



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

Financial Statements and Other Information

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Fiscal Year 2009 Official Roaster

**Board of Directors**

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<b>Paul Roth, M.D.</b> Albuquerque, New Mexico	Executive Vice President (Regent appointed) UNM Health Sciences Center Dean, UNM School of Medicine Chairman of the Board, UNMMG President and CEO, UNMMG
<b>Robert Katz, M.D.</b> Albuquerque, New Mexico	Senior Associate Dean of Clinical Affairs (Regent appointed) Chief Operating Officer, UNMMG
<b>John “Mel” Eaves</b> Albuquerque, New Mexico	UNM Regent (Regent appointed)
<b>Doug Brown</b> Albuquerque, New Mexico	Independent, non-UNM Faculty (Regent appointed)
<b>Gerald Landgraf</b> Albuquerque, New Mexico	Independent, non-UNM Faculty (Regent appointed)
<b>John Wills, M.D.</b> Albuquerque, New Mexico	Chair, Anesthesiology (Regent appointed)
<b>Cheryl Willman, M.D.</b> Albuquerque, New Mexico	Director, CRTIC (Regent appointed)
<b>R. Steven Padilla, M.D.</b> Albuquerque, New Mexico	Chair, Dermatology (Regent appointed)
<b>Michael Richards, M.D.</b> Albuquerque, New Mexico	Chair, Emergency Medicine (Regent appointed)
<b>Martha McGrew, M.D.</b> Albuquerque, New Mexico	Chair, Family & Community Medicine (Regent appointed)
<b>Pope Moseley, M.D.</b> Albuquerque, New Mexico	Chair, Internal Medicine (Regent appointed)
<b>Gary Rosenburg, M.D.</b> Albuquerque, New Mexico	Chair, Neurology (Regent appointed)
<b>Howard Yonas, M.D.</b> Albuquerque, New Mexico	Chair, Neurosurgery (Regent appointed)
<b>William Rayburn, M.D.</b> Albuquerque, New Mexico	Chair, OB/GYN (Regent appointed)

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**Board of Directors**

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<b>Robert Schenk, M.D.</b> Albuquerque, New Mexico	Chair, Orthopedics (Regent appointed)
<b>Thomas Williams, M.D.</b> Albuquerque, New Mexico	Chair, Pathology (Regent appointed)
<b>Loretta Cordova de Ortega, M.D.</b> Albuquerque, New Mexico	Chair, Pediatrics (Regent appointed)
<b>Sam Keith, M.D.</b> Albuquerque, New Mexico	Chair, Psychiatry (Regent appointed)
<b>Philip Wiest, M.D.</b> Albuquerque, New Mexico	Chair, Radiology (Regent appointed)
<b>John Russell, M.D.</b> Albuquerque, New Mexico	Chair, Surgery (Regent appointed)
<b>Nonvoting Directors:</b>	
<b>Stephen McKernan,</b> Albuquerque, New Mexico	Chief Executive Officer, UNMH
<b>Jeffrey Griffith, Ph.D.</b> Albuquerque, New Mexico	Executive Dean, UNM School of Medicine
<b>David Pitcher, M.D.</b> Albuquerque, New Mexico	Executive Medical Director of Inpatient Operations
<b>Carolyn Voss, M.D.</b> Albuquerque, New Mexico	Executive Medical Director of Ambulatory Care Operations
<b>David Gonzales, M.D.</b> Albuquerque, New Mexico	Executive Medical Director of Quality/Safety
<b>Ed Rose, M.D.</b> Albuquerque, New Mexico	Executive Medical Director of Children Services

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Financial Statements and Other Information

June 30, 2009 and 2008

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**KPMG LLP**  
Suite 700  
Two Park Square  
6565 Americas Parkway NE  
PO Box 3990  
Albuquerque, NM 87190

## **Independent Auditors' Report**

The Board of Directors  
UNM Medical Group, Inc.  
and  
Mr. Hector Balderas, State Auditor:

We have audited the accompanying statements of net assets of the UNM Medical Group, Inc. (UNMMG), a component unit of the University of New Mexico as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of UNMMG's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UNMMG's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of UNMMG as of June 30, 2009 and 2008, and the respective changes in financial position, and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2009 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise UNMMG's basic financial statements. The accompanying schedules of pledged collateral by banks and deposit and investment account balances (schedules 1 and 2, respectively) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of pledged collateral by banks and deposit and investment account balances have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

November 13, 2009

**UNM MEDICAL GROUP, INC.**  
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Management's Discussions and Analysis

June 30, 2009 and 2008

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, 2009 and 2008. 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 (GASB). As a special purpose government engaged in business type activities, UNMMG's financial statements present financial information in a form similar to that used by corporations. They are prepared under the accrual basis of accounting, whereby revenues are recognized when the service is provided, and expenses are recognized when others provide the service, regardless of when cash is exchanged.

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

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

The statement of cash flows presents information related to cash inflows and outflows summarized by operating, capital and noncapital financing, and investing activities, which helps measure the ability to meet financial obligations as they mature.

