

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

Report of Independent Auditors and  
Financial Statements with Supplementary Information

June 30, 2013 and 2012

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
2013 Official Roster

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**Board of Directors**

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<b>Michael Richards, M.D., MPA,</b> FACEP	Executive Physician-in-Chief, UNM Health System Chairman of Board Professor of Emergency Medicine, UNM Health Sciences Center
<b>Carolyn Voss, M.D.</b>	Health System Clinical Affairs Officer (Regent appointed)
<b>Chris Pacheco</b>	Independent, non-UNM Faculty (Regent appointed)
<b>Cheryl Willman, M.D.</b>	Director, UNM Cancer Center (Regent appointed)
<b>Martha McGrew, M.D.</b>	Chair, Family & Community Medicine (Regent appointed)
<b>Pope Moseley, M.D.</b>	Chair, Internal Medicine (Regent appointed)
<b>Thomas Williams, M.D.</b>	UNM School of Medicine, Executive Vice-Dean, President of UNM Medical Group (Regent appointed)
<b>Loretta Cordova de Ortega, M.D.</b>	Chair, Pediatrics (Regent appointed)
<b>John Russell, M.D.</b>	Chair, Surgery (Regent appointed)
<b>Robert Avery, M.D.</b>	Associate Professor, Ophthalmology, Surgery
<b>Robb McLean, M.D.</b>	Assistant Professor, Emergency Medicine

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

<b>Anthony Masciotra</b>	Chief Executive Officer
<b>Robert Fritch, D.O.</b>	Chief Medical Officer
<b>Marjorie Goldstein</b>	Chief Financial Officer
<b>Frederick Rupp, M.D.</b>	Secretary, UNMMG Board of Directors Professor of Neuroradiology
<b>Ariadna (Ari) Vazquez</b>	Associate University Counsel

**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

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

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 years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise UNMMG's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

The Board of Directors  
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Mr. Hector Balderas, State Auditor

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UNMMG's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNMMG as of June 30, 2013 and 2012, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Board of Directors  
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Mr. Hector Balderas, State Auditor

*Other Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2013 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* in considering UNMMG's internal control over financial reporting and compliance.

*Mess Adams LLP*

Albuquerque, New Mexico  
October 18, 2013

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

June 30, 2013, 2012 and 2011

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, 2013, 2012, and 2011. 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 position include all assets and liabilities. Over time, increases or decreases in net position (the difference between assets and liabilities) are one indicator of the improvement or erosion of UNMMG's financial health when considered with nonfinancial facts such as patient statistics. This statement includes all assets and liabilities using the accrual basis of accounting, which is consistent with the accounting method used by private sector institutions.

The statements of revenues, expenses, and changes in net position 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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**Condensed Summary of Net Position**

	<b>June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Assets:</b>			
Current assets	\$ 49,068,554	48,461,606	28,931,719
Capital assets, net	1,039,469	1,240,785	1,208,656
Other noncurrent assets	29,409,465	31,476,700	35,092,581
Total assets	<u>79,517,488</u>	<u>81,179,091</u>	<u>65,232,956</u>
<b>Liabilities:</b>			
Current liabilities	32,522,283	34,289,387	15,473,372
Total liabilities	<u>32,522,283</u>	<u>34,289,387</u>	<u>15,473,372</u>
<b>Net position:</b>			
Invested in capital assets	1,039,469	1,240,785	1,208,656
Unrestricted	45,955,736	45,648,919	48,550,928
Total net position	<u>\$ 46,995,205</u>	<u>46,889,704</u>	<u>49,759,584</u>

Current assets include cash and other assets that were deemed to be consumable or convertible to cash within one year. As of June 30, 2013, total current assets of \$49.1 million consisted of \$21.4 million of cash and cash equivalents compared to \$48.5 million in total current assets and \$23.7 million of cash and cash equivalents at June 30, 2012, and compared to \$28.9 million in total current assets and \$1.4 million of cash and cash equivalents at June 30, 2011. Current assets also include net patient receivables of \$23.1 million, \$19.2 million, and \$20.6 million in 2013, 2012, and 2011, respectively. Also included in current assets are due from affiliates and other receivables of \$4.6 million (consisting primarily of \$3.2 million due from UNM HSC and \$1.4 million due from UNM Hospitals, and \$0.04 million due from SRMC), compared to \$3.5 million in 2012 (consisting primarily of \$0.7 million due from UNM HSC, \$1.3 million due from UNMH, and \$1.5 million due from SRMC), and \$6.9 million in 2011 (consisting primarily of \$0.7 million due from UNM HSC, and \$0.9 million due from UNMH, and \$5.3 million due from SRMC). Noncurrent assets in 2013 represent \$2.0 million due from SRMC, capital assets of \$1.0 million and other assets of \$0.9 million compared to \$2.0 million due from SRMC, \$1.2 million in capital assets and other assets of \$0.3 million in 2012 and compared to \$3.5 million due from SRMC, \$1.2 million in capital assets, and other assets of \$0.2 million in 2011. Other noncurrent assets include board-designated investments in cash and cash equivalents, money markets, U.S. government securities, sovereign securities and corporate debt securities of \$26.5 million in 2013, \$29.1 million in 2012, and \$31.4 million in 2011.

Current liabilities are generally defined as amounts due within one year. As of June 30, 2013, total current liabilities of \$32.5 million include purchased services payable to UNM HSC of \$21.9 million compared to \$34.3 million and \$27.4 million in 2012 and \$15.5 million and \$10.1 million in 2011, respectively. Also included in current liabilities are amounts payable to UNM, in the amount of \$3.4 million, and other accrued liabilities of \$3.0 million, compared to \$1.5 million and \$4.2 million in 2012 and \$1.0 million and \$3.0 million in 2011, respectively.



