverage in the past three years. UNMMG is allocated a portion of the premium assessed by the State to UNM HSC (which excludes medical malpractice premiums of \$4.3 million and \$3.8 million, for the years ended June 30, 2019 and 2018, respectively), which was \$0.02 million and \$0.01 million in 2019 and 2018, respectively, and is reported as an operating expense in the statements of revenues, expenses, and changes in net position.

Schedule 1

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

Pledged Collateral by Banks

June 30, 2019

Deposits per bank (Wells Fargo)	\$ 32,614,501
Less:	
FDIC coverage	<u>(250,000)</u>
Total uninsured public funds	<u>32,364,501</u>
State of New Mexico: Collateral requirement – 50%	<u>16,182,251</u>
Pledged collateral:	
FNMA, FNMS, 2.50%, August 1, 2031	<u>51,061,290</u>
Total pledged collateral	<u>51,061,290</u>
Over collateralized	<u>\$ 34,879,039</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, 2019

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
Wells Fargo	UNMMG Main Operating	\$ 32,498,134	(607,239)	31,890,895
	Cancer Center	41,367	—	41,367
	Truman RX	75,000	—	75,000
		<u>32,614,501</u>	<u>(607,239)</u>	<u>32,007,262</u>
	Cash on Hand	5,675	—	5,675
Investments:				
Morgan Stanley	Money market:			
Smith Barney	Bank deposit	244,750	—	244,750
	Total money market	<u>244,750</u>	<u>—</u>	<u>244,750</u>
	Total cash and cash equivalents	<u>\$ 32,864,926</u>	<u>(607,239)</u>	<u>32,257,687</u>
	Corporate bonds:			
	Amazon.com Inc-023135AJ5	\$ 202,219	—	202,219
	American Express Credit-0258MODP1	60,492	—	60,492
	American Express Credit-0258MODP1	20,164	—	20,164
	American Express Credit-0258MODT3	25,067	—	25,067
	American Express Credit-0258MODT3	5,013	—	5,013
	American Express Credit-0258MODT3	25,067	—	25,067
	American Express Credit-0258MODT3	70,186	—	70,186
	American Express-0258MODT3	10,027	—	10,027
	American Express-0258MODT3	55,146	—	55,146
	AT&T Inc.-00206RCL4	24,989	—	24,989
	AT&T Inc.-00206RCL4	24,989	—	24,989
	AT&T Inc.-00206RCL4	1,999	—	1,999
	AT&T Inc.-00206RCL4	14,994	—	14,994
	AT&T Inc.-00206RCL4	43,981	—	43,981
	AT&T Inc.-00206RCL4	24,989	—	24,989
	AT&T Inc.-00206RCL4	19,991	—	19,991
	AT&T INC.-00206RCL4	64,972	—	64,972
	AT&T INC.-00206RCL4	29,987	—	29,987
	Bank of America-06051GEU9	62,776	—	62,776
	Bank of America-06051GFN4	43,178	—	43,178
	Bank of America-06051GFN4	3,012	—	3,012
	Bank of America-06051GFN4	2,008	—	2,008
	Bank of America-06051GFN4	43,178	—	43,178
	Bank of America-06051GFN4	60,249	—	60,249
	Bank of America-06051GFN4	40,166	—	40,166
	Bank of America-06051GFN4	10,041	—	10,041
	Bank of NY Mellon-06406RAE7	36,166	—	36,166
	Bank of NY Mellon-06406RAE7	30,999	—	30,999
	Bank of NY Mellon-06406RAE7	98,165	—	98,165
	Bank of NY Mellon-06406RAE7	41,333	—	41,333
	Bank of NY Mellon-06406RAE7	20,666	—	20,666
	Bank of NY Mellon-06406RAE7	56,832	—	56,832
	Bank of NY Mellon-06406RAE7	5,167	—	5,167
	Berkshire Hathaway Energy-59562VAY3	132,521	—	132,521
	Boeing Capital Corp-097014AL8	7,106	—	7,106
	Chevron corp 166764AR1	30,131	—	30,131
	Chubb Ina Holdings-0040EAU1	76,736	—	76,736
	Chubb Ina Holdings-00440EAU1	204,628	—	204,628

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Individual Deposit and Investment Account Balances
June 30, 2019