**Overview of Entity**

In June of 2007, Regents of the University of New Mexico (UNM) and the faculty members of University Physicians Associates (UPA) voted to approve the merger of UPA into the newly formed UNMMG, a New Mexico nonprofit corporation organized under and pursuant to the New Mexico University Research Park and Economic Development Act. The purpose of the merger was to align the clinical, educational, and operational mission of the UPA with the strategic goals of the University of New Mexico Health Sciences Center (UNM HSC) in advancing leading healthcare services across New Mexico through the establishment of an integrated medical practice. The effective date of the merger was July 1, 2007. At the effective date, all the property, rights, privileges, debts, liabilities, and duties of the UPA were assumed by the UNMMG. Therefore UNMMG assumed all assets and liabilities of UPA as of July 1, 2007, which were recorded by UNMMG as the beginning balances for fiscal year 2008. As UPA's assets equaled its liabilities there were no net assets assumed by UNMMG. UNMMG is the surviving corporation and the Regents of UNM are its sole members. Pursuant to an agreement with the UNM Regents, UNMMG is responsible for the practice oversight and management of the professional medical practice of the University of New Mexico.

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June 30, 2009 and 2008

**Condensed Summary of Net Assets**

	<b>June 30</b>	
	<b>2009</b>	<b>2008</b>
Assets:		
Current assets	\$ 32,297,312	34,053,524
Capital assets	1,211,830	505,316
Other noncurrent assets	7,410,400	4,487,900
Total assets	<u>40,919,542</u>	<u>39,046,740</u>
Liabilities:		
Current liabilities	<u>20,778,373</u>	<u>23,531,434</u>
Total liabilities	<u>20,778,373</u>	<u>23,531,434</u>
Net assets:		
Invested in capital assets	1,211,830	505,316
Unrestricted	<u>18,929,339</u>	<u>15,009,990</u>
Total net assets	<u>\$ 20,141,169</u>	<u>15,515,306</u>

Pursuant to the merger described previously, UNMMG assumed all assets and liabilities of UPA as of July 1, 2007, which were recorded as the beginning balances for fiscal year 2008.

Current assets included cash and other assets that were deemed to be consumed or convertible to cash within one year. As of June 30, 2009, total current assets of \$32.3 million consisted primarily of \$14.1 million of cash and cash equivalents compared to \$34.1 million in total current assets and \$16.1 million of cash and cash equivalents at June 30, 2008. Net patient receivables in 2009 were \$16.8 million and \$17.2 million in 2008. Noncurrent assets represent capital assets in 2009 of \$1.2 million and other assets of \$7.4 million compared to \$0.5 million and other assets of \$4.5 million in 2008. Noncurrent assets primarily consist of board designated investments in cash and cash equivalents and certificates of deposit.

Current liabilities are generally defined as amounts due within one year. As of June 30, 2009, total current liabilities of \$20.8 million include purchased services payable to UNM HSC of \$16.7 million compared to \$23.5 million and \$19.7 million in 2008, respectively. Also included in current liabilities are amounts payable to UNM for operating expenses in the amount of \$1.4 million and other current liabilities of \$2.7 million compared to \$2.0 million and \$1.8 million in 2008, respectively.

At June 30, 2009, UNMMG's current ratio, the amount of current assets available to cover current liabilities, was 1.55. UNMMG's current ratio at June 30, 2008 was 1.45. Payment of UNMMG's current liabilities is dependent on UNMMG's ability to collect patient and other receivables.

Total net assets increased \$4.6 million from \$15.5 million at June 30, 2008 to \$20.1 million at June 30, 2009, due to the excess of revenue over expenses in 2009 of \$4.6 million, which included operating income of \$4.5 million and interest income of \$0.1 million.



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Management's Discussions and Analysis

June 30, 2009 and 2008

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

	<u>2009</u>	<u>2008</u>
Net operating revenues	\$ 102,761,627	87,867,917
Operating expenses:		
Purchased clinical services	74,471,673	65,992,167
Salaries and benefits	9,222,772	7,110,700
Other	14,573,359	10,151,348
Total operating expenses	<u>98,267,804</u>	<u>83,254,215</u>
Operating income	<u>4,493,823</u>	<u>4,613,702</u>
Nonoperating revenues:		
Interest income	132,040	445,683
Forgiveness of liability due to UNM HSC	<u>—</u>	<u>10,455,921</u>
Total nonoperating revenues	<u>132,040</u>	<u>10,901,604</u>
Change in net assets	4,625,863	15,515,306
Net Assets, beginning of year	<u>15,515,306</u>	<u>—</u>
Net Assets, end of year	<u>\$ 20,141,169</u>	<u>15,515,306</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 service revenues for 2009 increased \$14.9 million from \$87.9 million in 2008 to \$102.8 million in 2009, reflecting an increase of 17%. The increase in net operating revenues is due to three factors: (1) An increase in patient service volume. UNMMG measures patient service volume in work relative value units (WRVUs). WRVUs were 2,047,814, which represent an increase of 156,317 or 8.3% from 2008. (2) In 2009, UNMMG negotiated rate increases among our commercial insurance payors resulting in an overall weighted average increase of 4.2%. (3) An increase in reimbursement for the State Coverage Initiative (SCI) program.

UNMMG receives reimbursement from the SCI program. This program is part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico Human Services Department (HSD). Funding is modeled after a capitated payment program. UNMMG receives a pro rata portion of SCI reimbursement net of costs based on claim experience. For the year ending June 30, 2009, UNMMG recognized \$6.4 million in revenues, which represents a \$2.8 million increase from 2008.