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At June 30, 2013, UNMMG's current ratio, the amount of current assets available to cover current liabilities, was 1.51 compared to 1.41 in 2012 and 1.87 in 2011. Payment of UNMMG's current liabilities is dependent on UNMMG's ability to collect patient and other receivables.

Total net position increased \$0.1 million to \$47.0 million at June 30, 2013 from \$46.9 million at June 30, 2012, due to the excess of revenue over expenses in 2013 of \$0.1 million. Total net position 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.

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

	<b>Year Ended June 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net operating revenues	\$ 162,540,407	130,969,064	131,525,873
Operating expenses:			
Purchased clinical services	116,399,491	92,253,968	79,859,690
Salaries and benefits	20,176,219	17,332,700	14,106,684
Other	25,749,533	24,437,637	13,932,428
Total operating expenses	<u>162,325,243</u>	<u>134,024,305</u>	<u>107,898,802</u>
Operating (loss) income	<u>215,164</u>	<u>(3,055,241)</u>	<u>23,627,071</u>
Nonoperating revenues:			
Investment income (loss)	<u>(109,663)</u>	<u>185,361</u>	<u>116,497</u>
Total nonoperating revenues	<u>(109,663)</u>	<u>185,361</u>	<u>116,497</u>
Change in net position	105,501	(2,869,880)	23,743,568
Net position, beginning of year	<u>46,889,704</u>	<u>49,759,584</u>	<u>26,016,016</u>
Net position, end of year	<u>\$ 46,995,205</u>	<u>46,889,704</u>	<u>49,759,584</u>

Net operating revenues, generated primarily through the delivery of professional clinical services, are reduced by contractual allowances and by a provision for uncollectible accounts. Net operating revenues for 2013 increased \$31.6 million from \$131.1 million in 2012 to \$162.5 million in 2013, reflecting an increase of 24.1%. Net operating revenues for 2012 decreased \$0.6 million from \$131.5 million in 2011 to \$131.0 million in 2012, reflecting a decrease of 0.4%. The 2013 increase in net operating revenues is primarily due to three factors. The first factor impacting increased net operating revenues was the expansion of professional clinical services resulting from the opening of UNM Sandoval Regional Medical Center (SRMC). This expansion resulted in an increase of \$3.8 million in revenues. A second factor was the expansion of services by the UNMMG at the Cancer Center in July 2012, resulting in an increase of \$10.1 million in net operating revenues. The third factor impacting increased net operating revenues results from billings for pharmaceuticals distributed to eligible patients of the UNM Truman Health Clinic in conjunction with a contract pharmacy services agreement with a mail-order pharmacy. These billings represented \$8.8 million and \$1.2 million in 2013 and 2012, respectively.

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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 SCI is modeled after a capitated payment program. UNMMG receives a pro rata portion of SCI reimbursement from UNM Hospital, net of costs based on claims experience. For the year ended June 30, 2013, UNMMG recognized \$3.5 million in revenues from the SCI program, which represents a \$0.6 million increase from 2012. For the year ended June 30, 2012, UNMMG recognized revenues of \$2.9 million in revenues, which represented a \$1.0 million decrease from 2011.

UNMMG measures patient service volume in work relative value units (WRVUs), an industry standard unit of measure of physician clinic effort to provide clinical care. WRVUs were 2,587,523 in 2013, representing an increase of 250,525, or 10.7% from 2012. In 2012, WRVUs of 2,336,998 increased 55,812 or 2.4% from 2011. UNMMG negotiated rate increases among our commercial insurance payors resulting in an estimated overall weighted average increase of 3%. During 2013, 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 \$17.2 million in revenues in 2013, an increase of \$6.9 million compared to revenues of \$10.3 million in 2012. A condensed summary of the net operating revenue calculation follows:

	<b>Year Ending June 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Patient service charges billed at established rates	\$ 433,388,527	357,517,532	343,478,626
Adjustments to charges:			
Contractual adjustments	(175,377,742)	(143,872,303)	(129,156,204)
Charity care	(66,093,430)	(58,590,253)	(57,227,342)
Net patient billings	191,917,355	155,054,976	157,095,080
Provision for uncollectible accounts	(44,938,372)	(28,553,888)	(28,285,858)
Net patient service revenues	146,978,983	126,501,088	128,809,222
Pharmacy revenue	8,768,977	1,200,161	—
Other revenue	6,792,447	3,267,815	2,716,651
Total net operating revenues	<u>\$ 162,540,407</u>	<u>130,969,064</u>	<u>131,525,873</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 300% of the Federal Poverty Level (FPL). As of June 30, 2013, 2012, and 2011, there were approximately 26,400, 32,500, and 30,500 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, 2013, UNMMG provided \$66.1 million in charity care compared to \$58.6 million in 2012 and \$57.2 million in 2011.

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

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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, 2013, UNMMG recorded \$44.9 million as a provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts, compared to \$28.6 million and \$28.3 million as of June 30, 2012 and 2011, respectively.

UNMMG incurs costs associated with providing charity care and other services for which payment is not received. As of June 30, 2013, the estimated cost of care for providing these services was \$42.7 million compared to \$36.6 million in 2012 and \$34.3 million in 2011.

Total operating expenses were \$162.3 million for the year ended June 30, 2013, \$134.0 million for the year ended June 30, 2012, and \$107.9 million for the year ended June 30, 2011. 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 \$125.1 million in 2013 and \$103.1 million in 2012 and \$85.1 million in 2011. These costs accounted for \$22.0 million in increased expense from 2012 to 2013 and \$18.0 million in increased expense from 2011 to 2012. Purchased services for providers at SRMC accounted for \$12.0 million of the \$22.0 million increase in 2013.