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	Citigroup Inc.-172967HU8	\$ 96,006	—	96,006
	Citigroup Inc.-172967HU8	12,127	—	12,127
	CME Group Inc-12572QAE5	10,354	—	10,354
	CME Group Inc-12572QAE5	79,726	—	79,726
	CME Group Inc-12572QAE5	41,416	—	41,416
	CME Group Inc-12572QAE5	75,584	—	75,584
	CME Group Inc-12572QAE5	25,885	—	25,885
	CME Group Inc-12572QAE5	31,062	—	31,062
	CME Group Inc-12572QAE5	25,885	—	25,885
	Consumer Energy Co-210518CT1	25,553	—	25,553
	Eaton Corp.-278062AC8	111,938	—	111,938
	Eaton Corp-278062AC8	36,634	—	36,634
	Eaton Corp-278062AC8	4,071	—	4,071
	Eaton Corp-278062AC8	5,088	—	5,088
	Eaton Corp-278062AC8	5,088	—	5,088
	Eaton Corp-278062AC8	25,441	—	25,441
	Ecolab-278865AL4	147,395	—	147,395
	Gilead Sciences Inc.-375558BB8	65,739	—	65,739
	Gilead Sciences-375558BB8	101,137	—	101,137
	Goldman Sachs Group-38141GWC4	10,149	—	10,149
	Goldman Sachs Group-38141GWC4	10,149	—	10,149
	Goldman Sachs Group-38141GWC4	35,521	—	35,521
	Goldman Sachs Group-38141GWC4	45,670	—	45,670
	Goldman Sachs Group-38141GWC4	15,223	—	15,223
	Goldman Sachs Grp-38141GWC4	20,298	—	20,298
	Goldman Sachs Grp-38141GWC4	20,298	—	20,298
	Goldman Sachs Grp-38141GWC4	10,149	—	10,149
	Goldman Sachs Grp-38141GWC4	10,149	—	10,149
	Goldman Sachs Grp-38141GWC4	5,074	—	5,074
	International Bus. Mach-459200HU8	133,157	—	133,157
	International Business Mach-459200JY8	103,072	—	103,072
	JP Morgan Chase-46625HJX9	52,907	—	52,907
	JP Morgan Chase-46625HKA7	45,428	—	45,428
	JP Morgan Chase-46625HKA7	5,048	—	5,048
	JPMorgan Chase&Co-46625HJX9	95,233	—	95,233
	JPMorgan Chase&Co-46625HKA7	52,494	—	52,494
	JPMorgan Chase&Co-46625HKA7	14,133	—	14,133
	JPMorgan Chase&Co-46625HKA7	70,665	—	70,665
	JPMorgan Chase&Co-46625HKA7	20,190	—	20,190
	Marriott International-571903AR4	50,362	—	50,362
	Marriot International-571903AR4	40,290	—	40,290
	Marriot International-571903AR4	5,036	—	5,036
	Marsh & McLennan Cos Inc.-571748AW2	11,072	—	11,072
	Oracle Corp.-68389XAP0	50,613	—	50,613
	Oracle Corp.-68389XAX3	113,587	—	113,587
	Oracle Corp.-68389XAX3	55,286	—	55,286
	Oracle Corp.-68389XBB0	126,729	—	126,729
	Oracle Corp.-68389XBB0	25,346	—	25,346
	Oracle Corp.-68389XBB0	50,692	—	50,692
	Paccar Financial Corp-69371RM29	125,753	—	125,753
	Paccar Financial Corp-69371RN36	12,039	—	12,039
	Stanley Black & Decker-854502AD3	51,047	—	51,047
	Stanley Black & Decker-854502AD3	11,230	—	11,230

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Individual Deposit and Investment Account Balances
June 30, 2019