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Management's Discussions and Analysis

June 30, 2009 and 2008

A condensed summary of the net operating revenue calculation follows:

	<u>2009</u>	<u>2008</u>
Patient service charges billed at established rates, including charity care	\$ 276,745,462	239,464,023
Adjustments to charges:		
Contractual adjustments	(107,974,791)	(92,313,513)
Charity care	(45,583,724)	(39,121,826)
Net patient billings	123,186,947	108,028,684
Provision for uncollectible accounts	(21,024,317)	(21,029,154)
Net patient service revenues	102,162,630	86,999,530
Other revenue	598,997	868,387
Total net operating revenues	<u>\$ 102,761,627</u>	<u>87,867,917</u>

UNMMG encourages all patients to apply for financial assistance. UNMMG participates in the financial assistance program called UNM care. This program assigns patients 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 235% of the federal poverty level. As of June 30, 2009, and 2008, there were 24,697, and 20,464 active enrollees, respectively. UNMMG does not pursue collection of amounts determined to qualify as charity care, they are deducted from gross revenue. For the year ending June 30, 2009, revenue foregone for charity care was \$45.6 million compared to \$39.1 million in 2008. Costs associated with providing charity care and other services for which payment is not received were \$29.3 million compared to \$25.3 million in 2008.

UNMMG also provides services to patients who do not have any form of health care insurance or do not qualify under any other financial assistance program. UNMMG encourages 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 fully reserved and recorded as provision for uncollectible accounts. UNMMG recorded \$21.0 million in provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts for both years ending June 30, 2009 and 2008.

Total operating expenses of \$98.3 million for the year ended June 30, 2009 and \$83.3 million for the year ended June 30, 2008 consisted primarily of cost related to the purchase of clinical services from UNM HSC and the associated Dean's tax from the School of Medicine (SOM), which totaled \$79.5 million in 2009 and \$70.2 million in 2008. These two factors accounted for \$9.3 million in increased expense. Other expense increases were attributable to salaries and benefits expense of \$2.1 million, shift of medical malpractice expense of \$2.9 million from the SOM, and patient registration and support costs of \$0.7 million.

UNM HSC and SOM allocate the administrative support costs in exchange for administrative services provided to the clinical departments and UNMMG via the assessment of a dean's and gap tax. In 2009, UNM HSC eliminated the gap tax assessment to UNMMG. The dean's tax is a fixed percentage assessment on clinical revenues assessed by the SOM equal to approximately \$5.1 million in 2009 and \$4.2 million in 2008 reported on

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the statement of revenues, expenses, and changes in net assets. The gap tax assessed to UNMMG in 2008 was approximately \$0.4 million included in other administrative expenses reported on the statement of revenues, expenses, and changes in net assets.

In 2009, UNMH provided funding to UNMMG in the amount of \$0.9 million for the support of two UNMMG departments who provide direct operational support services to UNMH. The amount of funding provided is negotiated annually. This funding was not provided in 2008.

Nonoperating revenues of \$0.1 million for the year ended June 30, 2009 and \$0.4 million for the year ended June 30, 2008 consisted principally of interest income on certificates of deposit and U.S. Treasury bills.

**Capital Assets**

At June 30, 2009, UNMMG had \$1.2 million invested in capital assets, net of accumulated depreciation of approximately \$2.7 million compared to \$0.5 million and \$2.4 million at June 30, 2008. Capital assets consist primarily of furniture and equipment. Capital assets used to provide clinical services are owned by the University of New Mexico Hospital (UNMH) and are not reported on UNMMG's financial statements.

**Change in Net Assets**

UNMMG's change in net assets reflected a net increase of \$4.6 million from 2008 to 2009 due to operating income of \$4.5 million and interest income of \$0.1 million.

**Other Matters**

UNMMG continues to pursue initiatives to expand clinical services into Sandoval County. In August 2009, the Regents of the University of New Mexico approved the formation of the UNM Sandoval Regional Medical Center, Inc. (SRMC), a New Mexico nonprofit corporation organized under and pursuant to the New Mexico University Research Park and Economic Development Act. The creation of SRMC is largely a result of collaborative efforts between UNMMG and UNMH and, accordingly, UNMMG and UNMH shall have representation on its board. SRMC is currently seeking financing to build the new acute care community teaching facility and Medical Office Building in Sandoval County. In September 2009, SRMC submitted a pre-application with HUD through an FHA-Insured Mortgage Revenue Bond.

**Factors Impacting Future Periods**

In the fall of 2009, Congress will be addressing the president's healthcare reform initiative. The key elements of this reform initiative are (1) to provide universal healthcare coverage to those Americans who are currently uninsured, and (2) to establish cost containment measures for escalating healthcare costs over future years. Finalized plans or acts have not been passed at this time.

The Centers for Medicare and Medicaid Services (CMS) also issued proposed changes to the Medicare Physician Fee Schedule (MPFS) for 2010. After reviewing public comments, CMS will publish a final rule by November 1, 2009, to become effective for services furnished beginning January 1, 2010. Finalized information is not available at this time.

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June 30, 2009 and 2008

**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 the UNMMG's Controller's office at 933 Bradbury Street SE, Suite 2222 Albuquerque, NM 87106-410.