Other expense increases were attributable to the cost of pharmaceuticals associated with the contract pharmacy services agreement, salaries and benefits expense, primarily due to faculty salaries for Locum Tenens, increased contract labor for clinical coding due to patient billing volume, and continued expansion of UNMMG's ambulatory clinic management, oversight function, and growth in administrative functions. These increases support clinic expansion, 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 a Dean's tax and rescission tax. Taxes are assessed as a fixed percentage of clinical revenues collected. In the event the Dean's office elects for the UNMMG to retain the taxes within a reserve fund or for the UNMMG to use the funds to support purchased services, the expense is adjusted accordingly. Total Dean's and rescission taxes of \$8.7 million in 2013, \$10.9 million in 2012, and \$5.3 million in 2011 and is reported on the statement of revenues, expenses, and changes in net position as an operating expense. In 2011, the Dean's office elected for the UNMMG to retain \$1.8 million in reserves, whereas in 2012, the dean's office elected for the UNMMG to return reserves of \$2.7 million. In 2013, \$1.9 million of the Dean's and rescission tax was waived by the Dean's office to help support of Purchased Services of SOM providers at SRMC, paid by the UNMMG.

In 2013, UNMH provided funding to UNMMG in the amount of \$1.3 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 position as a reduction of operating expense. The amount of funding provided is negotiated annually.

Nonoperating revenues (expenses) of (\$109,663) in 2013, \$185,361 in 2012, and \$116,497 in 2011 consisted primarily of unrealized losses on investments and interest income on a money market account in 2013,

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investment income on investments and interest income on a money market account in 2012, and interest income on certificates of deposit and a money market account in 2011.

**Capital Assets**

At June 30, 2013, UNMMG had \$1.0 million invested in capital assets, net of accumulated depreciation of approximately \$4.1 million compared to \$1.2 million and \$3.7 million at June 30, 2012, and compared to \$1.2 million and \$3.2 million at June 30, 2011. 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 Position**

UNMMG's change in net position reflected a net increase of \$0.1 million from 2012 to 2013 due to an increase in operating income compared to a net decrease of \$2.9 million from 2011 to 2012 due to a decrease of operating income.

**Other Matters**

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, 2013, \$2.1 million of this loan was outstanding.

**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 2013, UNMMG continued the attestation process for eligible providers under this program. As of June 30, 2013, 148 providers completed year one attestation. UNMMG recorded \$2.7 million of revenue at June 30, 2013, compared to \$1.6 million at June 30, 2012. UNMMG began receiving funds in July 2012 from the Medicaid program and December 2012 from the Medicare program.

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**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 Federal Poverty Level FPL, eliminating other non-income-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 preexisting 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.

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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 87106-4375.

**UNM MEDICAL GROUP, INC.**  
**(A COMPONENT UNIT OF UNIVERSITY OF NEW MEXICO)**  
**STATEMENTS OF NET POSITION**  
**June 30, 2013 and 2012**

<b>Assets</b>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents	<b>\$ 21,396,402</b>	23,682,204
Receivables:		
Net patient receivables (net of allowance for uncollectible accounts of \$35,038,711 in 2013 and \$27,943,312 in 2012)	<b>23,071,804</b>	19,181,238
Due from affiliates	<b>4,583,757</b>	3,529,137
Third-party receivable	-	1,636,250
Other	<b>16,591</b>	432,777
Total net receivables	<u><b>27,672,152</b></u>	<u>24,779,402</u>
Total current assets	<u><b>49,068,554</b></u>	<u>48,461,606</u>
Noncurrent assets:		
Board designated assets:		
Cash and cash equivalents	<b>3,599,830</b>	169,535
Investments	<b>22,864,864</b>	28,899,105
Total board designated assets	<u><b>26,464,694</b></u>	<u>29,068,640</u>
Due from affiliate	<b>2,040,000</b>	2,040,000
Capital assets, net	<b>1,039,469</b>	1,240,785
Other assets	<b>904,771</b>	368,060
Total noncurrent assets	<u><b>30,448,934</b></u>	<u>32,717,485</u>
Total assets	<u><b>\$ 79,517,488</b></u>	<u>81,179,091</u>
<b>Liabilities</b>		
Current liabilities:		
Purchased services payable due to UNM HSC	<b>\$ 21,933,956</b>	27,366,369
Operating expenses due to UNM	<b>3,354,710</b>	1,543,233
Due to Affiliates	<b>4,255,322</b>	1,178,239
Accrued liabilities	<b>2,978,295</b>	4,201,546
Total current liabilities	<u><b>32,522,283</b></u>	<u>34,289,387</u>
<b>Net Position</b>		
Invested in capital assets	<b>1,039,469</b>	1,240,785
Unrestricted	<b>45,955,736</b>	45,648,919
Total net position	<u><b>46,995,205</b></u>	<u>46,889,704</u>
Total liabilities and net position	<u><b>\$ 79,517,488</b></u>	<u>81,179,091</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 POSITION**  
**Years ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Patient service revenues, net	<b>\$ 146,978,983</b>	126,501,088
Pharmacy revenue	<b>8,768,977</b>	1,200,161
Other revenue	<b>6,792,447</b>	3,267,815
Total net operating revenues	<u><b>162,540,407</b></u>	<u>130,969,064</u>
Operating expenses:		
Purchased clinical services from UNM HSC	<b>116,399,491</b>	92,253,968
Salaries and benefits	<b>20,176,219</b>	17,332,700
Dean's and rescission tax	<b>8,670,192</b>	10,866,213
Pharmacy Expenses	<b>5,331,496</b>	636,474
Malpractice insurance	<b>4,104,202</b>	3,854,112
Other administrative	<b>2,542,530</b>	4,249,627
Patient registration and enrollment support	<b>1,811,271</b>	1,649,951
Data processing costs	<b>1,579,780</b>	1,227,818
Occupancy	<b>802,143</b>	841,898
Depreciation	<b>537,386</b>	566,038
Consulting	<b>370,533</b>	545,506
Total operating expenses	<u><b>162,325,243</b></u>	<u>134,024,305</u>
Operating income (loss)	<u><b>215,164</b></u>	<u>(3,055,241)</u>
Nonoperating revenues (expenses):		
Investment (loss) income	<u><b>(109,663)</b></u>	185,361
Total nonoperating revenues	<u><b>(109,663)</b></u>	<u>185,361</u>
Change in net position	<b>105,501</b>	(2,869,880)
Net position, beginning of year	<u><b>46,889,704</b></u>	<u>49,759,584</u>
Net position, end of year	<u><b>\$ 46,995,205</b></u>	<u>46,889,704</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, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Payments from insurance and patients	\$ 153,493,643	126,663,096
Payments to UNM	(131,579,422)	(82,989,068)
Payments to employees	(13,308,030)	(13,018,720)
Payments to suppliers	(12,437,752)	(9,151,273)
Payments for employee benefits	(6,868,189)	(4,231,752)
Other receipts	6,255,736	3,097,209
	<u>(4,444,014)</u>	<u>20,369,492</u>
Net cash (used in) provided by operating activities		
Cash flows from investing activities:		
Purchase of capital assets	(336,070)	(598,167)
Investment income	-	185,361
Proceeds from maturity of investments	7,034,241	-
Purchases of investments	(1,109,664)	(8,806,041)
	<u>5,588,507</u>	<u>(9,218,847)</u>
Net cash provided by (used in) investing activities		
Net increase in cash and cash equivalents	1,144,493	11,150,645
Cash and cash equivalents, beginning of year	<u>23,851,739</u>	<u>12,701,094</u>
Cash and cash equivalents, end of year	<u>\$ 24,996,232</u>	<u>23,851,739</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 215,165	(3,055,241)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	537,386	566,038
Provision for doubtful accounts	44,938,372	28,553,888
Changes in assets and liabilities:		
Patient receivables	(48,828,939)	(27,095,726)
Third-party receivable	1,636,250	(1,636,250)
Due from affiliates	(1,054,619)	5,251,439
Other receivables	416,186	(860,065)
Other assets	(536,711)	(170,606)
Purchase services due to UNM HSC	(5,432,413)	17,244,200
Due to affiliates	4,888,560	82,229
Accrued liabilities	(1,223,251)	1,489,586
	<u>(4,444,014)</u>	<u>20,369,492</u>
Net cash (used in) provided by operating activities		