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	Stanley Black & Decker-854502AD3	\$ 4,084	—	4,084
	Stanley Black & Decker-854502AD3	40,838	—	40,838
	Toronto-Dominion Bank-89114QAS7	126,313	—	126,313
	Toronto-Dominion Bank-89114QBL1	65,068	—	65,068
	Toronto-Dominion Bank-89114QBL1	10,010	—	10,010
	Toronto-Dominion Bank-89114QBL1	25,026	—	25,026
	Toronto-Dominion Bank-89114QBL1	40,042	—	40,042
	Toronto-Dominion Bank-89114QBL1	60,062	—	60,062
	Toronto-Dominion Bank-89114QBL1	50,052	—	50,052
	Toronto-Dominion Bank-89114QBL1	20,021	—	20,021
	Toronto-Dominion Bank-89114QBL1	10,010	—	10,010
	Total Capital SA-89152UAF9	26,193	—	26,193
	Total Capital-89152UAF9	115,248	—	115,248
	Total Capital-89152UAF9	41,908	—	41,908
	Total Capital-89152UAF9	36,670	—	36,670
	VISA INC-92826CAB8	60,153	—	60,153
	VISA INC-92826CAB8	4,010	—	4,010
	VISA INC-92826CAB8	26,066	—	26,066
	VISA INC-92826CAB8	10,026	—	10,026
	VISA INC-92826CAB8	60,153	—	60,153
	VISA INC-92826CAB8	70,178	—	70,178
	VISA INC-92826CAB8	5,013	—	5,013
	VISA INC-92826CAG7	50,523	—	50,523
	VISA INC-92826CAG7	101,047	—	101,047
	Wells Fargo & Co-949746SK8	154,330	—	154,330
	Wells Fargo & Co-949746SK8	41,155	—	41,155
	Total corporate bonds	5,413,747	—	5,413,747
	Government and government sponsored enterprise (GSE) bonds:			
	FED FARM CR BK-3133EG3E3	176,217	—	176,217
	FED FARM CR BK-3133EGD69	49,822	—	49,822
	FED FARM CR BK-3133EGMM4	124,469	—	124,469
	FED FARM CR BK-3133EGVJ1	75,090	—	75,090
	FED FARM CR BK-3133EGWF8	255,221	—	255,221
	FED FARM CR BK-3133EGWF8	100,087	—	100,087
	FED FARM CR BK-3133EHFQ1	75,320	—	75,320
	FED FARM CR BK-3133EHFQ1	125,533	—	125,533
	FED FARM CR BK-3133EHS20	470,579	—	470,579
	FED FARM CR BK-3133EHSB0	100,904	—	100,904
	FED FARM CR BK-3133EHZH9	226,150	—	226,150
	FED FARM CR BK-3133EHZH9	226,150	—	226,150
	Fed Home Ln BK-3130A9MG3	99,181	—	99,181
	FED NATL MTG ASSN-3135G0D75	49,762	—	49,762
	FED NATL MTG ASSN-3135G0D75	14,928	—	14,928
	FED NATL MTG ASSN-3135G0F73	24,909	—	24,909
	FED NATL MTG ASSN-3135G0F73	34,872	—	34,872
	FED NATL MTG ASSN-3135G0F73	214,215	—	214,215
	FED NATL MTG ASSN-3136G3P25	276,090	—	276,090
	FEDERAL FARM CREDIT BANK - 3133EEGMM4	174,257	—	174,257
	FEDERAL FARM CREDIT BANK - 3133EG3E3	26,213	—	26,213
	FEDERAL FARM CREDIT BANK - 3133EG3E3	150,004	—	150,004
	FEDERAL FARM CREDIT BANK - 3133EGVJ1	20,024	—	20,024

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Individual Deposit and Investment Account Balances
June 30, 2019