**UNM MEDICAL GROUP, INC.**  
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Statements of Net Assets  
June 30, 2009 and 2008

<b>Assets</b>	<u><b>2009</b></u>	<u><b>2008</b></u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 14,146,683	16,091,416
<b>Receivables:</b>		
Net patient receivables (net of allowance for uncollectible accounts of \$14,795,725 and contractual allowance of \$12,909,396 in 2009; \$15,366,860 and \$13,589,012 in 2008, respectively)	16,811,341	17,243,494
Other	1,339,288	718,614
Total net receivables	<u>18,150,629</u>	<u>17,962,108</u>
Total current assets	<u>32,297,312</u>	<u>34,053,524</u>
<b>Noncurrent assets:</b>		
<b>Board designated assets:</b>		
Cash and cash equivalents (note 5)	6,397,871	3,313,168
Investments (note 5)	966,538	957,755
Total board designated assets	<u>7,364,409</u>	<u>4,270,923</u>
Capital assets, net (note 6)	1,211,830	505,316
Other assets	45,991	216,977
Total noncurrent assets	<u>8,622,230</u>	<u>4,993,216</u>
Total assets	<u>\$ 40,919,542</u>	<u>39,046,740</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Purchased services payable due to UNM HSC (note 12)	\$ 16,679,565	19,700,345
Operating expenses due to UNM (note 12)	1,434,391	2,021,407
Accrued liabilities (note 8)	2,090,487	1,347,938
Refunds payable (note 7)	573,930	461,744
Total current liabilities	<u>20,778,373</u>	<u>23,531,434</u>
<b>Commitments and contingencies (notes 14, 15, and 16)</b>		
<b>Net assets:</b>		
Invested in capital assets	1,211,830	505,316
Unrestricted	18,929,339	15,009,990
Total net assets	<u>20,141,169</u>	<u>15,515,306</u>
Total liabilities and net assets	<u>\$ 40,919,542</u>	<u>39,046,740</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 Changes in Net Assets  
Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Patient service revenues, net (note 10)	\$ 102,162,630	86,999,530
Other revenue	598,997	868,387
Total net operating revenues	<u>102,761,627</u>	<u>87,867,917</u>
Operating expenses:		
Purchased clinical services from UNM HSC	74,471,673	65,992,167
Salaries and benefits	9,222,772	7,110,700
Dean's tax (note 12)	5,051,438	4,203,776
Malpractice insurance (note 9)	4,720,045	1,838,403
Other administrative	1,677,090	2,090,222
Patient registration and enrollment support	1,194,691	528,698
Data processing costs	894,138	662,728
Occupancy	412,664	236,159
Depreciation and amortization	333,918	344,755
Consulting	289,375	246,607
Total operating expenses	<u>98,267,804</u>	<u>83,254,215</u>
Operating income	<u>4,493,823</u>	<u>4,613,702</u>
Nonoperating revenues:		
Interest income	132,040	445,683
Forgiveness of liability due to UNM HSC (note 1)	—	10,455,921
Total nonoperating revenues	<u>132,040</u>	<u>10,901,604</u>
Change in net assets	4,625,863	15,515,306
Net assets, beginning of year	<u>15,515,306</u>	—
Net assets, end of year	<u>\$ 20,141,169</u>	<u>15,515,306</u>

See accompanying notes to financial statements.

**UNM MEDICAL GROUP, INC.**  
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Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Payments from insurance and patients	\$ 102,685,293	83,208,289
Payments to UNM	(86,521,387)	(57,048,144)
Payments to employees	(7,874,571)	(5,546,980)
Payments for employee benefits	(2,427,497)	(1,822,814)
Payments to suppliers	(3,975,679)	(4,787,936)
Other receipts (payments)	170,986	(130,900)
	<u>2,057,145</u>	<u>13,871,515</u>
Net cash provided by operating activities	<u>2,057,145</u>	<u>13,871,515</u>
Cash flows from capital financing activities – purchase of capital assets	<u>(1,040,432)</u>	<u>(404,195)</u>
Cash flows from investing activities:		
Investment income	132,040	445,683
Proceeds from maturity of investments	957,755	—
Purchases of investments	(966,538)	(957,755)
	<u>123,257</u>	<u>(512,072)</u>
Net cash provided by (used in investing activities)	<u>123,257</u>	<u>(512,072)</u>
Net increase in cash and cash equivalents	<u>1,139,970</u>	<u>12,955,248</u>
Cash and cash equivalents, beginning of year	<u>19,404,584</u>	<u>6,449,336</u>
Cash and cash equivalents, end of year	<u>\$ 20,544,554</u>	<u>19,404,584</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 4,493,823	4,613,702
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	333,918	344,755
Provision for doubtful accounts	21,024,316	21,029,155
Changes in assets and liabilities:		
Patient receivables	(20,592,163)	(26,220,594)
Other receivables	(620,674)	389,783
Purchase services due to UNM HSC	(3,020,780)	19,700,345
UPA distribution payable to UNM HSC	—	(5,614,902)
Operating expense due to UNM	(587,016)	(259,094)
Accrued liabilities	742,549	(122,765)
Refunds payable	112,186	142,030
Other assets	170,986	(130,900)
	<u>\$ 2,057,145</u>	<u>13,871,515</u>

Noncash investing, capital and financing activities:

During 2008, liabilities assumed from UPA related to all distributions of clinical revenues due to UNM HSC as of June 30, 2007 were forgiven in the amount of \$10,455,921. This forgiveness is reported as nonoperating revenue on the statement of revenues, expenses, and changes in net assets.