*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, 2013 and 2012

**(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 entity engaged in business type activities, UNMMG's financial statements present financial information in a form similar to that used by corporations.

Changes in Accounting Policies and Statements. Effective July 1, 2012, the UNMMG adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position. This statement had minimal impact on UNMMG's financial statements or related accounting and financial reporting. The primary effects of implementing this statement was to change all previous references from "net assets" to "net position," change the line item for "invested in capital assets, net of related debt" to "net investment in capital assets," and to classify certain assets and liabilities as "deferred inflows" and "deferred outflows." At June 30, 2013, the UNMMG had no items meeting the criteria of "deferred inflows" or "deferred outflows."

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

June 30, 2013 and 2012

**(b) Net Position**

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

- *Invested in capital assets* – capital assets, net of accumulated depreciation.
- *Unrestricted* – Net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of 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. Interest-bearing deposit accounts are subject to FDIC's standard deposit insurance amount of \$250,000. Cash in excess of FDIC insurance is collateralized at June 30, 2013 and 2012 by U.S. government agency securities held by the financial institution in UNMMG's name.

**(e) Marketable Securities**

Investments are recorded at fair market value. At June 30, 2013 and 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.

**(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.

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Notes to Financial Statements

June 30, 2013 and 2012

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

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 collectability 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 State Coverage Initiative (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 position.

**(h) *Pharmacy Revenue Expenses***

UNMMG is contracted, through its UNM Truman Health Clinic, with a mail-order pharmacy (Pharmacy) to supply and bill patients eligible under the Section 340B program, a program designed to allow certain entities to purchase outpatient prescription drugs at favorable discounts. Under the terms of the agreement, the Pharmacy orders, receives and dispenses drugs, and charges and collects for the drugs on behalf of the UNMMG. UNMMG maintains title to the drugs, and accordingly, pharmacy revenues are recorded at the estimated net realizable value at the time the drugs are dispensed. Total revenues were \$8.8 million and \$1.2 million for the years ended June 30, 2013 and 2012, respectively. Pharmacy expenses reflect the cost of goods sold, pharmacy management and dispensing fees. Pharmacy expenses were \$5.3 million and \$0.6 million for the years ended June 30, 2013 and 2012, respectively.

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June 30, 2013 and 2012

**(i) 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.

**(j) Operating Revenues and Expenses**

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

**(k) Purchase of Clinical Services from UNM HSC**

UNMMG has entered into a purchased services agreement with UNM HSC to purchase the clinical effort of various clinical providers primarily from the SOM. This clinical effort is the basis of the clinical services rendered and billed by 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.

**(l) Salaries & Benefits**

At June 30, 2013, the staff of UNMMG was comprised of 325 UNMMG and 82 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.

**(m) Income Taxes**

UNMMG has received a determination letter from the Internal Revenue Service (IRS) that it is an organization described in Internal Revenue Code section 501(c)(3) and further classified as an organization described in IRC section 509(a)(3). As such it would be exempt from federal income tax on income generated from activities related to its exempt function. Furthermore, UNMMG

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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 of 2006 required 509(a)(3) organizations to file Form 990 on an annual basis. Three subsequent failures to file Form 990 results in automatic revocation of exempt status. The IRS is expected to issue further guidance to assist 50(a)(3) supporting organizations, with Revenue Procedure 95-48 rulings in maintaining exempt status. UNMMG requested reclassification as a public charity described in section 509(a)(2) of the Internal Revenue Code from the Internal Revenue Service. UNMMG received a letter from the IRS on August 14, 2013 confirming the requested reclassification and Form 990 is not required to be filed. Accordingly, no provision for income taxes has been made.