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	FEDERAL NATL MTG ASSN - 3135GOD75	\$ 74,642	—	74,642
	FEDERAL NATL MTG ASSN - 3135GOF73	4,982	—	4,982
	FEDERAL NATL MTG ASSN - 3135GOF73	19,927	—	19,927
	FEDERAL NATL MTG ASSN - 3136G3P25	225,892	—	225,892
	U S TREASURY NOTE-912828M80	50,533	—	50,533
	U S TREASURY NOTE-912828M80	30,320	—	30,320
	U S TREASURY NOTE-912828M80	5,053	—	5,053
	U S TREASURY NOTE-912828M80	15,160	—	15,160
	U S TREASURY NOTE-912828M80	25,266	—	25,266
	U S TREASURY NOTE-912828M80	25,266	—	25,266
	U S TREASURY NOTE-912828M80	20,213	—	20,213
	U S TREASURY NOTE-912828M80	5,053	—	5,053
	U S TREASURY NOTE-912828M80	25,266	—	25,266
	U S TREASURY NOTE-912828M80	50,533	—	50,533
	U S TREASURY NOTE-912828M80	101,066	—	101,066
	U S TREASURY NOTE-912828PC8	50,678	—	50,678
	U S TREASURY NOTE-912828PC8	101,355	—	101,355
	U S TREASURY NOTE-912828PC8	121,626	—	121,626
	U S TREASURY NOTE-912828PC8	10,136	—	10,136
	U S TREASURY NOTE-912828PC8	20,271	—	20,271
	U S TREASURY NOTE-912828PC8	76,016	—	76,016
	U S TREASURY NOTE-912828RC6	111,710	—	111,710
	U S TREASURY NOTE-912828RC6	5,078	—	5,078
	U S TREASURY NOTE-912828RC6	264,042	—	264,042
	U S TREASURY NOTE-912828RC6	5,078	—	5,078
	U S TREASURY NOTE-912828RC6	20,311	—	20,311
	U S TREASURY NOTE-912828RC6	152,332	—	152,332
	U S TREASURY NOTE-912828RC6	76,166	—	76,166
	U S TREASURY NOTE-912828RC6	15,233	—	15,233
	U S TREASURY NOTE-912828RC6	35,544	—	35,544
	U S TREASURY NOTE-912828UF5	125,090	—	125,090
	U S TREASURY NOTE-912828UF5	115,083	—	115,083
	U S TREASURY NOTE-912828UF5	235,170	—	235,170
	U S TREASURY NOTE-912828UF5	75,054	—	75,054
	U S TREASURY NOTE-912828UF5	500,361	—	500,361
	U S TREASURY NOTE-912828UF5	200,145	—	200,145
	U S TREASURY NOTE-912828UF5	100,072	—	100,072
	U S TREASURY NOTE-912828UN8	15,254	—	15,254
	U S TREASURY NOTE-912828UN8	25,423	—	25,423
	U S TREASURY NOTE-912828UN8	10,169	—	10,169
	U S TREASURY NOTE-912828UN8	15,254	—	15,254
	U S TREASURY NOTE-912828UN8	35,592	—	35,592
	U S TREASURY NOTE-912828UN8	25,423	—	25,423
	U S TREASURY NOTE-912828UN8	228,804	—	228,804
	U S TREASURY NOTE-912828UN8	25,423	—	25,423
	U S TREASURY NOTE-912828UN8	50,845	—	50,845
	U S TREASURY NOTE-912828UN8	25,423	—	25,423
	U S TREASURY NOTE-912828UN8	25,423	—	25,423
	U S TREASURY NOTE-912828UN8	25,423	—	25,423
	U S TREASURY NOTE-912828UN8	152,536	—	152,536
	U S TREASURY NOTE-912828UN8	101,691	—	101,691
	U S TREASURY NOTE-912828UV0	59,774	—	59,774
	U S TREASURY NOTE-912828UV0	89,661	—	89,661

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Individual Deposit and Investment Account Balances
June 30, 2019