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2009 and 2008

**(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 scientific, 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.

In June of 2007, Regents of the UNM and the faculty members of University Physicians Associates (UPA) voted to approve the merger of UPA into the newly formed UNMMG, a New Mexico nonprofit corporation organized under and pursuant to the New Mexico University Research Park and Economic Development Act. The purpose of the merger was to align the clinical, educational, and operational mission of the UPA with the strategic goals of the UNM HSC in advancing leading healthcare services across New Mexico through the establishment of an integrated medical practice. The effective date of the merger was July 1, 2007. At the effective date, all the property, rights, privileges, debts, liabilities, and duties of the UPA were assumed by the UNMMG. Therefore, UNMMG assumed all assets and liabilities of UPA as of July 1, 2007, which were recorded by UNMMG as the beginning balances for fiscal year 2008. As UPA's assets equaled its liabilities there were no net assets assumed by UNMMG. UNMMG is the surviving corporation and the Regents of UNM are its sole members. Pursuant to an agreement with UNM Regents, UNMMG is responsible for the practice oversight and management of the professional medical practice of UNM.

In 2008, liabilities assumed from UPA related to distributions of clinical revenues due to UNM HSC as June 30, 2007 were forgiven in the amount of \$10,455,921. This forgiveness is reported as nonoperating revenue on the statement of revenues, expenses, and changes in net assets.

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 using the economic resources measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB). As a special purpose government engaged in business type activities, UNMMG's financial statements present financial information in a form similar to that used by corporations.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, UNMMG has elected not



**UNM MEDICAL GROUP, INC.**  
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June 30, 2009 and 2008

to apply Statements on Financial Accounting Standards issued by the Financial Accounting Standards Board (FASB) after November 1989.

**(b) Net Assets**

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

- *Invested in capital assets* – capital assets, net of accumulated depreciation.
- *Unrestricted* – net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the UNMMG Board of Directors (the Board).

**(c) Use of Estimates**

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

**(d) Cash and Cash Equivalents**

UNMMG considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. One hundred percent (100%) of the deposit balance at June 30, 2009 was guaranteed under the FDIC Temporary Liquidity Guarantee Program and securities held in the name of UNMMG; and One hundred percent (100%) of the deposit balance at June 30, 2008 was collateralized with securities held in the name of UNMMG.

**(e) Revenue Recognition and Net Patient Receivables**

UNMMG revenue is a result of providing professional medical services to patients in healthcare facilities of the UNM HSC and other locations contracted with UNM.

Net patient revenue 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.

Self-pay patients are referred to and re-classified under financial assistance programs when applicable. Other discounts exist based on income earning levels if no other financial assistance programs are available. UNMMG utilizes an extended business office vendor to manage the collection of self-pay accounts using various payment arrangements. All self pay accounts regardless of days outstanding are fully reserved.

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

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June 30, 2009 and 2008

Allowances for contractual adjustments and doubtful accounts are based on an analysis of historical collectibility of patient accounts.

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

UNMMG, as part of UNM HSC, participates in the SCI program. This program is part of the New Mexico SCI Medicaid plan, funded in part by the State of New Mexico Human Services Department (HSD). Funding is modeled after a capitated payment program. UNMMG receives a pro rata portion of SCI reimbursement net of costs based on claim experience.

**(f) Capital Assets**

Capital assets consist primarily of furniture and equipment and are stated at cost at the date of acquisition. Capital assets with a cost of \$5,000 or greater are capitalized and depreciated over useful lives ranging from three to five years. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Repairs and maintenance costs are charged to expense as incurred. 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) Operating Revenues and Expenses**

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

**(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 deducted from gross revenue.

**(i) 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 the 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 is billed monthly by UNM HSC. In the event that additional funding is required to support the clinical, educational, and research mission of the SOM, the executive committee of the UNMMG 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, 2009 and 2008

**(j) Salaries and Benefits**

In 2009, UNMMG established its own payroll system allowing for the transition of employees from UNM and the hiring of employees directly into UNMMG. Employees working at UNMMG at June 30, 2008, were given the option to convert to a UNMMG employee or remain a UNM employee. On July 1, 2008, 32 of the 162 UNM employees transitioned to UNMMG. At June 30, 2009, there were 85 UNMMG and 105 UNM employees. For those employees who remained with UNM, 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 the monthly operating expense invoice. UNMMG does not have any further obligation or responsibility to pay these individuals beyond the allocated cost from UNM. For UNMMG employees, substantially all of the same benefits offered to UNM employees were made available to UNMMG employees except for retirement benefits. A defined contribution plan was established for UNMMG employees effective July 1, 2009. See note 13 for further discussion.

**(k) Income Taxes**

UNMMG is a governmental not-for-profit organization. UNMMG has filed with the Internal Revenue Service for classification of exemption from federal and state income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code; however income generated from activities unrelated to the UNMMG's exempt purpose is subject to income taxes under Internal Revenue Code Section 511(a)(2)(B). For the years ended 2008 and 2009 there was no income generated unrelated to the UNMMG's exempt purpose.

