



**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Financial Statements and Other Information  
June 30, 2011 and 2010  
(With Independent Auditors' Report Thereon)

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

2011 Official Roster

**Board of Directors**

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<b>Paul Roth, M.D., MS, FACEP</b> Albuquerque, New Mexico	UNM Health Sciences Center Chancellor for Health Sciences(Regent appointed) Dean, UNM School of Medicine Chairman of the Board, UNMMG President and CEO, UNMMG
<b>Carolyn Voss, M.D.</b> Albuquerque, New Mexico	Senior Associate Dean of Clinical Affairs (Regent appointed) Chief Operating Officer, UNMMG
<b>Chris Pacheco</b> Albuquerque, New Mexico	Independent, non-UNM Faculty (Regent appointed)
<b>Cheryl Willman, M.D.</b> Albuquerque, New Mexico	Director, CRTC (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>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>John Russell, M.D.</b> Albuquerque, New Mexico	Chair, Surgery (Regent appointed)
<b>Donna Sigl, M.D.</b> Albuquerque, New Mexico	Associate Professor, Psychiatry Vice Chair, Administration & Finance-Psychiatry Vice Chair, Neurosurgery
<b>Christopher Taylor, M.D.</b> Albuquerque, New Mexico	Associate Professor Director of Residency Program
<i>Nonvoting Directors</i>	
<b>Jeffrey Griffith, Ph.D.</b> Albuquerque, New Mexico	Executive Dean, UNM School of Medicine
<b>Robert Fritch, M.D.</b> Albuquerque, New Mexico	Executive Medical Director of Ambulatory Care Operations
<b>Frederick Rupp, M.D.</b> Albuquerque, New Mexico	Professor of Neuroradiology Secretary, UNMMG Board of Directors

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## **Independent Auditors' Report**

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

We have audited the accompanying balance sheets of the UNM Medical Group, Inc. (UNMMG), a component unit of the University of New Mexico, as of June 30, 2011 and 2010, 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 provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNMMG as of June 30, 2011 and 2010, and the respective changes in net assets 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 October 28, 2011 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 9 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

October 28, 2011

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

Management's Discussion and Analysis

June 30, 2011, 2010, and 2009

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, 2011, 2010, and 2009. 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 balance sheet 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 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. Regents of UNM are the sole members of UNMMG. Pursuant to an agreement with the UNM Regents, UNMMG is responsible for the practice oversight and management of the professional medical practice of UNM.

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**Condensed Summary of Net Assets**

	<b>June 30</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Assets:</b>			
Current assets	\$ 28,931,719	42,653,069	32,297,312
Capital assets, net	1,208,656	1,476,151	1,211,830
Other noncurrent assets	35,092,581	12,756,125	7,410,400
Total assets	<u>65,232,956</u>	<u>56,885,345</u>	<u>40,919,542</u>
<b>Liabilities:</b>			
Current liabilities	15,473,372	30,869,329	20,778,373
Total liabilities	<u>15,473,372</u>	<u>30,869,329</u>	<u>20,778,373</u>
<b>Net assets:</b>			
Invested in capital assets	1,208,656	1,476,151	1,211,830
Unrestricted	48,550,928	24,539,865	18,929,339
Total net assets	<u>\$ 49,759,584</u>	<u>26,016,016</u>	<u>20,141,169</u>

Current assets include cash and other assets that were deemed to be consumed or convertible to cash within one year. As of June 30, 2011, total current assets of \$28.9 million consisted of \$1.4 million of cash and cash equivalents compared to \$42.7 million in total current assets and \$16.5 million of cash and cash equivalents at June 30, 2010 compared to \$32.3 million in total current assets and \$16 million of cash and cash equivalents at June 30, 2009. Also included in current assets are net patient receivables of \$20.6 million, \$18.0 million, and \$17.2 million in 2011, 2010, and 2009, respectively. Also, included in current assets are other receivables of \$6.9 million consisting primarily of a \$5.3 million due from UNM Sandoval County Regional Medical Center project and \$0.7 million due from UNM HSC and \$0.9 million due from UNM Hospitals (UNMH) compared to \$1.5 million and \$0.7 million in 2009 and 2008, respectively. Noncurrent assets represent capital assets in 2011 of \$1.2 million and other assets of \$35.1 million compared to \$1.5 million and other assets of \$12.8 million in 2010 and compared to \$1.2 million and other assets of \$7.4 million in 2009. Noncurrent assets consist of board-designated investments in cash and cash equivalents, certificates of deposit, money markets, U.S. government securities, and corporate debt securities of \$31.4 million in 2011, \$12.6 million in 2010, and \$4.2 million in 2009. Also included in noncurrent assets for 2011 is noncurrent portion of the negative arbitrage due from UNM Sandoval Regional Medical Center (SRMC) of \$3.5 million.

Current liabilities are generally defined as amounts due within one year. As of June 30, 2011, total current liabilities of \$15.5 million include purchased services payable to UNM HSC of \$10.1 million compared to \$30.9 million and \$22.3 million in 2010 and \$20.8 million and \$19.7 million in 2009, respectively. Also included in current liabilities are amounts payable to UNM for operating expenses in the amount of \$1.1 million and other current liabilities of \$4.3 million compared to \$1.1 million and \$7.5 million in 2010 and \$2.0 million and \$1.8 million in 2009, respectively. Also included in current liabilities are amounts payable to UNM HSC, UNMH, and UNM Cancer Center of \$2.1 million compared to \$3.5 million in 2010 and \$0.8 million in 2009, respectively.

