

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

Report of Independent Auditors and
Financial Statements with Supplementary Schedules

June 30, 2012 and 2011

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
2012 Official Roster

Board of Directors

Paul Roth, M.D., MS, FACEP	UNM Health Sciences Center Chancellor for Health Sciences(Regent appointed) Dean, UNM School of Medicine Chairman of the Board, UNMMG
Carolyn Voss, M.D.	Health System Clinical Affairs Officer (Regent appointed)
Chris Pacheco	Independent, non-UNM Faculty (Regent appointed)
Cheryl Willman, M.D.	Director, UNM Cancer Center (Regent appointed)
Martha McGrew, M.D.	Chair, Family & Community Medicine (Regent appointed)
Pope Moseley, M.D.	Chair, Internal Medicine (Regent appointed)
Thomas Williams, M.D.	Chair, Pathology (Regent appointed)
Loretta Cordova de Ortega, M.D.	Chair, Pediatrics (Regent appointed)
John Russell, M.D.	Chair, Surgery (Regent appointed)
Donna Sigl, M.D.	Associate Professor, Psychiatry
Robb McLean, M.D.	Assistant Professor, Emergency Medicine

Officers of UNM Medical Group, Inc.

Anthony Masciotra	President and Chief Executive Officer
Robert Fritch, D.O.	Chief Medical Officer
Marjorie Goldstein	Chief Financial Officer
Frederick Rupp, M.D.	Secretary, UNMMG Board of Directors Professor of Neuroradiology

UNM MEDICAL GROUP, INC.
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Report of Independent Auditors

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

We have audited the accompanying financial statements of the UNM Medical Group, Inc. (UNMMG), a component unit of the University of New Mexico, as of and for the year ended June 30, 2012. These financial statements are the responsibility of UNMMG's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of UNMMG as of June 30, 2011, were audited by other auditors whose report dated October 28, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNMMG as of June 30, 2012, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2012 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 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied

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

certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise UNMMG's 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of pledged collateral by banks and deposit and investment account balances are fairly stated in all material respects in relation to the financial statements as a whole.

Mess Adams LLP

Albuquerque, New Mexico
November 2, 2012

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

Management's Discussion and Analysis

June 30, 2012, 2011, and 2010

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, 2012, 2011, and 2010. 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 statements of net assets include 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 statements of revenues, expenses, and changes in net assets presents the revenues earned and expenses incurred during each of 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 statements of cash flows present information related to cash inflows and outflows summarized by operating, capital and noncapital financing, and investing activities, which helps measure the ability to meet financial obligations as they mature.

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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Management's Discussion and Analysis

June 30, 2012, 2011, and 2010

Condensed Summary of Net Assets

	June 30,		
	2012	2011	2010
Assets:			
Current assets	\$ 50,501,606	28,931,719	42,653,069
Capital assets, net	1,240,785	1,208,656	1,476,151
Other noncurrent assets	29,436,700	35,092,581	12,756,125
Total assets	<u>81,179,091</u>	<u>65,232,956</u>	<u>56,885,345</u>
Liabilities:			
Current liabilities	<u>34,289,387</u>	<u>15,473,372</u>	<u>30,869,329</u>
Total liabilities	<u>34,289,387</u>	<u>15,473,372</u>	<u>30,869,329</u>
Net assets:			
Invested in capital assets	1,240,785	1,208,656	1,476,151
Unrestricted	<u>45,648,919</u>	<u>48,550,928</u>	<u>24,539,865</u>
Total net assets	<u>\$ 46,889,704</u>	<u>49,759,584</u>	<u>26,016,016</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, 2012, total current assets of \$50.5 million consisted of \$23.7 million of cash and cash equivalents compared to \$28.9 million in total current assets and \$1.4 million of cash and cash equivalents at June 30, 2011, and compared to \$42.7 million in total current assets and \$16.5 million of cash and cash equivalents at June 30, 2010. Also included in current assets are net patient receivables of \$19.2 million, \$20.6 million, and \$18.0 million at June 30, 2012, 2011, and 2010, respectively. Also, included in current assets are other receivables of \$7.6 million consisting primarily of \$3.6 million due from SRMC, \$733,493 due from at June 30, 2012 UNM HSC and \$1.3 million due from UNM Hospitals (UNMH), compared to \$6.9 million and \$8.2 million at June 30, 2011 and 2010, respectively. Noncurrent assets represent capital assets at June 30, 2012 of \$1.2 million and other assets of \$29.4 million compared to \$1.2 million and other assets of \$35.1 million at June 30, 2011 and compared to \$1.5 million and other assets of \$12.8 million at June 30, 2010. Noncurrent assets consist of board-designated investments in cash and cash equivalents, money markets, U.S. government securities, sovereign securities and corporate debt securities of \$29.1 million in 2012, \$31.4 million at June 30, 2011, and \$12.6 million at June 30, 2010.

Current liabilities are generally defined as amounts due within one year. As of June 30, 2012, total current liabilities of \$34.3 million include purchased services payable to UNM HSC of \$27.4 million compared to \$15.5 million and \$10.1 million at June 30, 2011 and \$30.9 million and \$22.3 million at June 30, 2010, respectively. Also included in current liabilities at June 30, 2012 are amounts payable to UNM for operating expenses in the amount of \$1.2 million and other current liabilities of \$5.7 million compared to \$1.1 million and \$4.3 million at June 30, 2011 and \$1.1 million and \$7.5 million at June 30, 2010, respectively. Also included in current liabilities as of June 30, 2012 are amounts payable to UNM HSC, UNMH, and UNM Cancer Center of \$1.5 million compared to \$1.3 million at June 30, 2011 and \$1.7 million at June 30, 2010, respectively.