**(n) New Accounting Pronouncements**

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, is required to be implemented effective July 1, 2013, and thus will be adopted by UNMMG next fiscal year. The statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Management is currently evaluating the impact of this standard on UNMMG's financial statements.

**(o) Reclassifications**

Certain 2012 amounts have been reclassified to conform to the 2013 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 as of June 30, 2013 and 2012 are categorized as follows:

	<b>2013</b>	<b>2012</b>
Operating accounts	\$ 21,573,620	27,680,304
Savings account	522,678	521,716
Total bank balances	\$ 22,096,298	28,202,020
Amount insured by FDIC	\$ 590,095	611,117
Amount collateralized with securities held in UNMMG's name	\$ 21,506,203	27,590,903

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Also included in cash and cash equivalents at June 30, 2013 is a money market account in the amount of \$3,409,900. 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, 2013. Marketable securities of \$22,864,864 at June 30, 2013 are insured or are collateralized by securities, registered and held by the counterparty's agent in UNMMG's name.

*Credit Risk – Debt Investments:* Credit risk is the risk that an issuer or other counterparty to the investment will not fulfill their obligations. UNMMG is required to disclose credit ratings of its debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. government, and nondebt investments are excluded from this requirement. Currently, UNMMG's policy restricts debt investments to specific investment ratings issued by nationally recognized statistical rating organizations. A summary of the marketable securities and their respective maturities and their exposure at June 30, 2013 and 2012 to credit risk follows:

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Notes to Financial Statements

June 30, 2013 and 2012

June 30, 2013

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations		Other Government Bonds	International Bonds
		Obligations	Corporate Bonds	Bonds	Bonds
AAA	\$ 15,914,544	14,176,793	436,440	533,380	767,932
AA	2,670,528	-	2,151,076	519,452	-
A	4,279,792	-	4,043,619	236,173	-
Total	\$ 22,864,864	14,176,793	6,631,135	1,289,005	767,932

June 30, 2013

	Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10
U.S. government obligations	\$ 14,176,792	244,635	13,932,158	-
Corporate bonds	6,631,135	4,299,466	2,331,659	-
Other government bonds	1,289,006	120,986	1,168,020	-
Sovereign bonds	767,931	767,931	-	-
Total	\$ 22,864,864	5,433,018	17,431,837	-

June 30, 2012

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations		Other Government Bonds	International Bonds
		Obligations	Corporate Bonds	Bonds	Bonds
AAA	\$ 16,565,098	13,624,871	749,720	536,393	1,654,114
AA	5,073,635	301,051	3,955,423	817,161	-
A	6,795,468	-	6,304,893	490,575	-
BBB	464,904	-	464,904	-	-
Total	\$ 28,899,105	13,925,922	11,474,940	1,844,129	1,654,114

June 30, 2012

	Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10
U.S. government obligations	\$ 13,925,919	1,635,930	12,289,989	-
Corporate bonds	11,474,944	5,385,924	6,089,020	-
Other government bonds	1,844,127	771,752	1,072,375	-
International bonds	1,654,115	852,287	801,828	-
Total	\$ 28,899,105	8,645,893	20,253,212	-



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Notes to Financial Statements

June 30, 2013 and 2012

*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, 2013 and 2012, UNMMG’s investment portfolio had no investments exposed to concentration of credit risk.

**(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>2013</b>	<b>2012</b>
Medicare and Medicaid	53%	61%
Commercial insurance	40	32
Other	7	7
	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, 2013 and 2012, 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).

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June 30, 2013 and 2012

As of June 30, 2013 and 2012, assets are designated for the following purposes:

	<b>2013</b>	<b>2012</b>
Investment reserve	\$ 4,852,277	9,285,676
Department reserve	13,401,421	16,301,943
Quality reserve	6,001,582	1,733,411
Other MG reserve	1,600,000	—
Hardware and technology	1,858,643	1,747,610
Total board-designated assets	\$ 27,713,923	29,068,640

*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.

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

*Other MG reserve* – Represents transfer of fund balance from UNM HSC for Locum Tenens whose mission is to advance the strength and sustainability of those we serve in an effort to improve access to health care in communities throughout New Mexico.

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

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June 30, 2013 and 2012

**(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, 2011	\$ 4,369,742	3,161,086	1,208,656
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>
Additions	431,454	537,386	(105,932)
Deletions	234,475	139,091	(95,384)
Balance, June 30, 2013	<u><u>\$ 5,099,568</u></u>	<u><u>4,060,099</u></u>	<u><u>1,039,469</u></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, 2013 and 2012, refunds payable were \$326,068 and \$323,602, respectively. The amount is included in accrued liabilities on the accompanying statements of net position.

**(8) Accrued Liabilities**

Accrued liabilities consisted of the following at June 30:

	<b>2013</b>	<b>2012</b>
Accrued operating expenses	\$ 731,386	2,146,769
Accrued leave	838,934	762,242
Malpractice liability	502,758	502,758
Refunds payable	326,068	323,602
Payroll and benefits liability	470,487	368,955
Unclaimed property	96,414	81,888
Other	<u>12,248</u>	<u>15,332</u>
	<u><u>\$ 2,978,295</u></u>	<u><u>4,201,546</u></u>

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June 30, 2013 and 2012

During the years ended June 30, 2013 and 2012, the following changes occurred in accrued leave:

<b>Balance, July 1, 2012</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance, June 30, 2013</b>
\$ 762,242	838,934	(762,242)	838,934
<b>Balance, July 1, 2011</b>	<b>Increase</b>	<b>Decrease</b>	<b>Balance, June 30, 2012</b>
\$ 728,169	762,242	(728,169)	762,242