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At June 30, 2011, UNMMG's current ratio, the amount of current assets available to cover current liabilities, was 1.87 compared to 1.38 in 2010 and 1.55 in 2009. Payment of UNMMG's current liabilities is dependent on UNMMG's ability to collect patient and other receivables.

Total net assets increased \$23.8 million to \$49.8 million at June 30, 2011 from \$26.0 million at June 30, 2010, due to the excess of revenue over expenses in 2011 of \$23.8 million. Total net assets increased \$5.9 million to \$26.0 million at June 30, 2010, from \$20.1 million at June 30, 2009, due to the excess of revenue over expenses in 2010 of \$5.9 million.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net operating revenues	\$ 131,525,873	112,784,434	102,761,627
Operating expenses:			
Purchased clinical services	79,859,690	79,757,863	74,471,673
Salaries and benefits	14,106,684	11,733,125	9,222,772
Other	13,932,428	15,436,254	14,573,359
Total operating expenses	<u>107,898,802</u>	<u>106,927,242</u>	<u>98,267,804</u>
Operating income	<u>23,627,071</u>	<u>5,857,192</u>	<u>4,493,823</u>
Nonoperating revenues:			
Interest income	116,497	17,655	132,040
Total nonoperating revenues	<u>116,497</u>	<u>17,655</u>	<u>132,040</u>
Change in net assets	23,743,568	5,874,847	4,625,863
Net assets, beginning of year	<u>26,016,016</u>	<u>20,141,169</u>	<u>15,515,306</u>
Net assets, end of year	<u>\$ 49,759,584</u>	<u>26,016,016</u>	<u>20,141,169</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 2011 increased \$18.7 million from \$112.8 million in 2010 to \$131.5 million in 2011, reflecting an increase of 16.6%. Net operating revenues for 2010 increased \$10.0 million from \$102.8 million in 2009 to \$112.8 million in 2010, reflecting an increase of 9.8%. The increase in net operating revenues is due to several factors: (1) an increase in patient service volume. UNMMG measures patient service volume in work relative value units (WRVUs). WRVUs represent an industry standard unit of measure of physician clinic effort to perform specific procedures. WRVUs were 2,281,185, representing an increase of 86,736, or 4.0% from 2010. In 2010, WRVUs of 2,194,449 increased 146,635 or 7.2% from 2009, (2) for 2010, UNMMG negotiated rate increases among our commercial insurance payors resulting in overall weighted average increase of 4.2%, and (3) during 2011, the UNMMG operated 6 clinics, including 4 clinics opened in 2010 and 2 opened in 2011. These clinics contributed \$5.6 in revenues, an increase of \$1.2 compared to revenues of \$4.0 in 2010.



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These increases were offset by decrease in reimbursement for the State Coverage Initiative (SCI) Program. UNMMG receives reimbursement from the SCI program, a Medicaid waiver program, funded in part by the State of New Mexico Human Services Department (HSD). Funding for the SCI 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 ended June 30, 2011, UNMMG recognized \$3.9 million in revenues, which represents a \$1.6 million decrease from 2010. For the year ended June 30, 2010, UNMMG recognized revenues of \$5.5 million in revenues, which represented a \$0.9 million decrease from 2009.

A condensed summary of the net operating revenue calculation follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Patient service charges billed at established rates	\$ 343,478,626	305,496,676	276,745,462
Adjustments to charges:			
Contractual adjustments	(129,156,204)	(119,567,289)	(107,974,791)
Charity care	<u>(57,227,342)</u>	<u>(51,451,431)</u>	<u>(45,583,724)</u>
Net patient billings	157,095,080	134,477,956	123,186,947
Provision for uncollectible accounts	<u>(28,285,858)</u>	<u>(22,889,245)</u>	<u>(21,024,317)</u>
Net patient service revenues	128,809,222	111,588,711	102,162,630
Other revenue	<u>2,716,651</u>	<u>1,195,723</u>	<u>598,997</u>
Total net operating revenues	<u>\$ 131,525,873</u>	<u>112,784,434</u>	<u>102,761,627</u>

UNMMG encourages all patients to apply for financial assistance. UNMMG participates in the financial assistance program called UNM care. This program assigns qualifying 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 (FPL). As of June 30, 2011, 2010, and 2009, there were 30,500, 27,411, and 24,697 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, 2011, UNMMG provided \$57.2 million in charity care compared to \$51.5 million in 2010 and \$45.6 million in 2009.

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 fully reserved and recorded as provision for uncollectible accounts. As of June 30, 2011, UNMMG recorded \$28.3 million in provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts compared to \$22.9 million and \$21.0 million as of June 30, 2010 and 2009, respectively.

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UNMMG incurs costs associated with providing charity care and other services for which payment is not received. As of June 30, 2011, the estimated cost of care for providing these services was \$34.3 million compared to \$32.6 million in 2010 and \$29.3 million in 2009.

Total operating expenses of \$107.9 million for the year ended June 30, 2011, \$106.9 million for the year ended June 30, 2010, and \$98.3 million for the year ended June 30, 2009 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 \$85.9 million in 2011 and \$86.1 million in 2010 and \$79.5 million in 2009. These two costs accounted for \$9.8 million and \$8.7 million in increased expense from 2010 to 2011 and from 2009 to 2010, respectively. Other expense increases were attributable to salaries and benefits expense, primarily due to continued expansion of UNMMG's ambulatory clinic management, oversight function, and growth in administrative functions. These increases support the continued growth in revenue of \$1.7 million from 2010 to 2011 and \$2.5 million from 2009 to 2010, respectively.