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At June 30, 2012, UNMMG's current ratio, the amount of current assets available to cover current liabilities, was 1.47 compared to 1.87 at June 30, 2011 and 1.38 at June 30, 2010. Payment of UNMMG's current liabilities is dependent on UNMMG's ability to collect patient and other receivables.

Total net assets decreased \$2.9 million to \$46.9 million at June 30, 2012 from \$49.8 million at June 30, 2011, due to the excess of expenses over revenue in 2012 of \$2.9 million. Total net assets increased \$23.7 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 \$23.7 million.

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net operating revenues	\$ 130,969,064	131,525,873	112,784,434
Operating expenses:			
Purchased clinical services	92,253,968	79,859,690	79,757,863
Salaries and benefits	17,332,700	14,106,684	11,733,125
Other	<u>24,437,637</u>	<u>13,932,428</u>	<u>15,436,254</u>
Total operating expenses	<u>134,024,305</u>	<u>107,898,802</u>	<u>106,927,242</u>
Operating (loss) income	<u>(3,055,241)</u>	<u>23,627,071</u>	<u>5,857,192</u>
Nonoperating revenues:			
Interest income	<u>185,361</u>	<u>116,497</u>	<u>17,655</u>
Total nonoperating revenues	<u>185,361</u>	<u>116,497</u>	<u>17,655</u>
Change in net assets	<u>(2,869,880)</u>	<u>23,743,568</u>	<u>5,874,847</u>
Net assets, beginning of year	<u>49,759,584</u>	<u>26,016,016</u>	<u>20,141,169</u>
Net assets, end of year	<u>\$ 46,889,704</u>	<u>49,759,584</u>	<u>26,016,016</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 2012 decreased \$0.6 million from \$131.5 million in 2011 to \$131.1 million in 2012, reflecting a decrease of 0.4%. Net operating 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 2012 were negatively impacted by a decline in UNM State Coverage Initiative funds amounting to \$1.0 million. UNMMG receives reimbursement from the State Coverage Insurance program (SCI), a Medicaid waiver program, funded in part by the State of New Mexico Human Services Department (HSD). Funding for SCI is modeled after a capitated payment program. UNMMG receives a pro rata portion of SCI reimbursement, net of costs based on claims experience. For the year ended June 30, 2012, UNMMG recognized \$2.9 million in revenues from the SCI program, which represents a \$1.0 million decrease from 2011. For the year ended June 30, 2011, UNMMG recognized revenues of \$3.9 million in revenues, which represented a \$1.6 million decrease from 2010.

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Management's Discussion and Analysis

June 30, 2012, 2011, and 2010

These declines were offset by an increase in patient service volume, an increase in negotiated rate increases and an expansion of UNMMG operated clinics. UNMMG measures patient service volume in work relative value units (WRVUs), an industry standard unit of measure of physician clinic effort to perform specific procedures. WRVUs were 2,336,998 in 2012, representing an increase of \$55,812, or 2.4% from 2011. In 2011, WRVUs of 2,281,185 increased \$86,733 or 4.0% from 2010. UNMMG negotiated rate increases among our commercial insurance payors resulting in overall weighted average increase of 3.4%. During 2012, the UNMMG operated six clinics, including four clinics opened in 2010, two opened in 2011, one opened in 2012, and one closed in 2012. These clinics contributed \$10.3 million in revenues in 2012, an increase of \$4.7 million compared to revenues of \$5.6 million in 2011.

A condensed summary of the net operating revenue calculation follows:

	2012	2011	2010
Patient service charges billed at established rates	\$ 358,717,693	343,478,626	305,496,676
Adjustments to charges:			
Contractual adjustments	(143,872,303)	(129,156,204)	(119,567,289)
Charity care	(58,590,253)	(57,227,342)	(51,451,431)
Net patient billings	156,255,137	157,095,080	134,477,956
Provision for uncollectible accounts	(28,553,888)	(28,285,858)	(22,889,245)
Net patient service revenues	127,701,249	128,809,222	111,588,711
Other revenue	3,267,815	2,716,651	1,195,723
Total net operating revenues	\$ 130,969,064	131,525,873	112,784,434

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 300% of the Federal Poverty Level (FPL). As of June 30, 2012, 2011, and 2010, there were 32,526, 30,500, and 27,411 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, 2012, UNMMG provided \$58.6 million in charity care compared to \$57.2 million in 2011 and \$51.5 million in 2010.

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, 2012, UNMMG recorded \$28.6 million as a provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts, compared to \$28.3 million and \$22.9 million as of June 30, 2011 and 2010, 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, 2012, the estimated cost of care for providing these services was \$36.1 million compared to \$34.3 million in 2011 and \$32.6 million in 2010.