**(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 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 UNMMG. The New Mexico Tort Claims Act requires the Risk Management Division of the State of New Mexico General Services Department (State RMD) to provide coverage to UNMMG through UNM HSC for those torts where the Legislature has waived the State's sovereign immunity up to the damage limits of the New Mexico Tort Claims Act plus the cost incurred in defending any claims and/or lawsuits (including attorney's fees and expenses), with no deductible and with no self-insured retention by UNMMG. As a result of the foregoing, UNMMG is fully covered for claims and/or lawsuits and does not have any responsibility for claims beyond this premium. UNMMG is allocated a portion of the premium assessed by the State to UNM HSC for this coverage, which is reported as malpractice insurance expense on the statement of revenues, expenses, and changes in net position. For the years ended June 30, 2013 and 2012, malpractice expense was \$4.1 million and \$3.9 million, respectively. As of June 30, 2013 and 2012, malpractice premiums of \$502,758 were recorded as an accrued liability on the statements of net position.

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

Notes to Financial Statements

June 30, 2013 and 2012

**(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 78% in 2013 and 77% in 2012, respectively, of UNMMG's gross patient revenue was derived from third-party payors. Of this, Medicare and Medicaid represented approximately 48% in both 2013 and 2012. 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.

A summary of the net patient service revenues follows for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Patient service charges billed at established rates	\$ 433,388,527	357,517,532
Adjustments to charges:		
Contractual adjustments	(175,377,742)	(143,872,303)
Charity care	(66,093,430)	(58,590,253)
Net patient billing	191,917,355	155,054,976
Provision for uncollectible accounts	(44,938,372)	(28,553,888)
Net patient service revenues	<u>\$ 146,978,983</u>	<u>126,501,088</u>

**UNM MEDICAL GROUP, INC.**  
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June 30, 2013 and 2012

**(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, 2013 and 2012:

	<b>2013</b>	<b>2012</b>
Charges forgone, based on established rates	\$ 66,093,430	58,590,253
Estimated costs and expenses incurred to provide charity care	42,698,483	36,610,461
Equivalent percentage of charity care to total gross revenue	14.90%	16.33%

**(12) Related-Party Transactions**

A summary of the related-party balances as of June 30, 2013 and 2012 is as follows:

	<b>2013</b>	<b>2012</b>
<b>Current Assets:</b>		
Due from HSC	\$ 3,175,447	733,493
Due from UH	1,372,044	1,251,013
Due from SRMC	36,266	1,544,631
	\$ 4,583,757	3,529,137
<b>Noncurrent Assets:</b>		
Due from SRMC	\$ 2,040,000	2,040,000
<b>Current Liabilities:</b>		
Purchased Services Payable	\$ 21,933,956	27,366,369
Operating Expenses due to HSC	3,080,081	1,325,062
Due to SRMC	2,498,459	-
Due to UH	1,756,863	1,178,239
Indigent Distribution (HSC)	274,629	218,171
	\$ 29,543,988	30,087,841

UNMMG processes payroll and various other expenses through its business office on behalf of UNM. UNM reimburses UNMMG for the expenses. At June 30, 2013 and 2012, UNMMG's receivable for these expenses were approximately \$3.2 million and \$.7 million, respectively, and are reported as a current asset on the statements of net position. The offset in expenses are shown within the appropriate categories on the statements of revenues, expenses, and changes in net position.

In 2013 and 2012, UNMH provided funding to UNMMG in the amount of \$1.3 million and \$1.0 million, for the support of two UNMMG departments who provide direct operational support services to UNMH.

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

June 30, 2013 and 2012

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 position.

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.

In 2013, under a Master Services Agreement between UNMMG, UNM Sandoval Regional Medical Center (SRMC) and UNM HSC, provider staffing levels for clinical services at SRMC were established. Under the terms of this agreement, the UNMMG and SRMC fund the clinical and academic component cost of SOM physician and non-physician provider costs for the services provided at SRMC. These costs have been classified as purchased services.

For the years ended June 30, 2013 and 2012, total UNMMG purchased services were \$116.4 million and \$92.3 million, respectively, which is recorded as an operating expense on the statements of revenues, expenses, and changes in net position. The related unpaid amounts of approximately \$21.9 million and \$27.4 million at June 30, 2013 and 2012, respectively, are reported as a current liability on the statements of net position.

UNM processes payroll and various other expenses through its business office on behalf of UNMMG. UNMMG reimburses UNM for the expenses. At June 30, 2013 and 2012, UNMMG's liabilities for these expenses were approximately \$3.1 million and \$1.2 million, respectively, and are reported as a current liability on the statements of net position. The related expenses are reported as operating expenses within the appropriate categories on the statements of revenues, expenses, and changes in net position.

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, 2013 and 2012 were approximately \$1.8 million and \$1.6 million, and are reported as patient registration and enrollment support expense on the statements of revenues, expenses, and changes in net position. At June 30, 2013 and 2012, approximately \$1.8 million and \$1.2 million, respectively, were reported in due from affiliates on the statements of net position.

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 Dean's and rescission taxes, taxes assessed as a fixed percentage of clinical revenues collected. In the event the Dean's office elects for the UNMMG to retain the taxes within a reserve fund or for the UNMMG to use the funds to support purchased services, the expense is adjusted accordingly. Total dean's and rescission taxes of approximately \$8.7 million and \$10.9 million for the years ended June 30, 2013 and 2012, respectively, are reported as an operating expense on the statements of revenues, expenses, and changes in net position.

UNMMG reimburses UNM HSC for the collections from third parties related to the indigent care services provided by UNMMG during the fiscal year. The related outstanding amount of approximately \$274,629

**UNM MEDICAL GROUP, INC.**  
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and \$218,171 for the years ended June 30, 2013 and 2012, respectively, is reported as a current liability on the statements of net position.