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 dean's tax. The dean's tax is a fixed percentage assessment on clinical revenues assessed by the SOM equal to \$5.3 million in 2011, \$6.3 million in 2010, and \$5.1 million in 2009 and is reported on the statement of revenues, expenses, and changes in net assets as an operating expense.

In 2011, 2010, and 2009, UNMH provided funding to UNMMG in the amount of \$1.0 million for the support of two UNMMG departments who provide direct operational support services to UNMH and is reported on the statement of revenues, expenses, and changes in net assets as an operating expense. The amount of funding provided is negotiated annually.

Nonoperating revenues of \$116 thousand in 2011, \$18 thousand in 2010, and \$132 thousand in 2009 consisted primarily of investment income on investments and interest income on a money market account in 2011 and principally of interest income on certificates of deposit, and a money market account in 2010 and interest income on certificates of deposit and repurchase agreements in 2009.

**Capital Assets**

At June 30, 2011, UNMMG had \$1.2 million invested in capital assets, net of accumulated depreciation of approximately \$3.2 million compared to \$1.5 million and \$2.7 million at June 30, 2010 and \$1.2 million and \$2.7 million at June 30, 2009. Capital assets consist primarily of furniture and equipment. Capital assets used to provide clinical services are owned by 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 \$23.8 million from 2010 to 2011 due to an increase in operating income compared to a net increase of \$5.9 million from 2009 to 2010 due to an increase of operating income.

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June 30, 2011, 2010, and 2009

**Other Matters**

UNMMG continues to pursue initiatives to expand clinical services into Sandoval County. In August 2009, the Regents of UNM approved the formation of the UNM 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 have representation on its board. In September 2010, SRMC received a HUD commitment letter allowing the FHA-Insured Mortgage Revenue Bonds to be issued to finance the construction of a new acute care community teaching facility and medical office building in Sandoval County. SRMC issued \$143 million in bonds in November 2010. Associated with this bond issuance, UNMMG loaned \$10.1 million to SRMC to fulfill a negative arbitrage requirement by the bond rating agencies, and is held by SRMC's bond trustee. This negative arbitrage requirement is recalculated after each SRMC bond payment, on January 20 and July 20, of each year, and balances in the negative arbitrage account in excess of required amounts are returned to UNMMG. As of June 30, 2011, \$8.4 million of this loan was outstanding.

In 2010, SRMC began to incur expenses related to the initial construction planning and design of the facilities. A memorandum of understanding was established between UNMMG and SRMC providing for UNMMG to fund the initial planning and construction costs until SRMC received funding from bond proceeds, and recorded these costs as a receivable from SRMC. UNMMG continues to fund small amounts of operational costs for SRMC while SRMC builds its administrative infrastructure. Receivables related to these costs were \$0.6 million and \$6.0 million as of June 30, 2011 and 2010, respectively.

**Factors Impacting Future Periods**

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

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

The Human Services Division of the State of New Mexico (HSD) implemented cost containment measures on December 1, 2009, including a 3% reduction to the Medicaid physician fee schedule.

HSD eliminated the 30-day grace period for reenrollment under the State Coverage Insurance (SCI) program effective July 1, 2010. The SCI Program is under consideration for possible elimination from the Medical Assistance Division Budget for subsequent years.

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**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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Balance Sheets

June 30, 2011 and 2010

<b>Assets</b>	<b>2011</b>	<b>2010</b>
Current assets:		
Cash and cash equivalents	\$ 1,419,218	16,514,304
Receivables:		
Net patient receivables (net of allowance for uncollectible accounts of \$21,306,047 and contractual allowance of \$17,399,444 in 2011; \$16,450,999 and \$12,453,574 in 2010)	20,639,399	17,964,079
Due from SRMC (note 16)	5,315,884	6,002,308
Other	1,557,218	2,172,378
Total net receivables	<u>27,512,501</u>	<u>26,138,765</u>
Total current assets	<u>28,931,719</u>	<u>42,653,069</u>
Noncurrent assets:		
Board-designated assets:		
Cash and cash equivalents (note 5)	11,281,876	8,519,215
Investments (note 5)	20,093,065	4,108,607
Total board-designated assets	31,374,941	12,627,822
Due from SRMC (note 16)	3,520,187	—
Capital assets, net (note 6)	1,208,656	1,476,151
Other assets	197,453	128,303
Total noncurrent assets	<u>36,301,237</u>	<u>14,232,276</u>
Total assets	<u>\$ 65,232,956</u>	<u>56,885,345</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Purchased services payable due to UNM HSC (note 12)	\$ 10,122,170	22,293,998
Operating expenses due to UNM (note 12)	1,070,294	1,094,800
Accrued liabilities (note 8)	3,875,062	6,698,173
Refunds payable (note 7)	405,846	782,358
Total current liabilities	<u>15,473,372</u>	<u>30,869,329</u>
Commitments and contingencies (notes 14, 15, and 16)		
Net assets:		
Invested in capital assets	1,208,656	1,476,151
Unrestricted	48,550,928	24,539,865
Total unrestricted	<u>48,550,928</u>	<u>24,539,865</u>
Total net assets	<u>49,759,584</u>	<u>26,016,016</u>
Total liabilities and net assets	<u>\$ 65,232,956</u>	<u>56,885,345</u>