Total operating expenses were \$134.0 million for the year ended June 30, 2012, \$107.9 million for the year ended June 30, 2011, and \$106.9 million for the year ended June 30, 2010. These costs consisted primarily of costs related to the purchase of clinical services from UNM HSC and the associated Dean's and rescission tax from the School of Medicine (SOM), which when combined totaled \$103.1 million in 2012 and \$85.1 million in 2011 and \$86.1 million in 2010. These costs accounted for \$18.0 million in increased expense from 2011 to 2012 and \$1.0 million in decreased expense from 2010 to 2011. The increase in 2012 is primarily due to the return of \$4.6 million in rescission tax to the Dean's office. 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 clinic expansion, planned growth of physician clinical services at Sandoval Regional Medical Center and preparation for implementation of the Affordable Healthcare Act for healthcare reform.

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 and rescission tax are a fixed percentage assessment on clinical revenues assessed by the SOM totaling \$10.9 million in 2012, \$5.3 million in 2011, and \$6.3 million in 2010 and is reported on the statement of revenues, expenses, and changes in net assets as an operating expense.

In 2012, 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 and is reported on the statement of revenues, expenses, and changes in net assets as a reduction of operating expense. The amount of funding provided is negotiated annually.

Nonoperating revenues of \$185,361 in 2012, \$116,497 in 2011, and \$17,655 in 2010 consisted primarily of investment income on investments and interest income on a money market account in 2012, interest income on certificates of deposit and a money market account in 2011, and interest income on certificates of deposit and repurchase agreements in 2010.

Capital Assets

At June 30, 2012, UNMMG had \$1.2 million invested in capital assets, net of accumulated depreciation of approximately \$3.7 million compared to \$1.2 million and \$3.2 million at June 30, 2011, and compared to \$1.5 million and \$2.7 million at June 30, 2010. Capital assets consist primarily of furniture and equipment. With the exception of UNMMG Clinics, capital assets used to provide clinical services are owned by UNMH and are not reported on UNMMG's financial statements.

Change in Net Assets

UNMMG's change in net assets reflected a net decrease of \$2.9 million from 2011 to 2012 due to a decrease in operating income compared to a net increase of \$23.7 million from 2010 to 2011 due to an increase of operating income.

UNM MEDICAL GROUP, INC.
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June 30, 2012, 2011, and 2010

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 (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, 2012, \$4.6 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 approximately \$396,000, and \$6.0 million as of June 30, 2011 and 2010, respectively. As of June 30, 2012, a payable related to this activity was due to SRMC, representing funds deposited with the UNMMG on behalf of SRMC.

Other Revenue

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that "meaningfully use" certified electronic health record (EHR) technology. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Economic and Clinical Health (HITECH) Act. The HITECH Act's overall public policy is "to promote the adoption and meaningful use of interoperable health information technology and qualified electronic health records (EHRs)." The government's ultimate goal is to promote more effective (quality) and efficient health care delivery through the use of technology, reducing the cost of health care for all Americans and using the savings to expand access to the health care system. In 2012, UNMMG began the attestation process for eligible providers under this program. As of June 30, 2012, 77 providers completed year one attestation. UNMMG recorded a receivable of \$1.6 million in other assets at June 30, 2012 and began receiving the funds in July 2012 from the Medicaid program.

Factors Impacting Future Periods

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (PPACA). This National Health Reform includes private insurance market reforms, expanded Medicaid eligibility provisions, Medicare and Medicaid funding reforms, value-based purchasing requirements, and amended time periods for filing Medicare fee 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.

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Medicaid expansion under PPACA includes new eligibility criteria establishing a minimum floor for Medicaid coverage of 133% of the Federal Poverty Level 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 Children's Health Insurance Program (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 beginning in 2014.

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

Health Plan reforms under PPACA include a set of required essential benefits including, but not limited to, emergency services, hospitalization, maternity and newborn care, mental health and substance use disorder services, preventative and wellness services, and pediatric services, including oral and vision care. Plans must also not require copayment or deductible on preventative services. For plan years beginning after September 23, 2010, existing plans must provide coverage to dependent children until age 26 (unless eligible for other coverage), eliminate lifetime aggregate dollar limits and annual dollar limits on essential benefits, eliminate pre-existing condition exclusions for children up to age 19, and prohibit rescinding of coverage except in cases of fraud, intentional misrepresentation, and nonpayment of premium. Effective in 2014, existing insurance plans must eliminate annual aggregate benefit limits, provide coverage of dependents to age 26 regardless of eligibility for other coverage, eliminate pre-existing condition limitations for adults, and eliminate waiting periods of greater than 90 days. 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 as the state seeks to identify revenue sources and expenditure reductions.

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.
(A COMPONENT UNIT OF UNIVERSITY OF NEW MEXICO)
STATEMENTS OF NET ASSETS
June 30, 2012 and 2011