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	U S TREASURY NOTE-912828UV0	\$ 19,925	—	19,925
	U S TREASURY NOTE-912828UV0	64,755	—	64,755
	U S TREASURY NOTE-912828UV0	114,567	—	114,567
	U S TREASURY NOTE-912828UV0	199,247	—	199,247
	U S TREASURY NOTE-912828UV0	99,624	—	99,624
	U S TREASURY NOTE-912828V80	103,100	—	103,100
	U S TREASURY NOTE-912828V80	36,085	—	36,085
	U S TREASURY NOTE-912828V80	67,015	—	67,015
	U S TREASURY NOTE-912828V80	77,325	—	77,325
	U S TREASURY NOTE-912828V80	25,775	—	25,775
	U S TREASURY NOTE-912828V80	206,201	—	206,201
	U S TREASURY NOTE-912828V80	283,526	—	283,526
	U S TREASURY NOTE-912828V80	25,775	—	25,775
	U S TREASURY NOTES -912796VM8	249,685	—	249,685
	U S TREASURY NOTES -912796VM8	49,937	—	49,937
	U S TREASURY NOTES -9128283C2	328,921	—	328,921
	U S TREASURY NOTES -9128283C2	25,302	—	25,302
	U S TREASURY NOTES -9128283C2	50,603	—	50,603
	U S TREASURY NOTES -9128283C2	75,905	—	75,905
	U S TREASURY NOTES -9128283C2	25,302	—	25,302
	U S TREASURY NOTES -9128283C2	101,207	—	101,207
	U S TREASURY NOTES -9128283C2	404,826	—	404,826
	U S TREASURY NOTES -9128283C2	253,016	—	253,016
	U S TREASURY NOTES -9128284G2	76,132	—	76,132
	U S TREASURY NOTES -9128284G2	25,377	—	25,377
	U S TREASURY NOTES -9128284G2	152,264	—	152,264
	U S TREASURY NOTES -9128284G2	101,509	—	101,509
	U S TREASURY NOTES -9128284G2	152,264	—	152,264
	U S TREASURY NOTES -9128284G2	228,396	—	228,396
	U S TREASURY NOTES -9128284G2	76,132	—	76,132
	U S TREASURY NOTES -912828M80	25,266	—	25,266
	U S TREASURY NOTES -912828M80	227,398	—	227,398
	U S TREASURY NOTES -912828M80	50,533	—	50,533
	U S TREASURY NOTES -912828M80	101,066	—	101,066
	U S TREASURY NOTES -912828M80	75,799	—	75,799
	U S TREASURY NOTES -912828M80	75,799	—	75,799
	U S TREASURY NOTES -912828M80	202,132	—	202,132
	U S TREASURY NOTES -912828M80	75,799	—	75,799
	U S TREASURY NOTES -912828M80	50,533	—	50,533
	U S TREASURY NOTES -912828M80	126,332	—	126,332
	U S TREASURY NOTES -912828M80	252,665	—	252,665
	U S TREASURY NOTES -912828PC8	101,355	—	101,355
	U S TREASURY NOTES -912828PC8	50,678	—	50,678
	U S TREASURY NOTES -912828PC8	25,339	—	25,339
	U S TREASURY NOTES -912828PC8	76,016	—	76,016
	U S TREASURY NOTES -912828PC8	50,678	—	50,678
	U S TREASURY NOTES -912828PC8	50,678	—	50,678
	U S TREASURY NOTES -912828PC8	35,474	—	35,474
	U S TREASURY NOTES -912828PC8	50,678	—	50,678
	U S TREASURY NOTES -912828PC8	15,203	—	15,203
	U S TREASURY NOTES -912828PC8	70,949	—	70,949
	U S TREASURY NOTES -912828PC8	76,016	—	76,016
	U S TREASURY NOTES -912828PC8	76,016	—	76,016

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Individual Deposit and Investment Account Balances
June 30, 2019