See accompanying notes to financial statements

**UNM MEDICAL GROUP, INC.**  
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**Statements of Revenues, Expenses, and Changes in Net Assets**  
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Patient service revenues, net (note 10)	\$ 128,809,222	111,588,711
Other revenue	<u>2,716,651</u>	<u>1,195,723</u>
Total net operating revenues	<u>131,525,873</u>	<u>112,784,434</u>
Operating expenses:		
Purchased clinical services from UNM HSC	79,859,690	79,757,863
Salaries and benefits	14,106,684	11,733,125
Dean's tax (note 12)	5,279,378	6,292,647
Malpractice insurance (note 9)	2,725,886	4,692,359
Other administrative	2,255,805	1,455,164
Patient registration and enrollment support	1,312,473	1,152,837
Data processing costs	1,009,246	731,238
Occupancy	823,175	547,753
Depreciation and amortization	495,339	407,777
Consulting	<u>31,126</u>	<u>156,479</u>
Total operating expenses	<u>107,898,802</u>	<u>106,927,242</u>
Operating income	<u>23,627,071</u>	<u>5,857,192</u>
Nonoperating revenues:		
Interest income	<u>116,497</u>	<u>17,655</u>
Total nonoperating revenues	<u>116,497</u>	<u>17,655</u>
Change in net assets	23,743,568	5,874,847
Net assets, beginning of year	<u>26,016,016</u>	<u>20,141,169</u>
Net assets, end of year	<u>\$ 49,759,584</u>	<u>26,016,016</u>

See accompanying notes to financial statements

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

Years ended June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Payments from insurance and patients	\$ 126,372,550	109,811,312
Payments to UNM	(105,693,657)	(86,523,058)
Payments to employees	(10,296,079)	(8,998,099)
Payments for employee benefits	(3,835,111)	(3,074,618)
Payments to suppliers	(5,431,824)	(4,043,471)
Other receipts	2,647,501	1,113,410
	<u>3,763,380</u>	<u>8,285,476</u>
Cash flows from capital financing activity – purchase of capital assets	(227,844)	(672,097)
Cash flows from investing activities:		
Investment income	116,497	17,655
Proceeds from maturity of investments	4,108,607	966,538
Purchases of investments	(20,093,065)	(4,108,607)
	<u>(15,867,961)</u>	<u>(3,124,414)</u>
Net cash used in investing activities	(15,867,961)	(3,124,414)
Net increase (decrease) in cash and cash equivalents	(12,332,425)	4,488,965
Cash and cash equivalents, beginning of year	25,033,519	20,544,554
Cash and cash equivalents, end of year	\$ 12,701,094	25,033,519
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 23,627,071	5,857,192
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	495,339	407,777
Provision for doubtful accounts	28,285,858	22,889,245
Changes in assets and liabilities:		
Patient receivables	(30,961,179)	(24,041,984)
Due from SRMC	(2,833,763)	(6,002,308)
Other receivables	615,160	(833,090)
Other assets	(69,150)	(82,312)
Purchase services due to UNM HSC	(12,171,827)	5,614,433
Operating expense due to UNM	(24,506)	(339,591)
Accrued liabilities	(2,823,111)	4,607,686
Refunds payable	(376,512)	208,428
Net cash provided by operating activities	\$ 3,763,380	8,285,476

See accompanying notes to financial statements

**UNM MEDICAL GROUP, INC.**  
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**(1) Description of Business**

UNM Medical Group, Inc (UNMMG) is a New Mexico not-for-profit corporation that was organized to promote, advance, and support the clinical 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 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. 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.

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.

Effective July 1, 2010, UNMMG adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements*, which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The adoption of GASB 62 had no impact on UNMMG's accounting policies, as UNMMG had previously elected in accordance with GASB 20 to not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, and applicable FASB pronouncements issued on or before November 30, 1989 have now been incorporated into GASB pronouncements.



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**(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. Deposits are in demand accounts with a local financial institution. State statute requires financial institutions to pledge qualifying collateral to UNMMG to cover at least 50% of the uninsured deposits.

One hundred percent (100%) of the cash balance at June 30, 2011 was collateralized with securities held in the name of UNMMG. One hundred percent (100%) of the deposit balance at June 30, 2010 was guaranteed under the FDIC Temporary Liquidity Guarantee Program. The Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law on July 21, 2010 by President Barack Obama permanently raised the maximum deposit insurance amount to \$250,000.

**(e) Marketable Securities**

Investments are recorded at fair market value. At June 30, 2011, investments consisted primarily of corporate debt securities, U.S. government and government agency securities, and certificates of deposit. At June 30, 2010, investments consisted primarily of certificates of deposit and repurchase agreements. Investment income includes interest and realized and unrealized gains and losses. Investment income is reported as nonoperating revenue when earned.

UNMMG follows GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement addresses common deposit and investment risks related to credit risk, concentration of risk, investment rate risk, and foreign currency risk, and also requires certain disclosures of investments at fair values that are highly sensitive to changes in interest rates, as well as deposit and investment policies related to the risks identified in the statement.

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**(f) 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 or owned/managed by the UNMMG.

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 reclassified 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.

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 a Medicaid waiver program, 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.

**(g) Charity Care**

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

**(h) 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.

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**(i) 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 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.