**(l) Reclassifications**

Certain reclassifications were made to prior year financial statements to conform to the current year presentation.

**(3) 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.

In November 2008, the FDIC Board of Directors approved the establishment of the Temporary Liquidity Guarantee Program. The FDIC created this program to strengthen confidence and encourage liquidity in the banking system by guaranteeing newly issued senior unsecured debt of banks, thrifts, and certain holding companies, and by providing full coverage of non-interest bearing deposit transaction accounts, regardless of dollar amount.

**UNM MEDICAL GROUP, INC.**  
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June 30, 2009 and 2008

Bank balances are categorized as follows:

	<b>2009</b>
Operating account	\$ 20,953,630
Savings account	22,544
Total bank balances	\$ 20,976,174
Amount insured by FDIC	\$ 20,976,174
Amount collateralized with securities held in UNMMG's name	10,071,256

**(4) Concentration of Risk**

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

	<b>2009</b>	<b>2008</b>
Medicare and Medicaid	53%	55%
Commercial insurance	35	33
Other	12	12
	100%	100%

**(5) Board Designated Assets**

Board designated assets are classified in the accompanying statements of net assets as noncurrent assets, as these assets are designated by the Board for future use subject to approval by the Board. At June 30, 2009, and 2008, these assets are comprised of investments in certificates of deposit recorded at cost, which approximated fair value, and cash and cash equivalents and were collateralized with securities held in the name of UNMMG.

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

**UNM MEDICAL GROUP, INC.**  
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Notes to Financial Statements

June 30, 2009 and 2008

Assets are designated for the following purposes:

	<b>2009</b>	<b>2008</b>
Hardware and technology	\$ 756,638	1,463,152
Quality withhold	900,000	600,000
Investment withhold	5,707,771	2,207,771
Total board designated assets	\$ 7,364,409	4,270,923

**(6) Capital Assets**

Activity in capital assets which consists of furniture and equipment is summarized as follows:

	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Net</b>
Balance, July 1, 2007	\$ 2,519,373	2,073,497	445,876
Additions	404,195	344,755	59,440
Deletions	(61,436)	(61,436)	—
Balance, June 30, 2008	\$ 2,862,132	2,356,816	505,316
Balance, July 1, 2008	\$ 2,862,132	2,356,816	505,316
Additions	1,040,432	333,918	706,514
Deletions	—	—	—
Balance, June 30, 2009	\$ 3,902,564	2,690,734	1,211,830

**(7) Refunds Payable**

Refunds payable are amounts received in error from third-party payors and/or payments on accounts receivable in excess of the patient account balance. At June 30, 2009, and 2008, refunds payable were \$573,930 and \$461,644, respectively.

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**(8) Accrued Liabilities**

Accrued liabilities consisted of the following at June 30:

	<b>2009</b>	<b>2008</b>
Accrued operating expenses	\$ 692,066	109,403
Accrued leave	388,907	226,889
Indigent distribution due to UNM HSC	360,909	425,843
Due to UNMH	259,173	340,486
Due to UNM Cancer Center	177,377	—
Unclaimed property	162,890	160,250
Other	49,165	85,067
	\$ 2,090,487	1,347,938

During the year ended June 30, 2009, and 2008, the following changes occurred in accrued leave:

	<b>Balance July 1, 2007</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2008</b>
\$	240,682	436,284	(450,077)	226,889
	<b>Balance June 30, 2008</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance June 30, 2009</b>
\$	226,889	601,416	(439,398)	388,907

**(9) Malpractice Insurance**

As a New Mexico University Research Park and Economic Development Act corporation, the UNMMG enjoys sovereign immunity from suit for tort liability except as waived by the New Mexico legislature. In this connection, under the New Mexico Tort Claims Act, the New Mexico Legislature waived the State's and the UNMMG's sovereign immunity for claims arising out of negligence out of operation of the 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 the UNMMG on any tort. In this connection, 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 the UNMMG. The New Mexico Tort Claims Act requires the Risk Management Division of the State of New Mexico General Services Department (State RMD) to provide coverage to the UNMMG through UNM HSC for those torts where the Legislature has waived the State's sovereign immunity up to the damages limits of the New Mexico Tort Claims Act plus the cost incurred in

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June 30, 2009 and 2008

defending any claims and/or lawsuits (including attorney's fees and expenses), with no deductible and with no self-insured retention by the UNMMG. As a result of the foregoing, the UNMMG is fully covered for claims and/or lawsuits and does not have any responsibility for claims beyond this premium. The UNMMG is allocated a portion of the premium assessed by the State to UNM HSC for this coverage which is reported as medical malpractice insurance expense on the statement of revenues, expenses, and changes in net assets.

**(10) Patient Service Revenues**

UNMMG generates net operating revenues through the billing and collection of professional services rendered. The majority of UNMMG revenue is generated through agreements with third party payors who provide reimbursement at amounts different from established gross charges. Contractual adjustments resulting from these agreements to provide services for amounts that differ from billed charges, including services under Medicare, Medicaid, and certain managed care programs, are recorded as deductions from patient revenues. Accounts, when determined to be uncollectible, are charged against the allowance for uncollectible accounts.