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	U S TREASURY NOTES -912828PC8	\$ 146,965	—	146,965
	U S TREASURY NOTES -912828PC8	86,152	—	86,152
	U S TREASURY NOTES -912828RC6	81,244	—	81,244
	U S TREASURY NOTES -912828RC6	96,477	—	96,477
	U S TREASURY NOTES -912828RC6	147,254	—	147,254
	U S TREASURY NOTES -912828RC6	101,554	—	101,554
	U S TREASURY NOTES -912828RC6	121,865	—	121,865
	U S TREASURY NOTES -912828RC6	152,332	—	152,332
	U S TREASURY NOTES -912828RC6	15,233	—	15,233
	U S TREASURY NOTES -912828RC6	157,409	—	157,409
	U S TREASURY NOTES -912828RC6	111,710	—	111,710
	U S TREASURY NOTES -912828RC6	25,389	—	25,389
	U S TREASURY NOTES -912828RC6	25,389	—	25,389
	U S TREASURY NOTES -912828RC6	15,233	—	15,233
	U S TREASURY NOTES -912828RC6	50,777	—	50,777
	U S TREASURY NOTES -912828RC6	5,078	—	5,078
	U S TREASURY NOTES -912828RC6	76,166	—	76,166
	U S TREASURY NOTES -912828RC6	279,275	—	279,275
	U S TREASURY NOTES -912828RC6	5,078	—	5,078
	U S TREASURY NOTES -912828RC6	101,554	—	101,554
	U S TREASURY NOTES -912828RC6	208,187	—	208,187
	U S TREASURY NOTES -912828TR1	124,955	—	124,955
	U S TREASURY NOTES -912828TR1	174,936	—	174,936
	U S TREASURY NOTES -912828TR1	74,973	—	74,973
	U S TREASURY NOTES -912828TR1	224,918	—	224,918
	U S TREASURY NOTES -912828UF5	90,065	—	90,065
	U S TREASURY NOTES -912828UF5	25,018	—	25,018
	U S TREASURY NOTES -912828UF5	45,033	—	45,033
	U S TREASURY NOTES -912828UF5	75,054	—	75,054
	U S TREASURY NOTES -912828UF5	15,011	—	15,011
	U S TREASURY NOTES -912828UF5	55,040	—	55,040
	U S TREASURY NOTES -912828UF5	25,018	—	25,018
	U S TREASURY NOTES -912828UF5	230,166	—	230,166
	U S TREASURY NOTES -912828UF5	25,018	—	25,018
	U S TREASURY NOTES -912828UF5	935,676	—	935,676
	U S TREASURY NOTES -912828UF5	15,011	—	15,011
	U S TREASURY NOTES -912828UF5	10,007	—	10,007
	U S TREASURY NOTES -912828UF5	75,054	—	75,054
	U S TREASURY NOTES -912828UF5	50,036	—	50,036
	U S TREASURY NOTES -912828UN8	127,114	—	127,114
	U S TREASURY NOTES -912828UN8	10,169	—	10,169
	U S TREASURY NOTES -912828UN8	25,423	—	25,423
	U S TREASURY NOTES -912828UN8	111,860	—	111,860
	U S TREASURY NOTES -912828UN8	5,085	—	5,085
	U S TREASURY NOTES -912828UN8	25,423	—	25,423
	U S TREASURY NOTES -912828UN8	8,135	—	8,135
	U S TREASURY NOTES -912828UN8	17,287	—	17,287
	U S TREASURY NOTES -912828UN8	76,268	—	76,268
	U S TREASURY NOTES -912828UN8	25,423	—	25,423
	U S TREASURY NOTES -912828UN8	101,691	—	101,691

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Individual Deposit and Investment Account Balances
June 30, 2019

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	U S TREASURY NOTES -912828UN8	\$ 50,845	—	50,845
	U S TREASURY NOTES -912828UN8	228,804	—	228,804
	U S TREASURY NOTES -912828UN8	203,382	—	203,382
	U S TREASURY NOTES -912828UN8	254,227	—	254,227
	U S TREASURY NOTES -912828UN8	152,536	—	152,536
	U S TREASURY NOTES -912828UN8	101,691	—	101,691
	U S TREASURY NOTES -912828UV0	39,849	—	39,849
	U S TREASURY NOTES -912828UV0	236,108	—	236,108
	U S TREASURY NOTES -912828UV0	24,906	—	24,906
	U S TREASURY NOTES -912828UV0	20,921	—	20,921
	U S TREASURY NOTES -912828UV0	4,981	—	4,981
	U S TREASURY NOTES -912828UV0	126,522	—	126,522
	U S TREASURY NOTES -912828UV0	9,962	—	9,962
	U S TREASURY NOTES -912828UV0	124,530	—	124,530
	U S TREASURY NOTES -912828UV0	4,981	—	4,981
	U S TREASURY NOTES -912828UV0	74,718	—	74,718
	U S TREASURY NOTES -912828UV0	49,812	—	49,812
	U S TREASURY NOTES -912828UV0	164,379	—	164,379
	U S TREASURY NOTES -912828UV0	99,624	—	99,624
	U S TREASURY NOTES -912828UV0	59,774	—	59,774
	U S TREASURY NOTES -912828UV0	54,793	—	54,793
	U S TREASURY NOTES -912828V80	257,751	—	257,751
	U S TREASURY NOTES -912828V80	257,751	—	257,751
	U S TREASURY NOTES -912828VF4	4,977	—	4,977
	U S TREASURY NOTES -912828VF4	19,907	—	19,907
	U S TREASURY NOTES -912828VF4	29,860	—	29,860
	U S TREASURY NOTES -912828VF4	29,860	—	29,860
	U S TREASURY NOTES -912828VF4	338,418	—	338,418
	U S TREASURY NOTES -912828VF4	398,139	—	398,139
	U S TREASURY NOTES -912828VF4	174,186	—	174,186
	Total government bonds	21,153,320	—	21,153,320
	Municipal bonds:			
	Oregon St. Dept-68607VS89	100,350	—	100,350
	State of Fl. St. Board of Admin-341271AA2	30,323	—	30,323
	State of Fl. St. Board of Admin-341271AB0	76,605	—	76,605
	State of Fl. St. Board of Admin-341271AB0	51,070	—	51,070
	State of Florida Board-341271AA2	30,323	—	30,323
	State of Florida Board-341271AA2	80,860	—	80,860
	State of Florida Board-341271AA2	10,108	—	10,108
	State of Florida Board-341271AB0	5,107	—	5,107
	State of Florida Board-341271AB0	25,535	—	25,535
	State of Florida Board-341271AB0	122,569	—	122,569
	UNIV. PITTSBURGH PA-914805ER3	125,869	—	125,869
	UNIV. PITTSBURGH PA-914805ER3	75,522	—	75,522
	Total municipal bonds	734,241	—	734,241
	Total investments	\$ 27,301,308	—	27,301,308