**(j) 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. The agreement allows for renegotiation of the annual cost in the event of material changes in clinical effort during the course of the year. Furthermore, if additional funding is required to support the clinical, educational, and research mission of the SOM, the finance and/or the executive committee of the UNMMG will determine and approve the purchase of any additional services.

**(k) Salaries & Benefits**

At June 30, 2011, there were 167 UNMMG and 111 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.

**(l) Income Taxes**

UNMMG has received a determination letter from the Internal Revenue Service (IRS) that it is an organization described in Internal Revenue Code section 501(c)(3). As such it would be exempt from federal income tax on income generated from activities related to its exempt function. Furthermore, UNMMG previously received a discretionary ruling from the IRS under Revenue Procedure 95-48, excluding it from the requirement to file certain information returns. Changes made by the Pension Protection Act removed the IRS's discretionary authority to waive these filing requirements. Subsequent failures to file result in automatic revocation of exempt status. The IRS is expected to issue further guidance to assist organizations with Rev. Proc. 95-48 rulings in maintaining exempt status. UNMMG intends to monitor and comply with this guidance. Accordingly, no provision for income taxes has been made.

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**(m) Reclassifications**

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

**(3) 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 are categorized as follows:

	<b>2011</b>	<b>2010</b>
Operating accounts	\$ 10,308,994	18,909,000
Savings account	520,619	496,777
Total bank balances	\$ 10,829,613	19,405,777
Amount insured by FDIC	\$ 573,876	524,421
Amount collateralized with securities held in UNMMG's name	25,612,112	24,896,839

Also included in cash and cash equivalents at June 30, 2011 is a money market account in the amount of \$2,152,062. This account is subject to interest rate risk in less than one year. 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.

In 2010, UNMMG 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 as follows:

*Custodial Credit Risk – Debt Investments:* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, UNMMG will not be able to recover the value of its investments or collateral that is in the possession of an outside party at June 30, 2011. Marketable securities of \$20,093,065 at June 30, 2011 are insured, registered, and held by the counterparty's agent in UNMMG's name.

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

<u>Description</u>	<u>Rating</u>	<u>Fair value</u>	<u>June 30, 2011</u>	
			<u>Less than 1 year</u>	<u>1 – 5 years</u>
Securities subject to interest rate risk:				
Corporate Bonds	A1/A+	\$ 864,776	—	864,776
Corporate Bonds	A1/A	417,893	—	417,893
Corporate Bonds	A1/A-	127,599	127,599	—
Corporate Bonds	A1/AA-	219,661	—	219,661
Corporate Bonds	A2/A	1,776,762	556,349	1,220,413
Corporate Bonds	A3/A+	192,776	192,776	—
Corporate Bonds	A3/A	355,656	—	355,656
Corporate Bonds	AA3/A+	1,016,407	—	1,016,407
Corporate Bonds	AA3/A-	341,132	341,132	—
Corporate Bonds	AA1/A+	422,534	—	422,534
Corporate Bonds	AA2/AA+	655,210	—	655,210
Corporate Bonds	AA2/AA	140,589	—	140,589
Corporate Bonds	AA3/AA-	802,999	—	802,999
Corporate Bonds	AA3/AA-	202,177	—	202,177
Corporate Bonds	AAA/AAA	437,206	—	437,206
Corporate Bonds	BAA1/A	346,937	—	346,937
Total Corporate Bonds		8,320,314	1,217,856	7,102,458
U.S. Treasury notes		3,538,021	1,898,786	1,639,235
U.S. Treasury bills		300,936	300,936	—
Government & Government sponsored (GSE) bonds		5,995,200	—	5,995,200
Municipal Bonds		1,938,594	1,938,594	—
Total marketable securities		\$ 20,093,065	5,356,172	14,736,893

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Description	Rating	June 30, 2010		
		Fair value	Less than 1 year	1 – 5 years
Securities not subject to interest rate risk:				
Certificates of deposits		\$ 22,579	22,579	—
Securities subject to investment risk:				
Corporate Bonds	A1/A+	592,116	183,919	408,197
Corporate Bonds	A2/A	1,569,634	959,824	609,810
Corporate Bonds	A1/AA	202,700	202,700	—
Corporate Bonds	AA2/AA	306,823	102,603	204,220
Corporate Bonds	AA3/AA-	203,186	—	203,186
Corporate Bonds	BAA1/A	202,428	—	202,428
Total Corporate Bonds		3,076,887	1,449,046	1,627,841
U.S. Treasury notes – SER Z-2013		757,429	—	757,429
U.S. government: Federal Farm Credit Bank		251,712	—	251,712
Total marketable securities		\$ 4,108,607	1,471,625	2,636,982

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

As of June 30, 2011 and 2010, UNMMG's investment portfolio had no investments exposed to concentration of credit risk.

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**(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>2011</b>	<b>2010</b>
Medicare and Medicaid	54%	53%
Commercial insurance	36	37
Other	10	10
	100%	100%

**(5) Board-Designated Assets**

Board-designated assets are classified in the accompanying balance sheets as noncurrent assets, as these assets are designated by the Board for future use subject to approval by the Board. At June 30, 2011, and 2010, these assets comprise investments in money market funds, debt securities, and U.S. government securities, recorded at cost, which approximated fair value, and cash and cash equivalents.