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.) 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. SRMC construction was completed during 2013. The amount of the negative arbitrage requirements are recalculated upon each semiannual bond debt service payment, at which time, the funds in excess of the requirement revert back to UNMMG. In 2013, UNMMG received payments totaling \$2,600,000 for the excess requirement. As of June 30, 2013, the receivable from SRMC associated with the negative arbitrage requirement is \$2.0 million, all of which is deemed noncurrent.

**(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. The plan document was amended so employees hired on or after January 1, 2012, follows a six year vesting schedule. In addition, for employees hired prior to June 1, 2010, UNMMG may make a discretionary contribution to the employee's plan based on a percentage of the employee salary. The discretionary contribution percentages were 4% in 2013 and 2012. Total contributions were \$827,792 and \$728,099 for the years ended June 30, 2013 and 2012, 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, 2013 and 2012 were \$802,143 and \$841,898, respectively.



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

June 30, 2013 and 2012

**(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 excludes medical malpractice premiums as disclosed in Note 9 of \$4.1 million and \$3.9 million, respectively), which was \$34,075 and \$34,248 in 2013 and 2012, respectively, and is reported as an operating expense on the statements of revenues, expenses, and changes in net position.

**(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, 2013, 148 providers completed year one attestation. UNMMG recorded revenue of \$2.7 million and \$1.6 million, respectively, for the years ended June 30, 2013 and 2012, which is reported as other revenue on the statement of revenues, expenses, and net position.

**Schedule 1**

**UNM MEDICAL GROUP, INC.  
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)  
PLEDGED COLLATERAL BY BANKS  
June 30, 2013**

Deposits per bank (Wells Fargo)	<u>\$ 22,096,298</u>
Less:	
FDIC Coverage	<u>(590,095)</u>
 Total uninsured public funds	 <u>\$ 21,506,203</u>
 State of New Mexico: Collateral Requirement - 50%	 <u>\$ 10,753,102</u>
 Pledged collateral:	
FNMA, 3138A NHX4, 08/01/2041, 2.9%	603,027
FNMA, 3138W TRR9, 06/01/2043, 3.0%	240,300
FNMA, 3138W QA28, 05/01/2043, 3.0%	640,629
FNMA, 3138N XKJ5, 01/01/2043, 3.0%	750,604
FNMA, 3138W 7GG3, 03/01/2043, 3.0%	135,949
FNMA, 3138N XES2, 01/01/2043, 3.0%	19,199
FNMA, 31419 B5R2, 09/01/2040, 4.5%	68,614
FNMA, 31418 WPP9, 08/01/2040, 4.5%	1,065,279
FNMA, 31417 DAK9, 09/01/2042, 3.0%	659,217
FNMA, 3138E 2EW1, 12/01/2026, 3.0%	28,134
FNMA, 3138M SC56, 02/01/2043, 3.0%	4,826
FNMA, 31419 ANB9, 09/01/2040, 4.0%	1,245,571
FNMA, 3138N Y4T9, 02/01/2043, 3.0%	589,477
FNMA, 31418 UC28, 05/01/2025, 4.0%	428,910
FNMA, 3138W 1JA6, 02/01/2043, 3.0%	1,559,198
FNMA, 31419 BCT0, 03/01/2041, 3.5%	1,486,785
FNMA, 31419 AGZ4, 12/01/2039, 4.0%	2,597,993
FNMA, 31417 EM57, 01/01/2043, 3.0%	297,440
FNMA, 3138W 3RY1, 02/01/2043, 3.0%	3,408,144
FNMA, 3138M 6U54, 09/01/2042, 3.0%	1,414,629
FHLMC, 31294 MJT9, 09/01/2026, 3.0%	<u>8,697,331</u>
 Total pledged collateral	 <u>25,941,256</u>
 Overcollateralized	 <u>\$ 15,188,154</u>

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

UNM MEDICAL GROUP, INC.  
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)  
DEPOSIT AND INVESTMENT ACCOUNT BALANCES  
June 30, 2013

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance	
Wells Fargo	Checking	\$ 21,573,620	(516,315)	21,057,305	
	Savings	522,678	-	522,678	
	Petty Cash - Cash on Hand	6,360		6,360	
		<u>22,102,658</u>	<u>(516,315)</u>	<u>21,586,343</u>	
Morgan Stanley: Smith Barney	Money market:				
	Morgan Stanley U.S. Gov't Money Market Trust	3,409,900	-	3,409,900	
	Total money market	<u>3,409,900</u>	<u>-</u>	<u>3,409,900</u>	
	Total cash and cash equivalents	<u>25,512,558</u>	<u>(516,315)</u>	<u>24,996,243</u>	
Investments:					
Morgan Stanley: Smith Barney	Corporate bonds:				
	Air Products & Chemical	260,271	-	260,271	
	American Express Co	67,943	-	67,943	
	Anheuser-Busch Inbev Wor	413,408	-	413,408	
	Apple Inc	240,471	-	240,471	
	Bank Of New York Mellon Corp	253,082	-	253,082	
	Brown Forman	261,519	-	261,519	
	Catepillar Financial Services	176,345	-	176,345	
	Cisco Systems Inc	435,532	-	435,532	
	Coca Cola Co	510,968	-	510,968	
	E Bay	224,347	-	224,347	
	Gen Elec Cap Crp Global	245,317	-	245,317	
	Georgia Power Co	261,433	-	261,433	
	Google Inc	438,807	-	438,807	
	Intel Corp	278,208	-	278,208	
	John Deer Capital Corp	243,027	-	243,027	
	JP Morgan Chase & Co	427,146	-	427,146	
	McDonalds Corp	105,302	-	105,302	
	Microsoft Corp	436,440	-	436,440	
	Paccar Financial Corp	5,972	-	5,972	
	Royal Bank Of Canada	258,228	-	258,228	
	Toronto-Dominion Bank	309,201	-	309,201	
	Us Bancorp	216,137	-	216,137	
	Wachovia Corp	370,396	-	370,396	
	Wal Mart Stores Inc	140,318	-	140,318	
	Walt Disney Co	51,317	-	51,317	
		Total corporate bonds	<u>6,631,135</u>	<u>-</u>	<u>6,631,135</u>
		U.S. Treasury notes:			
		SER AB-2014	120,870	-	120,870
		SER AC-2016	1,841,948	-	1,841,948
		SER AF-2016	3,054,110	-	3,054,110
		SER AF-2013	75,243	-	75,243
		912828	<u>1,367,538</u>	<u>-</u>	<u>1,367,538</u>
	Total treasury notes	<u>6,459,709</u>	<u>-</u>	<u>6,459,709</u>	