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		
	2019	2018	2017
Funding for indigent care:			
State appropriations specified for indigent care	\$ —	—	—
County indigent funds received	—	—	—
Out of county indigent funds received	—	—	—
Payments and copayments received from uninsured patients qualifying for indigent care	9,705	68,632	92,063
Reimbursement received for services provided to patients qualifying for coverage under Emergency Medical Services for Aliens (EMSA)	673,698	671,557	910,222
Charitable contributions received from donors that are designated for funding indigent care	—	—	—
Other sources:			
Other source	—	—	—
Total funding for indigent care	<u>683,403</u>	<u>740,189</u>	<u>1,002,285</u>
Cost of providing indigent care:			
Total cost of care for providing services to:			
Uninsured patients qualifying for indigent care	2,112,328	2,141,602	1,301,748
Patients qualifying for coverage under EMSA	1,018,699	907,424	1,105,291
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	1,948,994	1,553,492	1,209,680
Direct costs paid to other providers on behalf of patients qualifying for indigent care	—	—	—
Other costs of providing indigent care	—	—	—
Total cost of providing indigent care	<u>5,080,021</u>	<u>4,602,518</u>	<u>3,616,719</u>
Excess (shortfall) of funding for charity care to cost of providing indigent care	<u>\$ (4,396,618)</u>	<u>(3,862,329)</u>	<u>(2,614,434)</u>
Patients receiving indigent care services (unaudited):			
Total number of patients receiving indigent care	11,358	11,687	11,631
Total number of patient encounters receiving indigent care	53,629	53,987	47,876

See accompanying independent auditors' report.

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

Calculations of Cost of Providing Indigent Care

	Year ended June 30		
	2019	2018	2017
Uninsured patients qualifying for indigent care:			
Charges for these patients	\$ 5,164,615	5,355,344	3,084,710
Ratio of cost to charges	40.9 %	40.0 %	42.2 %
Cost for uninsured patients qualifying for indigent care	<u>\$ 2,112,328</u>	<u>2,141,602</u>	<u>1,301,748</u>
Patients qualifying for coverage under EMSA:			
Charges for these patients	\$ 2,490,706	2,269,128	2,619,172
Ratio of cost to charges	40.9 %	40.0 %	42.2 %
Cost for patients qualifying for coverage under EMSA	<u>\$ 1,018,699</u>	<u>907,424</u>	<u>1,105,291</u>
Cost of care related to patient portion of bill for insured patients qualifying for indigent care:			
Indigent care adjustments for these patients	\$ 4,765,266	3,884,700	2,866,540
Ratio of cost to charges	40.9 %	40.0 %	42.2 %
Cost of care related to patient portion of bill for insured patients qualifying for indigent care	<u>\$ 1,948,994</u>	<u>1,553,492</u>	<u>1,209,680</u>
Direct costs paid to other providers on behalf of patients qualifying for indigent care:			
Payments to other providers for care of these patients	\$ —	—	—
	<u>\$ —</u>	<u>—</u>	<u>—</u>

See accompanying independent auditors' report.