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

Assets are designated for the following purposes:

	<b>2011</b>	<b>2010</b>
Investment reserve	\$ 8,626,575	7,707,771
Department reserve	17,714,502	3,025,416
Quality reserve	1,200,000	1,200,000
Recession reserve	2,652,292	—
Hardware and technology	1,181,572	694,635
Total board-designated assets	\$ 31,374,941	12,627,822

*Investment reserve* – Represents funds designated for future initiatives UNMMG wishes to fund, such as new ambulatory clinics, new lines of clinic services, or expansion of existing initiatives.

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

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

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*Recession reserve* – Represents funds to provide support to UNM HSC clinical, education, and research programs impacted by expected cuts from state and federal agencies.

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

**(6) Capital Assets**

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

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Balance, July 1, 2008	\$ 2,862,132	2,356,816	505,316
Additions	1,040,432	333,918	706,514
Balance, June 30, 2009	3,902,564	2,690,734	1,211,830
Additions	672,098	407,777	264,321
Deletions	432,254	432,254	—
Balance, June 30, 2010	4,142,408	2,666,257	1,476,151
Additions	228,945	495,347	(266,402)
Deletions	1,611	518	(1,093)
Balance, June 30, 2011	\$ <u>4,369,742</u>	<u>3,161,086</u>	<u>1,208,656</u>

**(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, 2011 and 2010, refunds payable were \$405,846 and \$782,358, respectively.



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**(8) Accrued Liabilities**

Accrued liabilities consisted of the following at June 30:

	<u>2011</u>	<u>2010</u>
Due to UNMH	\$ 935,596	1,242,698
Settlement liability	—	1,042,373
Accrued operating expenses	884,343	1,009,088
Malpractice liability	502,758	1,002,758
Rescission assessment	—	821,913
Accrued leave	728,169	614,536
Indigent distribution due to UNM HSC	293,099	355,660
Payroll and benefits liability	360,147	193,208
Unclaimed property	65,937	164,759
Other	49,030	146,674
Due to UNM Cancer Center	55,983	104,506
	<u>\$ 3,875,062</u>	<u>6,698,173</u>

During the years ended June 30, 2011 and 2010, the following changes occurred in accrued leave:

<u>Balance, July 1, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2011</u>
\$ 614,536	802,295	(688,662)	728,169
<u>Balance, June 30, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2010</u>
\$ 388,907	608,662	(463,033)	534,536

**(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. 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. 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

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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 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. For the years ended June 30, 2011 and 2010, malpractice expense was \$2.7 million and 4.7 million, respectively, and was recorded as an operating expense on the statement of revenues, expenses, and changes in net assets. As of June 30, 2011 and 2010, respectively, a liability of \$0.5 million and \$1.0 million was recorded as an accrued liability on the balance sheets.

**(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 73% and 75% of UNMMG's gross patient revenue was derived from third-party payors in 2011 and 2010, respectively. Of this, Medicare and Medicaid represented approximately 51% in both 2011 and 2010. A summary of the basis of reimbursement from major-third party payors follows:

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

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

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A summary of the net patient service revenues follows for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Patient service charges billed at established rates	\$ 343,478,626	305,496,676
Adjustments to charges:		
Contractual adjustments	(129,156,204)	(119,567,289)
Charity care	<u>(57,227,342)</u>	<u>(51,451,431)</u>
Net patient billing	157,095,080	134,477,956
Provision for uncollectible accounts	<u>(28,285,858)</u>	<u>(22,889,245)</u>
Net patient service revenues	<u>\$ 128,809,222</u>	<u>111,588,711</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 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Charges forgone, based on established rates	\$ 57,227,342	51,451,431
Estimated costs and expenses incurred to provide charity care	26,152,895	23,513,304
Equivalent percentage of charity care to total gross revenue	17.40%	17.00%

**(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, 2011 and 2010, UNMMG purchased services in the amounts of approximately \$79.9 million and \$79.8 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 \$10.1 million and \$22.3 million at June 30, 2011 and 2010, respectively, are reported as a current liability on the balance sheets.

UNM processes payroll and various other expenses through its business office on behalf of UNMMG. UNMMG reimburses UNM for the expenses. At June 30, 2011 and 2010, UNMMG's liabilities for these expenses were approximately \$1.1 million for each year, and are reported as a current liability on the balance sheets. The related expenses are reported as operating expenses within the appropriate categories on the statements of revenues, expenses, and changes in net assets.

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June 30, 2011 and 2010

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, 2011 and 2010 were approximately \$1.3 million and 1.2 million, and are reported as patient registration and enrollment support expense on the statements of revenues, expenses, and changes in net assets. At June 30, 2011 and 2010, approximately \$0.9 million and \$1.2 million, respectively, were reported in accrued liabilities on the balance sheets.

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. UNMH reimbursed UNMMG approximately \$1.0 million and \$0.7 million for years ended June 30, 2011 and 2010, respectively, which is reported as an offset of data processing costs on the statements of revenues, expenses, and changes in net assets.

In 2011 and 2010, UNMH provided funding to UNMMG in the amount of \$1.0 million for the support of two UNMMG departments who provide direct operational support services to UNMH. The amount of funding provided is negotiated annually and is reported as an offset of salary and benefit costs on the statements of revenues, expenses, and changes in net assets.

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 dean's tax. The dean's tax is a fixed percentage assessment on clinical revenues assessed by the SOM equal to approximately \$5.3 million and \$6.3 million for the years ended June 30, 2011 and 2010, respectively, and is reported as an operating expense 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 \$0.3 million and \$0.4 million for the years ended June 30, 2011 and 2010, respectively, and is reported in current liabilities on the balance sheets.