UNM MEDICAL GROUP, INC.  
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)  
DEPOSIT AND INVESTMENT ACCOUNT BALANCES  
June 30, 2013

Account	Type of account name of asset	Bank balance	Reconciling items	Book balance
	U.S. government bonds:			
	Federal Farm Credit Bank - 3133EAU30	\$ 19,994	-	19,994
	Federal Farm Credit Bank - 3133EAX94	14,988	-	14,988
	Federal Farm Credit Bank - 3133EACR7	974,880	-	974,880
	Federal Farm Credit Bank - 3133ECDK7	713,403	-	713,403
	Federal Farm Credit Bank - 3133ECL85	298,876	-	298,876
	Federal Farm Credit Bank - 3133ECL93	333,207	-	333,207
	Federal Farm Credit Bank - 3133ECMZ4	210,272	-	210,272
	Subtotal Federal Farm Credit Bank	2,565,620	-	2,565,620
	Federal Home Loan Mtg Corp - 3134G36Q8	223,934	-	223,934
	Federal Home Loan Mtg Corp - 3134G3K33	327,728	-	327,728
	Federal Home Loan Mtg Corp - 3134G42V9	14,982	-	14,982
	Federal Home Loan Mtg Corp Med Term - 3134G3SP6	299,887	-	299,887
	Subtotal Federal Home Loan Mtg Corporation	866,531	-	866,531
	Federal Home Loan Bank-313381PY5	139,669	-	139,669
	Federal Home Loan Bank-3135G0VR1	806,960	-	806,960
	Subtotal Federal Home Loan Banks	946,629	-	946,629
	Federal Natl Mtg Assn - 3134G36Q8	273,697	-	273,697
	Federal Natl Mtg Assn - 3135G0MU4	812,081	-	812,081
	Federal Natl Mtg Assn - 3135G0QR7	254,405	-	254,405
	Federal Natl Mtg Assn - 3135G0UB7	348,663	-	348,663
	Federal Natl Mtg Assn - 3135G0USO	528,773	-	528,773
	Federal Natl Mtg Assn - 3136G17A1	328,667	-	328,667
	Federal Natl Mtg Assn - 3136G1DY2	39,983	-	39,983
	Federal Natl Mtg Assn - 3136G1KD0	582,640	-	582,640
	Federal Natl Mtg Assn - 31398AVD1	169,392	-	169,392
	Subtotal Federal Nat'l Mtg. Assoc.	3,338,301	-	3,338,301
	Total government and government sponsored entity (GSE) bonds	7,717,084	-	7,717,084
	Municipal bonds:			
	Columbus Ohio Taxable -Ser C-1994914G3	20,364	-	20,364
	Chicago Ill Met Wtr-167560PP0	10,103	-	10,103
	Wyandotte Cnty Kans Uni Sch-982696QB5	95,925	-	95,925
	San Francisco Calif City -79766dAX7	10,366	-	10,366
	Arizona Wtr Infrastructure Fin-040688MD2	65,048	-	65,048
	Ohio St Wtr Dev Auth Wtr Pollutn Ctl-67766WUW0	65,422	-	65,422
	Oakland Univ Mich-673588EH8	53,743	-	53,743
	Columbus Ohio Taxable-1994914F5	100,622	-	100,622
	New York Ny Genl Oblig-64966JDX1	297,309	-	297,309
	Chicago Ill Met Wtr-167560PP0	171,747	-	171,747
	Wyandotte Cnty Kans Uni Sch-982696QB5	126,217	-	126,217
	San Francisco Calif City & Txble-79766dAX7	103,664	-	103,664
	Arizona Wtr Infrastructure -040688MD2	100,075	-	100,075
	Oakland Univ-673588EH8	68,400	-	68,400
	Total municipal bonds	1,289,005	-	1,289,005
	Sovereign Securities:			
	Canadian Government Bond	767,932	-	767,932
	Subtotal Sovereign Securities	767,932	-	767,932
	Total investments	\$ 22,864,862	-	22,864,864

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of UNM Medical Group, Inc. (UNMMG) a component unit of the University of New Mexico, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise UNMMG's basic financial statements, and have issued our report thereon dated October 18, 2013.

**Internal Control Over Financial Reporting**

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

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

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

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

### **Purpose of this Report**

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

*Mess Adams LLP*

Albuquerque, New Mexico  
October 18, 2013

**UNM MEDICAL GROUP, INC.**  
(A Component Unit of the University of New Mexico)  
Schedule of Findings and Responses  
Fiscal year ended June 30, 2013

**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, 2013

An exit conference was conducted on October 8, 2013, with a member of the board of directors and members of UNMMG management. During this meeting, the contents of this report were discussed with the following:

Dr. Loretta Cordova de Ortega	Chair – Department of Pediatrics; Audit Committee Member
Anthony R. Masciotra, Jr.	Chief Executive Officer
Marjorie Goldstein	Vice President & CFO
Angela V. Hawthorne	Controller
Brandon S. Fryar	Engagement Partner, Moss Adams LLP