Approximately 76% of UNMMG's gross patient revenue for the year ended June 30, 2009 was derived from third party payors compared to 77% in 2008. Of this, Medicare and Medicaid represented approximately 49% in 2009 compared 48% in 2008. 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 are dependent upon federal and state government policies and funding. There is a reasonable possibility that future revenue streams would be impacted as a result regulatory policy changes.

*Managed Care Contracts* – UNMMG has also entered into contractual agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The reimbursement of professional services are 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 follows for the years ended June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Patient service charges billed at established rates, including charity care	\$ 276,745,462	239,464,623
Adjustments to charges:		
Contractual adjustments	(107,974,791)	(92,313,513)
Charity care	(45,583,724)	(39,121,826)
Net patient billing	<u>123,186,947</u>	<u>108,029,284</u>
Provision for uncollectible accounts	(21,024,317)	(21,029,154)
Net patient service revenues	<u>\$ 102,162,630</u>	<u>87,000,130</u>

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**(11) Charity Care**

UNMMG maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the years ended June 30, 2009 and 2008:

	<b>2009</b>	<b>2008</b>
Charges forgone, based on established rates	\$ 45,583,724	39,121,826
Estimated costs and expenses incurred to provide charity care	20,031,517	16,431,167
Equivalent percentage of charity care to total gross revenue	16.30%	16.18%

**(12) Related-Party Transactions**

UNMMG 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 the 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. In the event that additional funding is required to support the clinical, educational, and research mission of the SOM, the executive committee of the UNMMG will determine and approve the purchase of any additional services. For the years ended June 30, 2009 and 2008, UNMMG purchased services in the amounts of approximately \$74.5 million and \$66.0 million, respectively, which is recorded as an operating expense on the statements of revenues, expenses, and changes in net assets. The related unpaid amounts of approximately \$16.7 million and \$19.7 million at June 30, 2009 and 2008, respectively, are reported as a current liability on the statements of net assets.

UNM processes payroll and various other expenses through its business office on behalf of UNMMG. UNMMG reimburses UNM for the expenses. For the years ended June 30, 2009 and 2008, UNMMG's liabilities for these expenses were approximately \$1.4 million and \$2.0 million, respectively, and are reported as a current liability on the statements of net assets. The related expenses are reported as operating expenses within the appropriate categories on the statements of revenues, expenses, and changes in net assets.

UNMH performs patient registration, Medicaid eligibility, and certain computer operation services on behalf of UNMMG. UNMMG reimburses UNMH for the cost of these services, which for the years ended June 30, 2009 and 2008 was approximately \$1.2 million and \$0.5 million, respectively, and is reported as patient registration and enrollment support expense on the statements of revenues, expenses, and changes in net assets. The related outstanding amount of approximately \$0.3 million for both 2009 and 2008 is reported in accrued liabilities on the statements of net assets.

UNMH processes certain transactions using a computer and software resources owned by UNMMG. UNMH reimburses UNMMG for the estimated cost of the use of the computer and software. For the years ended June 30, 2009 and 2008, UNMH reimbursed UNMMG approximately \$0.2 million and \$0.3 million,



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respectively, which is reported as an offset of data processing costs on the statements of revenues, expenses, and changes in net assets.

In 2009, UNMH provided funding to UNMMG in the amount of \$0.9 million for the support of two UNMMG departments who provide direct operational support services to UNMH. The amount of funding provided is negotiated annually. This funding was not provided in 2008.

UNM HSC and SOM allocate administrative support costs in exchange for administrative services provided to the clinical departments and the UNMMG via the assessment of a tax called gap tax and dean's tax, respectively. In 2009, UNM HSC eliminated the gap tax assessment to UNMMG. The dean's tax is a fixed percentage assessment on clinical revenues assessed by the SOM equal to approximately \$5.1 million and \$4.2 million for the years ended June 30, 2009 and 2008, respectively, and is reported on the statements of revenues, expenses, and changes in net assets. The gap tax was a fixed annual amount assessed by UNM HSC administration equal to approximately \$0.4 million in 2008 included in other administrative expenses reported on the statements of revenues, expenses, and changes in net assets.

UNMMG reimburses UNM HSC for the collections from third parties related to the indigent care services provided by UNMMG during the fiscal year. The related outstanding amount of approximately \$0.4 million for both 2009 and 2008 is reported in current liabilities on the statements of net assets.

UNMMG leases office space under an operating lease agreement with UNMH. See note 14 for further discussion.

**(13) Benefit Plans**

UNMMG has a defined contribution plan covering eligible UNMMG paid employees. UNMMG provides a dollar for dollar match up to 6% of employees elective deferral. In addition, UNMMG may contribute up to a 4% discretionary contribution of an employee's salary to the plan. The plan was established on July 1, 2008 by the Board of Directors of UNMMG and can be amended at its discretion. Total benefit contribution for the year ended June 30 2009 were \$265,620. Employees paid under UNM participate in the defined benefit retirement plan under the Educational Retirement Act of the State of New Mexico.

**(14) Operating Leases**

UNMMG leases office space under an operating lease agreement with UNMH that expires September 30, 2009. UNMMG is also committed under facility lease arrangements related to the clinics established under UNMMG.