Assets	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 23,682,204	\$ 1,419,218
Receivables:		
Net patient receivables (net of allowance for uncollectible accounts of \$27,943,312 and contractual allowance of \$14,626,641 in 2012; \$21,306,047 and \$17,399,444 in 2011, respectively)	19,181,238	20,639,399
Due from SRMC	3,584,631	5,315,884
Third-party receivable	1,636,250	-
Other	<u>2,417,283</u>	<u>1,557,218</u>
Total net receivables	<u>26,819,402</u>	<u>27,512,501</u>
Total current assets	<u>50,501,606</u>	<u>28,931,719</u>
Noncurrent assets:		
Board designated assets:		
Cash and cash equivalents	169,535	11,281,876
Investments	<u>28,899,105</u>	<u>20,093,065</u>
Total board designated assets	<u>29,068,640</u>	<u>31,374,941</u>
Due from SRMC	-	3,520,187
Capital assets, net	1,240,785	1,208,656
Other assets	<u>368,060</u>	<u>197,453</u>
Total noncurrent assets	<u>30,677,485</u>	<u>36,301,237</u>
Total assets	<u>\$ 81,179,091</u>	<u>\$ 65,232,956</u>
Liabilities		
Current liabilities:		
Purchased services payable due to UNM HSC	\$ 27,366,369	\$ 10,122,170
Operating expenses due to UNM	1,152,523	1,070,294
Accrued liabilities	<u>5,770,495</u>	<u>4,280,908</u>
Total current liabilities	<u>34,289,387</u>	<u>15,473,372</u>
Net assets		
Invested in capital assets	1,240,785	1,208,656
Unrestricted	<u>45,648,919</u>	<u>48,550,928</u>
Total unrestricted	<u>45,648,919</u>	<u>48,550,928</u>
Total net assets	<u>46,889,704</u>	<u>49,759,584</u>
Total liabilities and net assets	<u>\$ 81,179,091</u>	<u>\$ 65,232,956</u>

See accompanying notes to financial statements

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF UNIVERSITY OF NEW MEXICO)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Patient service revenues, net	\$ 127,701,249	\$ 128,809,222
Other revenue	3,267,815	2,716,651
Total net operating revenues	<u>130,969,064</u>	<u>131,525,873</u>
Operating expenses:		
Purchased clinical services from UNM HSC	92,253,968	79,859,690
Salaries and benefits	17,332,700	14,106,684
Dean's and rescission tax	10,866,213	5,279,378
Malpractice insurance	3,854,112	2,725,886
Other administrative	4,886,101	2,255,805
Patient registration and enrollment support	1,649,951	1,312,473
Data processing costs	1,227,818	1,009,246
Occupancy	841,898	823,175
Depreciation	566,038	495,339
Consulting	545,506	31,126
Total operating expenses	<u>134,024,305</u>	<u>107,898,802</u>
Operating (loss) income	<u>(3,055,241)</u>	<u>23,627,071</u>
Nonoperating revenues:		
Interest income	185,361	116,497
Total nonoperating revenues	<u>185,361</u>	<u>116,497</u>
Change in net assets	<u>(2,869,880)</u>	<u>23,743,568</u>
Net assets, beginning of year	<u>49,759,584</u>	<u>26,016,016</u>
Net assets, end of year	<u>\$ 46,889,704</u>	<u>\$ 49,759,584</u>

See accompanying notes to financial statements

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENTS OF CASH FLOWS
Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Payments from insurance and patients	\$ 126,663,096	\$ 126,372,551
Payments to UNM	(82,989,068)	(105,693,656)
Payments to employees	(13,018,720)	(10,296,079)
Payments for employee benefits	(4,231,752)	(3,835,111)
Payments to suppliers	(9,151,273)	(5,431,024)
Other receipts	3,097,209	2,647,501
Net cash provided by operating activities	<u>20,369,492</u>	<u>3,763,382</u>
Cash flows from investing activities:		
Purchase of capital assets	(598,167)	(227,844)
Investment income	185,361	116,495
Proceeds from maturity of investments	-	4,108,607
Purchases of investments	(8,806,041)	(20,093,065)
Net cash used in investing activities	<u>(9,218,847)</u>	<u>(16,095,807)</u>
Net increase (decrease) in cash and cash equivalents	11,150,645	(12,332,425)
Cash and cash equivalents, beginning of year	<u>12,701,094</u>	<u>25,033,519</u>
Cash and cash equivalents, end of year	<u>\$ 23,851,739</u>	<u>\$ 12,701,094</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ (3,055,241)	\$ 23,627,071
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	566,038	495,339
Provision for doubtful accounts	28,553,888	28,285,858
Changes in assets and liabilities:		
Patient receivables	(27,095,726)	(30,961,177)
Third-party receivable	(1,636,250)	-
Due from SRMC	5,251,439	(2,833,763)
Other receivables	(860,065)	615,160
Other assets	(170,606)	(69,150)
Purchase services due to UNM HSC	17,244,200	(12,171,827)
Operating expense due to UNM	82,229	(24,506)
Accrued liabilities	1,489,586	(3,199,623)
Net cash provided by operating activities	<u>\$ 20,369,492</u>	<u>\$ 3,763,382</u>

See accompanying notes to financial statements

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

Notes to Financial Statements

June 30, 2012 and 2011

(1) Description of Business

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

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.

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

Notes to Financial Statements

June 30, 2012 and 2011

(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, 2012 was collateralized with securities held in the name of UNMMG. 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, 2012, investments consisted primarily of corporate debt securities, U.S. government and government agency securities, municipal bonds, sovereign securities and money markets. At June 30, 2011, investments consisted primarily of corporate debt securities, U.S. government and government agency securities, municipal bonds and money markets. Investment income includes interest and realized and unrealized gains and losses. Investment income is reported as nonoperating revenue when earned.