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. The plan was established on July 1, 2008 by the Board of Directors of UNMMG and can be amended at its discretion. UNMMG provides a dollar for dollar match up to 6% of employee's elective deferral. 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 salary. The discretionary contribution percentages were 4% in 2011 and 2010. Total contributions were \$654,302 and \$416,148 for the years ended June 30, 2011 and 2010, respectively. Employees paid under UNM participate in the defined benefit retirement plan under the Educational Retirement Act of the State of New Mexico.

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

June 30, 2011 and 2010

**(14) Operating Leases**

UNMMG subleases office space under an operating lease agreement with UNMH. UNMMG is also committed under facility lease arrangements related to the clinics established under UNMMG. Rent expense for the years ended June 30, 2011 and 2010 were \$823,175 and \$547,753, 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 \$42,185 and \$39,339 in 2011 and 2010, respectively, and is reported as an operating expense on the statements of revenues, expenses, and changes in net assets.

**(16) Other Matters**

UNMMG continues to pursue initiatives to expand clinical services into Sandoval County. In August 2009, the Regents of UNM 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 have representation on its Board. A memorandum of agreement was established between UNMMG and SRMC providing for UNMMG to fund the initial planning and construction costs until SRMC received its funding upon the bond closing, which occurred in November 2010. At that time, SRMC reimbursed UNMMG for all costs paid by UNMMG.

UNMMG records payments paid on behalf of SRMC as a receivable due from SRMC. Amounts due from SRMC for planning, constructions costs and preopening costs were \$0.4 million \$6.0 million at June 30, 2011 and 2010, respectively. As a requirement of the SRMC bond issuance by the bond rating agencies, the Board of UNMMG approved, for the benefit of SRMC, the issuance of a Quick Draw letter of credit to the benefit of the bond trustee (Wells Fargo Bank N.A.) covering any shortfall occasioned by the negative arbitrage associated with the bond financing. UNMMG secured \$10,125,000 to be held by the bond trustee through the SRMC construction period. It is anticipated that the SRMC construction will be completed by June 30, 2012. The amount of the negative arbitrage requirement will be recalculated upon each semiannual bond debt service payment, at which time, the funds in excess of the requirement will revert back to UNMMG. In 2011, UNMMG received payments totaling \$1,685,000 for the excess requirement. As of June 30, 2011, the receivable from SRMC associated with the negative arbitrage requirement is \$8.4 million, of which \$3.5 is deemed to noncurrent.

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Notes to Financial Statements

June 30, 2011 and 2010

As of June 30, 2011, the breakdown of expected payments is:

Due from SRMC:	
Amounts estimated to be repaid prior to June 30, 2012	\$ 5,315,883
Amounts estimated to be repaid after to June 30, 2012	<u>3,520,187</u>
Total repayments	<u><u>\$ 8,836,070</u></u>

**UNM MEDICAL GROUP, INC.**  
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Pledged Collateral by Banks

June 30, 2011

Deposits per bank (Wells Fargo)	\$	10,829,613
Less:		
FDIC Coverage		(573,876)
Total uninsured public funds		<u>10,255,737</u>
State of New Mexico: Collateral Requirement – 50%	\$	<u>5,127,869</u>
Pledged collateral:		
FNMA, 31409 VDH3, 03/01/2036, 6.0%		2,439,924
FNMA, 31410 AHK5, 07/01/2036, 6.0%		1,637,511
FNMA, 31410 EN46, 06/01/2036, 6.0%		3,147,486
FNMA, 31411 VT25, 04/01/2037, 5.0%		4,268,382
FNMA, 31414 EMS0, 06/01/2038, 6.0%		4,782,847
FNMA, 31415 RGN8, 07/01/2038, 5.5%		2,348,086
FNMA, 31411 AU86, 11/01/2036, 6.0%		6,778,791
GNMA, 36202 DPS4, 09/20/2031, 6.5%		77,241
GNMA, 36202 DT68, 08/20/2032, 6.0%		131,844
Total pledged collateral		<u>25,612,112</u>
Overcollateralized	\$	<u>20,484,243</u>

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

See accompanying independent auditors' report.

**UNM MEDICAL GROUP, INC.**  
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Deposit and Investment Account Balances