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June 30, 2009 and 2008

Future minimum lease payments are as follows:

Years ending June 30:		
2010	\$	184,655
2011		104,266
2012		<u>106,784</u>
Total minimum lease payments	\$	<u><u>395,705</u></u>

Rent expense for the years ended June 30, 2009 and 2008 was \$412,664 and \$236,159, respectively.

**(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 (the State) for all insurable risks and employee benefits. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded coverage in the past three years. UNMMG is allocated a portion of the premium assessed by the State to UNM HSC which was \$52,933 for the year ended June 30, 2009 and is reported as an operating expense on the statements of revenues, expenses, and changes in net assets.

**(16) Subsequent Event**

UNMMG continues to pursue initiatives to expand clinical services into Sandoval County. In August 2009, the Regents of the University of New Mexico approved the formation of the UNM Sandoval Regional Medical Center, Inc. (SRMC), a New Mexico nonprofit corporation organized under and pursuant to the New Mexico University Research Park and Economic Development Act. The creation of SRMC is largely a result of collaborative efforts between UNMMG and UNMH and, accordingly, UNMMG and UNMH shall have representation on its board. SRMC is currently seeking financing to build the new acute care community teaching facility and Medical Office Building in Sandoval County. In September 2009, SRMC submitted a pre-application with HUD through an FHA-Insured Mortgage Revenue Bond.

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Pledged Collateral by Banks

June 30, 2009

Deposits per bank (Wells Fargo)	\$	20,976,174
Less FDIC coverage		<u>(20,976,174)</u>
Total uninsured public funds	\$	<u>—</u>
State of New Mexico – collateral requirement – 50%	\$	<u>—</u>
Pledged collateral:		
FNMA, 31409 VDH3, 03/01/2036, 6.0%		4,841,167
FNMA, 31410 EN46, 06/01/2036, 6.0%		4,920,969
GNMA, 36202 DPS4, 09/20/2031, 6.5%		111,693
GNMA, 36202 DT68, 08/20/2032, 6.0%		<u>197,427</u>
Total pledged collateral		<u>10,071,256</u>
Overcollateralized	\$	<u>10,071,256</u>

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

See accompanying independent auditors' report.

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Deposit and Investment Account Balances

June 30, 2009

<u>Account</u>	<u>Type of account</u>	<u>Bank balance</u>	<u>Reconciling items</u>	<u>Book balance</u>
Wells Fargo	Checking	\$ 20,953,630	(431,620)	20,522,010
	Savings	22,544	—	22,544
Total cash		<u>\$ 20,976,174</u>	<u>(431,620)</u>	<u>20,544,554</u>
Investments:				
Wells Fargo	Certificate of deposit	\$ 22,056	—	22,056
Wells Fargo	Certificate of deposit	225,728	—	225,728
Wells Fargo	Certificate of deposit	22,029	—	22,029
Wells Fargo	Certificate of deposit	21,889	—	21,889
Wells Fargo	Certificate of deposit	21,823	—	21,823
Wells Fargo	Certificate of deposit	22,747	—	22,747
Wells Fargo	Certificate of deposit	226,220	—	226,220
Wells Fargo	Certificate of deposit	22,399	—	22,399
Wells Fargo	Certificate of deposit	22,448	—	22,448
Wells Fargo	Certificate of deposit	22,522	—	22,522
Wells Fargo	Certificate of deposit	227,737	—	227,737
Wells Fargo	Certificate of deposit	22,540	—	22,540
Wells Fargo	Certificate of deposit	86,400	—	86,400
Total investments		<u>\$ 966,538</u>	<u>—</u>	<u>966,538</u>

See accompanying independent auditors' report.



**KPMG LLP**  
Suite 700  
Two Park Square  
6565 Americas Parkway NE  
PO Box 3990  
Albuquerque, NM 87190

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

The Board of Directors  
UNM Medical Group, Inc.  
and  
Mr. Hector Balderas, State Auditor:

We have audited the financial statements of the UNM Medical Group, Inc. (UNMMG) as of and for the year ended June 30, 2009, and have issued our report thereon dated November 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered UNMMG's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of UNMMG's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether UNMMG's financial statements are free of 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*.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 13, 2009

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Schedule of Findings and Responses  
Fiscal year ended June 30, 2009

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

There are no current year state compliance or operational findings to report.

The prior year operational finding 2008-1 has been resolved.

**UNM MEDICAL GROUP, INC.**  
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Exit Conference

Fiscal year ended June 30, 2009

**Exit Conference**

An exit conference was conducted on October 1, 2009, 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:

Paul Roth, MD	Chief Executive Officer and Board Chairman
Carolyn Voss, MD	Sr. VP, Medical Director, Executive VP, and COO
Jaime Koch	Audit Committee Chair
Phil Wiest, MD	Audit Committee Member
Gerald Landgraf	Audit Committee Member
Chris Pacheco	Audit Committee Member
Ava Lovell	Vice President, HSC/UNM Finance and University Controller
Anthony R. Masciotra, Jr.	Executive Director, SVP Operations, and CFO
Rodney W. Martinez	AVP – Finance and Financial Controller
Rosella Clifford	Accounting Manager
G. Christine Chavez	Director of Internal Audit, UNM
Cynthia C. Reinhart	Partner, KPMG LLP
Greg Monk	Manager, KPMG LLP