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

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

Notes to Financial Statements

June 30, 2012 and 2011

(f) Revenue Recognition and Net Patient Receivables

UNMMG revenue results from 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 \$1,000 or greater are capitalized and depreciated over useful lives ranging from three to five years. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Repairs and maintenance costs are charged to expense as incurred. With the exception of UNMMG operated clinics, capital assets used to provide clinical services are owned by the University of New Mexico Hospital (UNMH) and are not reported in UNMMG's financial statements.

UNM MEDICAL GROUP, INC.
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Notes to Financial Statements

June 30, 2012 and 2011

(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 board of directors committee of the UNMMG will determine and approve the purchase of any additional services.

(k) Salaries & Benefits

At June 30, 2012, the staff of UNMMG was comprised of 257 UNMMG and 70 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 a 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 Revenue Procedure 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.

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

Notes to Financial Statements

June 30, 2012 and 2011

(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:

	2012	2011
Operating accounts	\$ 27,680,304	\$ 10,308,994
Savings account	521,716	520,619
Total bank balances	\$ 28,202,020	\$ 10,829,613
Amount insured by FDIC	\$ 611,117	\$ 573,876
Amount collateralized with securities held in UNMMG's name	18,303,190	25,612,112

Also included in cash and cash equivalents at June 30, 2012 is a money market account in the amount of \$322,211. This account is subject to minimal interest rate risk as all money markets are less than one year in maturity. The money market fund is invested in short-term high quality municipal securities.

(b) Marketable Securities

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

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 is combined with the credit risk disclosure.

Custodial Credit Risk – Debt Investments: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, UNMMG will not be able to recover the value of its investments or collateral that is in the possession of an outside party at June 30, 2012. Marketable securities of \$28,899,105 at June 30, 2012 are insured or are collateralized by securities, registered and held by the counterparty's agent in UNMMG's name.

UNM MEDICAL GROUP, INC.
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Notes to Financial Statements

June 30, 2012 and 2011

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 credit risk follows:

2012

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations		Other Government Bonds		International Bonds
			Corporate Bonds			
AAA	\$ 16,565,098	\$ 13,624,871	\$ 749,720	\$ 536,393	\$ 1,654,114	
AA	5,073,633	301,051	3,955,422	817,160	-	
A	6,795,469	-	6,304,893	490,576	-	
BBB	464,905	-	464,905	-	-	
Not rated	-	-	-	-	-	
Total	\$ 28,899,105	\$ 13,925,922	\$ 11,474,940	\$ 1,844,129	\$ 1,654,114	

2012

	Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10
U.S. government obligations	\$ 13,925,922	\$ 1,635,932	\$ 12,289,990	\$ -
Corporate bonds	11,474,940	5,385,922	6,089,018	-
Other government bonds	1,844,129	771,753	1,072,376	-
International bonds	1,654,114	852,286	801,828	-
Total	\$ 28,899,105	\$ 8,645,893	\$ 20,253,212	\$ -

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

Notes to Financial Statements

June 30, 2012 and 2011

2011

Credit Rating (S&P)	Total	U.S.		Other Government Bonds	International Bonds
		Government and Agency Obligations	Corporate Bonds		
AAA	\$ 437,206	\$ -	\$ 437,206	\$ -	\$ -
AA	3,581,048	-	3,158,514	-	422,534
A	3,955,123	-	3,955,123	-	-
BBB	346,937	-	-	-	346,937
Not rated	11,772,751	9,834,157	-	1,938,594	-
Total	\$ 20,093,065	\$ 9,834,157	\$ 7,550,843	\$ 1,938,594	\$ 769,471

2011

	Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10
U.S. government obligations	\$ 9,834,157	\$ 2,199,722	\$ 7,634,435	\$ -
Corporate bonds	7,550,843	997,896	6,552,947	-
Other government bonds	1,938,594	1,837,964	100,630	-
International bonds	769,471	-	769,471	-
Total	\$ 20,093,065	\$ 5,035,582	\$ 15,057,483	\$ -

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, 2012 and 2011, UNMMG's investment portfolio had no investments exposed to concentration of credit risk.

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

Notes to Financial Statements

June 30, 2012 and 2011

(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.

	2012	2011
Medicare and Medicaid	61%	54%
Commercial insurance	32	36
Other	7	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, 2012, and 2011, these assets comprise investments in money market funds, debt securities, sovereign 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:

	2012	2011
Investment reserve	\$ 9,285,676	8,626,575
Department reserve	16,301,943	17,714,502
Quality reserve	1,733,411	1,200,000
Rescission reserve	—	2,652,292
Hardware and technology	1,747,610	1,181,572
Total board-designated assets	\$ 29,068,640	31,374,941

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

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

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Notes to Financial Statements

June 30, 2012 and 2011

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

Rescission 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, June 30, 2010	\$ 4,142,408	\$ 2,666,257	\$ 1,476,151
Additions	228,945	495,339	(266,394)
Deletions	1,611	510	(1,101)
Balance, June 30, 2011	<u>4,369,742</u>	<u>3,161,086</u>	<u>1,208,656</u>
Additions	603,039	566,038	37,001
Deletions	70,192	65,320	(4,872)
Balance, June 30, 2012	<u>\$ 4,902,589</u>	<u>\$ 3,661,804</u>	<u>\$ 1,240,785</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, 2012 and 2011, refunds payable were \$323,602 and \$405,846, respectively. The amount is included in \$5.8 million on the accompanying statements of net assets.