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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of UNM Medical Group, Inc. (UNMMG), which comprise the statement of net position as of June 30, 2019, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 10, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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



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

UNMMG's Response to Findings

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

Purpose of this Report

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

KPMG LLP

Albuquerque, New Mexico
December 10, 2019

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Summary of Audit Results
Fiscal year ended June 30, 2019

Type of auditor report issued: Unmodified opinion

Fiscal year 2019 findings and responses:

Material weaknesses: No matters to report

Significant deficiencies: No matters to report

Material noncompliance: No matters to report

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2019

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

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

2018-001. Repeated and Modified

Condition

In the 2018 audit, finding 2018-001 identified that the organization did not have specific written policies and procedures governing related party transactions, including associated internal controls. The finding identified that the organization should have written policies and procedures that address the topics in the “Criteria” section.

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

Criteria

Management should design, implement and maintain controls to:

- Identify, account for, and disclose related party relationships and transactions.
- Authorize and approve significant transactions and arrangements with related parties.

Effect

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

- We noted a difference in treatment and presentation of pass through transactions between UNM Hospital and UNMMG.

Cause

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

Recommendation

Many aspects of this fiscal year 2019 deficiency should be resolved because the policies and procedures will be in effect for the entire fiscal year 2020. As the implementation of these policies and procedures continues, we recommend that written documentation address how pass through transactions among entities should be accounted for.

Management Response

Management will address and continuously strive to improve the timely execution of related party agreements.

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2019

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

2019-002. User Access Review – Other Matter

2018-001. Repeated and Modified

Condition

In 2018, we identified that controls over user access were not operating effectively. In 2019, management adopted procedures to complete and document user account reviews. These policies and procedures were implemented in the latter half of the fiscal year and we noted the following:

- For the period of July 1, 2018 to May 29, 2019, user access reviews for the IDX system were not inclusive of the entire IDX population as only a portion of users are randomly selected for the annual review. The documentation of the review of the complete population of users was not maintained to evidence that the control process took place such that it could be re-performed.
- Seven terminated user retained active accounts in Lawson system as of the date of testwork. We verified that these employees did not record any activity in Lawson subsequent to their termination.
- One terminated user retained active accounts in the IDX system as of the date of testwork. We verified that this employee did not record any activity in IDX subsequent to their termination.

Criteria

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

Effect

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

Cause

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

Recommendation

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

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

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2019

Management Response

At the time of the audit, IT was following two steps to terminate and control user access. First, upon receipt of a separation notice from HR, the user's IDX is terminated. Second, on an annual basis, a complete list of employees with active IDX accounts is distributed to department managers and supervisors; IDX accounts are then deactivated for employees identified as separated or who no longer require access to IDX.

Two additional procedures have since been added:

1. Each month IT receives a list of separated employees from HR, and from this list they review the Active Directory, IDX and OpenVMS accounts to ensure separated users no longer have access
2. On a monthly basis, IDX accounts with no activity for 90 days will be deactivated.

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

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings
Fiscal year ended June 30, 2019

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

Current Status: Repeated and modified as finding 2019-001

Finding 2018-002. User Access Review - Other Matter

Current Status: Repeated and modified as finding 2019-002

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Exit Conference
Fiscal year ended June 30, 2019

An exit conference was conducted on October 16, 2019 with a member of the board of directors and members of UNMMG management. During this meeting, the contents of this report were discussed with the following board members, management personnel, and KPMG LLP representatives present:

Dr. Robert Schenck	Chair – Department of Orthopedics
Chris Pacheco	Audit Committee Chair
Jill C. Klar	Chief Executive Officer
Marjorie Goldstein	Sr. Vice President & Chief Financial Officer
Jared Udall	Sr. Executive Director/Controller
Purvi Mody	Executive Director, Internal Audit
Dr. Robb McLean	Chief Medical Officer
Mary Swanson	Executive Director Finance
Arthur Culpepper, Ph.D.	HSC Chief Compliance Officer
Aubrey Hernandez	Internal Audit, UNM
Cory McDowell	Assistant University Counsel
Suzette Longfellow	Managing Director, KPMG LLP
Jaime Cavin	Managing Director, KPMG LLP
Ruth Senior	Senior Manager, KPMG LLP