June 30, 2011

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance	
Wells Fargo	Checking	\$ 10,308,994	(280,581)	10,028,413	
	Savings	520,619	—	520,619	
		<u>10,829,613</u>	<u>(280,581)</u>	<u>10,549,032</u>	
Morgan Stanley: Smith Barney	Money market:				
	Western Asset Institutional Tax-free reserve	41,316	—	41,316	
	Morgan Stanley U.S. Gov't Money Market Trust	2,110,746	—	2,110,746	
	Total money market	<u>2,152,062</u>	<u>—</u>	<u>2,152,062</u>	
	Total cash and cash equivalents	<u>12,981,675</u>	<u>(280,581)</u>	<u>12,701,094</u>	
Investments:					
Morgan Stanley: Smith Barney	Corporate bonds:				
	Paccar Financial Corp	449,405	—	449,405	
	Cisco Systems Inc	415,371	—	415,371	
	Goldman Sachs Group Inc/The	417,891	—	417,891	
	Peco Energy Co	127,599	—	127,599	
	Wachovia Corp	219,661	—	219,661	
	General Dynamics	200,728	—	200,728	
	Disney (Walt) Company Notes	135,660	—	135,660	
	Praxair Inc Notes	361,056	—	361,056	
	Caterpillar Financial SE	346,903	—	346,903	
	John Deere Capital Corp	363,232	—	363,232	
	Hewlett Packard Co Global	141,164	—	141,164	
	BB&T Corporation	228,019	—	228,019	
	Coca Cola Enterprise	192,776	—	192,776	
	Georgia Power Co	131,308	—	131,308	
	PNC FDG Corp	224,349	—	224,349	
	JP Morgan Chase & Co	444,742	—	444,742	
	US Bancorp	216,714	—	216,714	
	Credit Suisse New York	422,534	—	422,534	
	Bershire Hathway Global	432,372	—	432,372	
	Gen Elec Cap Crp Global	222,838	—	222,838	
	Wal Mart Stores Inc Notes	140,589	—	140,589	
	Novartis Capital Global	364,471	—	364,471	
	Google Inc	438,528	—	438,528	
	IBM Corp	354,952	—	354,952	
	Proctor & Gamble Co	202,177	—	202,177	
	Pepsico Inc	341,132	—	341,132	
	Microsoft Corp	437,206	—	437,206	
	Covidian Intl Finance SA	346,937	—	346,937	
		Total corporate bonds	<u>8,320,314</u>	<u>—</u>	<u>8,320,314</u>
	U.S. Treasury notes:				
	SER AD-2011	1,434,208	—	1,434,208	
	SER AK-2012	464,578	—	464,578	
SER X-2013	482,635	—	482,635		
SER Z-2013	548,867	—	548,867		
SER AF-2013	452,967	—	452,967		
SER V-2016	154,766	—	154,766		
	Total treasury notes	<u>3,538,021</u>	<u>—</u>	<u>3,538,021</u>	
U.S. Treasury bills:					
912953K5	300,936	—	300,936		
	Total U.S. Treasury bills	<u>300,936</u>	<u>—</u>	<u>300,936</u>	
U.S. government bonds:					
Federal Farm Credit Bank Cons Bonds – 3133XVNT4	485,479	—	485,479		
Federal Farm Credit Bank – 31331KNE6	100,304	—	100,304		
Federal Farm Credit Bank – 313331KEY2	627,099	—	627,099		
Federal Farm Credit Bank – 31331KGC8	629,357	—	629,357		
Federal Farm Credit Bank – 31331JT78	401,288	—	401,288		
	Subtotal Federal Farm Credit Bank	<u>2,243,527</u>	<u>—</u>	<u>2,243,527</u>	
Federal Home Loan Mtg Corp – 3134G2PG1	700,367	—	700,367		
Federal Home Loan Mtg Corp – 313373W40	551,318	—	551,318		
Federal Home Loan Mtg Corp – 3134G2HR6	1,003,865	—	1,003,865		
Federal Home Loan Mtg Corp – 3134G1Y40	367,819	—	367,819		



**UNM MEDICAL GROUP, INC.**  
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Deposit and Investment Account Balances

June 30, 2011

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	Federal Home Loan Mtg Corp – 313G1W91	\$ 100,755	—	100,755
	Federal Home Loan Mtg Corp – 3134G1LJ1	250,863	—	250,863
	Subtotal Federal Home Loan Mtg Corporation	351,618	—	351,618
	Federal Home Loan Banks – 313373MQ2	351,287	—	351,287
	Subtotal Federal Home Loan Banks	351,287	—	351,287
	Federal Natl Mtg Assn – 31398A4A7	251,304	—	251,304
	Federal Natl Mtg Assn – 31398AVD1	174,095	—	174,095
	Subtotal Federal Nat'l Mtg. Assoc.	425,399	—	425,399
	Total government and government sponsored entity (GSE) bonds	5,995,200	—	5,995,200
	Municipal bonds:			
	Alabama Wtr Pollution CTL Auth	301,887	—	301,887
	Klein Tex Indpt Sch Dist	201,461	—	201,461
	Anacortes Wash Util Sys Rev	200,720	—	200,720
	Downers Grove ILL OK Dist	145,618	—	145,618
	Dekalb Cnty Ill SER A-Build	200,754	—	200,754
	Lisle Ill Pkdist Taxable-Ltd	280,969	—	280,969
	Wisconsin ST Health & Edl Facs	305,372	—	305,372
	Bernalillo Cnty N Mex Gross Rcpts Tax	201,183	—	201,183
	Higginsville Mo Sew Sys Rev	100,630	—	100,630
	Total municipal bonds	1,938,594	—	1,938,594
	Total investments	\$ 20,093,065	—	20,093,065

See accompanying independent auditors' report.



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**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. 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, 2011, and have issued our report thereon dated October 28, 2011. 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 deficiency in internal control over financial reporting 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 combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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

October 28, 2011

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Schedule of Findings and Responses  
Fiscal year ended June 30, 2011

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

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

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

Fiscal year ended June 30, 2011

An exit conference was conducted on October 3, 2011, 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:

Chris Pacheco	Audit Committee Member
Anthony R. Masciotra, Jr.	President & CEO
Marjorie Goldstein	Vice President & CFO
Mary Swanson	Director, Accounting
Cynthia C. Reinhart	Partner, KPMG LLP
Greg Monk	Senior Manager, KPMG LLP