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Notes to Financial Statements

June 30, 2012 and 2011

(8) Accrued Liabilities

Accrued liabilities consisted of the following at June 30:

	<u>2012</u>	<u>2011</u>
Accrued operating expenses	\$ 2,146,769	884,343
Due to UNMH	1,142,591	935,596
Accrued leave	762,242	728,169
Malpractice liability	502,758	502,758
Refunds Payable	323,602	405,846
Payroll and benefits liability	368,955	360,147
Indigent distribution due to UNM HSC	218,171	293,099
Due to UNM Cancer Center	172,539	55,983
Unclaimed property	81,888	65,937
Other	50,980	49,030
	<u>\$ 5,770,495</u>	<u>4,280,908</u>

During the years ended June 30, 2012 and 2011, the following changes occurred in accrued leave:

<u>Balance, July 1, 2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2012</u>
\$ 728,169	762,242	(728,169)	762,242

<u>Balance, June 30, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance, June 30, 2011</u>
\$ 614,536	802,295	(688,662)	728,169

(9) Malpractice Insurance

As a New Mexico University Research Park and Economic Development Act corporation, 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 UNMMG's sovereign immunity for claims arising out of negligence out of operation of UNMMG. In addition, the New Mexico Tort Claims Act limits, as an integral part of this waiver of sovereign immunity, the amount of damages that can be assessed against UNMMG on any tort. The New Mexico Tort Claims Act allows damages to be awarded as follows: (a) up to \$300,000 for past and future reasonable economic or property losses incurred or to be incurred by the claimant; (b) up to \$400,000 for past and future noneconomic losses (such as pain and suffering) incurred or to be incurred by the claimant; and (c) up to \$350,000 for family members of the claimant (to the extent they qualify therefore) for loss of consortium. The New Mexico Tort Claims Act also prohibits the award of punitive or exemplary damages against UNMMG. The New Mexico Tort Claims Act requires the Risk Management Division of the State of New Mexico General

UNM MEDICAL GROUP, INC.
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Notes to Financial Statements

June 30, 2012 and 2011

Services Department (State RMD) to provide coverage to UNMMG through UNM HSC for those torts where the Legislature has waived the State's sovereign immunity up to the damage limits of the New Mexico Tort Claims Act plus the cost incurred in defending any claims and/or lawsuits (including attorney's fees and expenses), with no deductible and with no self-insured retention by UNMMG. As a result of the foregoing, UNMMG is fully covered for claims and/or lawsuits and does not have any responsibility for claims beyond this premium. UNMMG is allocated a portion of the premium assessed by the State to UNM HSC for this coverage, which is reported as malpractice insurance expense on the statement of revenues, expenses, and changes in net assets. For the years ended June 30, 2012 and 2011, malpractice expense was \$3.9 million and \$2.7 million, respectively. As of June 30, 2012 and 2011, a liability of \$502,758 was recorded as an accrued liability on the statements of 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 77% of UNMMG's gross patient revenue was derived from third-party payors in both 2012 and 2011. Of this, Medicare and Medicaid represented approximately 48% and 51% in 2012 and 2011, respectively. A summary of the basis of reimbursement from major-third party payors follows:

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

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

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June 30, 2012 and 2011

A summary of the net patient service revenues follows for the years ended June 30, 2012 and 2011:

	2012	2011
Patient service charges billed at established rates	\$ 358,717,693	343,478,626
Adjustments to charges:		
Contractual adjustments	(143,872,303)	(129,156,204)
Charity care	(58,590,253)	(57,227,342)
Net patient billing	156,255,137	157,095,080
Provision for uncollectible accounts	(28,553,888)	(28,285,858)
Net patient service revenues	\$ 127,701,249	128,809,222

(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, 2012 and 2011:

	2012	2011
Charges forgone, based on established rates	\$ 58,590,253	57,227,342
Estimated costs and expenses incurred to provide charity care	36,079,461	34,302,308
Equivalent percentage of charity care to total gross revenue	16.67%	17.40%

(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 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 UNMMG will determine and approve the purchase of any additional services. For the years ended June 30, 2012 and 2011, UNMMG purchased services in the amounts of approximately \$92.3 million and \$79.9 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 \$27.4 million and \$10.1 million at June 30, 2012 and 2011, 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. At June 30, 2012 and 2011, UNMMG's liabilities for these expenses were approximately \$1.2 million and \$1.1 million, respectively, and are reported as a current

UNM MEDICAL GROUP, INC.
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Notes to Financial Statements

June 30, 2012 and 2011

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, 2012 and 2011 were approximately \$1.6 million and \$1.3 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, 2012 and 2011, approximately \$1.1 million and \$935,600, respectively, were reported in accrued liabilities on the statements of net assets.

UNMH processes certain transactions using 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 \$1.2 million and \$1.0 million for years ended June 30, 2012 and 2011, respectively, which is reported as an offset of data processing costs on the statements of revenues, expenses, and changes in net assets.

In 2012 and 2011, 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 UNMMG via the assessment of Dean's and rescission taxes. The Dean's and rescission taxes are fixed percentage assessments on clinical revenues assessed by the SOM equal to approximately \$10.9 million and \$5.3 million for the years ended June 30, 2012 and 2011, 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 \$218,000 and \$293,100 for the years ended June 30, 2012 and 2011, respectively, and 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. 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 made on behalf of SRMC as a receivable due from SRMC. As a requirement of the SRMC bond issuance by the bond rating agencies, the Board of UNMMG approved, for the benefit of SRMC, the funding of a line of credit to the benefit of the bond trustee (Wells Fargo Bank N.A.)

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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 2012, UNMMG received payments totaling \$3,800,000 for the excess requirement. As of June 30, 2012, the receivable from SRMC associated with the negative arbitrage requirement is \$4.6 million and included in due from SRMC on the accompanying statements of net assets reported net of payables to SRMC.

Amounts repaid prior to June 30, 2012	\$ 3,800,000
Amounts estimated to be repaid after June 30, 2012	<u>4,640,000</u>
Total repayments	<u><u>\$ 8,440,000</u></u>

(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 2012 and 2011. Total contributions were \$728,099 and \$654,302 for the years ended June 30, 2012 and 2011, respectively. 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 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, 2012 and 2011 were approximately \$842,000 and \$823,000, respectively.

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Notes to Financial Statements

June 30, 2012 and 2011

(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 approximately \$34,000 and \$42,000 in 2012 and 2011, respectively, and is reported as an operating expense on the statements of revenues, expenses, and changes in net assets. As of June 30, 2012, the breakdown of expected payments is:

(16) Other Revenue

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that “meaningfully use” certified electronic health record (EHR) technology. These provisions of ARRA, together with certain of its other provisions, are referred to as the Health Information Technology for Economic and Clinical Health (HITECH) Act. The HITECH Act’s overall public policy is “to promote the adoption and meaningful use of interoperable health information technology and qualified electronic health records (EHRs).” The government’s ultimate goal is to promote more effective (quality) and efficient health care delivery through the use of technology, reducing the cost of health care for all Americans and using the savings to expand access to the health care system. In 2012, UNMMG began the attestation process for eligible providers under this program. As of June 30, 2012, 77 providers completed year one attestation. UNMMG recorded an accrual of \$1.6 million at June 30, 2012 and began receiving the funds in July 2012 from the Medicaid program.

Schedule 1

UNM MEDICAL GROUP, INC.
 (A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
 PLEDGED COLLATERAL BY BANKS
 June 30, 2012

Deposits per bank (Wells Fargo)	<u>\$ 28,202,020</u>
Less:	
FDIC Coverage	<u>(611,117)</u>
Total uninsured public funds	<u>\$ 27,590,903</u>
State of New Mexico: Collateral Requirement - 50%	<u>\$ 13,795,452</u>
Pledged collateral:	
FNMA, 31409 VDH3, 03/01/2036, 6.0%	1,610,505
FNMA, 31410 AHK5, 07/01/2036, 6.0%	1,220,697
FNMA, 31410 EN46, 06/01/2036, 6.0%	2,481,534
FNMA, 31411 VT25, 04/01/2037, 5.0%	2,356,470
FNMA, 31414 EMS0, 06/01/2038, 6.0%	3,561,885
FNMA, 31415 RGN8, 07/01/2038, 5.5%	1,371,510
FNMA, 31411 AU86, 11/01/2036, 6.0%	5,527,134
GNMA, 36202 DPS4, 09/20/2031, 6.5%	66,262
GNMA, 36202 DT68, 08/20/2032, 6.0%	<u>107,193</u>
Total pledged collateral	<u>18,303,190</u>
Overcollateralized	<u>\$ 4,507,738</u>

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

See accompanying independent auditors' report.

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
DEPOSIT AND INVESTMENT ACCOUNT BALANCES
June 30, 2012

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
Wells Fargo	Checking	\$ 27,680,304	\$ (4,672,492)	\$ 23,007,812
	Savings	521,716	-	521,716
		<u>28,202,020</u>	<u>(4,672,492)</u>	<u>23,529,528</u>
Morgan Stanley: Smith Barney	Money market:			
	Morgan Stanley U.S. Gov't Money Market Trust	322,211	-	322,211
	Total money market	<u>322,211</u>	<u>-</u>	<u>322,211</u>
	Total cash and cash equivalents	<u>28,524,231</u>	<u>(4,672,492)</u>	<u>23,851,739</u>
Investments: Morgan Stanley: Smith Barney	Corporate bonds:			
	Paccar Financial Corp	449,044	-	449,044
	Cisco Systems Inc	440,223	-	440,223
	Goldman Sachs Group Inc/The	435,656	-	435,656
	Cooper US Inc	296,688	-	296,688
	AT&T	155,400	-	155,400
	Royal Bank of Canada	261,077	-	261,077
	Disney (Walt) Company Notes	51,351	-	51,351
	Praxair Inc Notes	458,071	-	458,071
	Caterpillar Financial SE	509,955	-	509,955
	John Deere Capital Corp	603,659	-	603,659
	McDonalds Corp	105,056	-	105,056
	American Express CO	321,357	-	321,357
	Coca Cola Enterprise	512,233	-	512,233
	Florida Power & Light	339,568	-	339,568
	Toronto-Dominion Bank	310,866	-	310,866
	Bank of Montreal	254,122	-	254,122
	J.P. Morgan Chase & Co	448,718	-	448,718
	US Bancorp	217,706	-	217,706
	Credit Suisse New York	416,606	-	416,606
	Bershire Hathway Global	427,734	-	427,734
	Gen Elec Cap Crp Global	243,444	-	243,444
	Air Products & Chemicals Inc	230,678	-	230,678
	Novartis Capital Global	360,659	-	360,659
	Google Inc	442,378	-	442,378
	IBM Corp	543,789	-	543,789
	Proctor & Gamble Co	201,176	-	201,176
	Intel Corp	281,110	-	281,110
	Microsoft Corp	438,854	-	438,854
	BB&T Corporation	224,064	-	224,064
	Walmart Stores Inc	140,524	-	140,524
	Bank of New York Mellon Corp	254,455	-	254,455
	Georgia Power	263,100	-	263,100
	Wachovia Corp	370,715	-	370,715
	Covidian Intl Finance SA	464,904	-	464,904
	Total corporate bonds	<u>11,474,940</u>	<u>-</u>	<u>11,474,940</u>
	U.S. Treasury notes:			
	SBR AB-2014	146,242	-	146,242
	SBR AC-2016	2,417,836	-	2,417,836
	SER X-2013	477,343	-	477,343
	SER Z-2013	544,720	-	544,720
	SER AF-2016	2,048,229	-	2,048,229
	SER AF-2013	302,024	-	302,024
	SER AN-2012	90,268	-	90,268
	Total treasury notes	<u>6,026,662</u>	<u>-</u>	<u>6,026,662</u>

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
DEPOSIT AND INVESTMENT ACCOUNT BALANCES
June 30, 2012

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	U.S. government bonds:			
	Federal Farm Credit Bank - 31331K3X6	44,986	-	44,986
	Federal Farm Credit Bank - 3133EAAY4	309,957	-	309,957
	Federal Farm Credit Bank - 3133EACK7	974,764	-	974,764
	Federal Farm Credit Bank - 3133EABW7	325,209	-	325,209
	Federal Farm Credit Bank - 3133EARS9	300,134	-	300,134
	Federal Farm Credit Bank - 31331K2C3	45,106	-	45,106
	Subtotal Federal Farm Credit Bank	2,000,156	-	2,000,156
	Federal Home Loan Mtg Corp - 3134G2VW9	340,849	-	340,849
	Federal Home Loan Mtg Corp - 3134G3MM9	746,420	-	746,420
	Federal Home Loan Mtg Corp - 3134G3NZ9	977,719	-	977,719
	Federal Home Loan Mtg Corp Med Ter - 3134G3JP6	311,977	-	311,977
	Federal Home Loan Mtg Corp Med Term - 3134G3SP6	301,051	-	301,051
	Subtotal Federal Home Loan Mtg Corporation	2,678,016	-	2,678,016
	Federal Home Loan Banks - 3133XVNT4	478,614	-	478,614
	Federal Home Loan Banks - 313379L23	674,792	-	674,792
	Subtotal Federal Home Loan Banks	1,153,406	-	1,153,406
	Federal Natl Mtg Assn - 3135G0GU1	50,045	-	50,045
	Federal Natl Mtg Assn - 3135G0KL6	739,130	-	739,130
	Federal Natl Mtg Assn - 3135G0KS1	994,928	-	994,928
	Federal Natl Mtg Assn - 3135G0JG9	110,259	-	110,259
	Federal Natl Mtg Assn - 31398AVD1	173,320	-	173,320
	Subtotal Federal Nat'l Mtg. Assoc.	2,067,682	-	2,067,682
	Total government and government sponsored entity (GSE) bonds	7,899,260	-	7,899,260
	Municipal bonds:			
	Florida Hurricane Catastrophe FD Pin Corp	295,199	-	295,199
	San Francisco Calif City	390,085	-	390,085
	Columbus Ohio Taxable	121,956	-	121,956
	Chicago Ill Met Wtr	182,458	-	182,458
	Wyandotte Cnty Kans Uni Sch	221,436	-	221,436
	Arizona Wtr Infrastructure Pin	166,071	-	166,071
	Ohio St Wtr Dev Auth Wtr Pollutn Ctl	65,908	-	65,908
	New York NY for Prior Issues	300,526	-	300,526
	Higginsville Mo Sew Sys Rev	100,490	-	100,490
	Total municipal bonds	1,844,129	-	1,844,129
	Sovereign Securities:			
	Australia Govt	852,287	-	852,287
	Canada Govt	801,827	-	801,827
	Subtotal Sovereign Securities	1,654,114	-	1,654,114
	Total Investments	\$ 28,899,105	\$ -	\$ 28,899,107

See accompanying independent auditor's report.



**Report of Independent Auditors on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *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, 2012, and have issued our report thereon dated November 2, 2012. 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

Management of UNMMG is responsible for establishing and maintaining effective 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 previously.

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

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.

Mess Adams LLP

Albuquerque, New Mexico
November 2, 2012

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2012

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.
(A Component Unit of the University of New Mexico)
Exit Conference
Fiscal year ended June 30, 2012

An exit conference was conducted on October 18, 2012, 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:

Loretta Cordova de Ortega, M.D.	Chair, Pediatrics
Anthony R. Masciotra, Jr.	Chief Executive Officer
Marjorie Goldstein	Vice President & CFO
Angela V. Hawthorne	Controller
Mary Swanson	Director, Accounting
Brandon S. Fryar	Partner, Moss Adams LLP
Purvi Mody Harville	Senior Manager, Moss Adams LLP

