

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, 2014 and 2013

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
2014 Official Roster

Board of Directors

Michael Richards, M.D., MPA, FACEP	Executive Physician-in-Chief, UNM Health System Professor of Emergency Medicine, UNM Health Sciences Center
Steve McKernan	CEO, UNMH & COO UNM Health System (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.	Executive Vice-Dean, UNM School of Medicine President of UNM Medical Group (Regent appointed)
Loretta Cordova de Ortega, M.D.	Chair, Pediatrics (Regent appointed)
Philip Wiest, M.D.	Chair, Radiology (Regent appointed)
Robert Avery, M.D.	Associate Professor & Director, Ophthalmology
John Brandt, M.D.	Professor & Vice Chair, Pediatrics

Officers of UNM Medical Group, Inc.

Anthony Masciotra	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 Radiology

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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, 2014 and 2013, 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 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.

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

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, 2014 and 2013, 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise UNMMG's basic financial statements. The accompanying schedules of pledged collateral by banks and deposit and investment account balances (Schedules 1 and 2, respectively) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules of pledged collateral by banks and 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2014 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 23, 2014

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

Management's Discussion and Analysis

June 30, 2014, 2013 and 2012

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, 2014, 2013, and 2012. 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 entity 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

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

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Management's Discussion and Analysis

June 30, 2014, 2013 and 2012

Condensed Summary of Net Position

	June 30		
	2014	2013	2012
Assets:			
Current assets	\$ 51,207,044	49,068,554	45,861,606
Capital assets, net	2,563,899	1,039,469	1,240,785
Other noncurrent assets	22,847,934	29,409,465	34,076,700
Total assets	76,618,877	79,517,488	81,179,091
Liabilities:			
Current liabilities	30,365,090	32,522,283	34,289,386
Total liabilities	30,365,090	32,522,283	34,289,386
Net position:			
Invested in capital assets	2,563,899	1,039,469	1,240,785
Unrestricted	43,689,888	45,955,736	45,648,920
Total net position	\$ 46,253,787	46,995,205	46,889,705

Current assets include cash and other assets that were deemed to be consumable or convertible to cash within one year. As of June 30, 2014, total current assets of \$51.2 million consisted of \$19.5 million of cash and cash equivalents compared to \$49.1 million in total current assets and \$21.4 million of cash and cash equivalents at June 30, 2013, and compared to \$45.9 million in total current assets and \$23.7 million of cash and cash equivalents at June 30, 2012. Current assets also include net patient receivables of \$25.5 million, \$23.1 million, and \$21.2 million in 2014, 2013, and 2012, respectively. Also included in current assets are amounts due from affiliates and other receivables of \$6.2 million (consisting primarily of \$2.3 million due from UNM HSC and \$1.9 million due from UNM Hospitals, and \$2.0 million due from SRMC), compared to \$4.6 million in 2013 (consisting primarily of \$3.2 million due from UNM HSC, \$1.4 million due from UNMH, and \$0.04 million due from SRMC), and \$0.9 million in 2012 (consisting primarily of \$0.7 million due from UNM HSC, and \$1.3 million due from UNMH, and \$(1.1) million due from SRMC). Noncurrent assets in 2014 represent capital assets of \$2.6 million and other assets of \$0.7 million compared to \$2.0 million due from SRMC, \$1.0 million in capital assets and other assets of \$0.9 million in 2013 and compared to \$4.6 million due from SRMC, \$1.2 million in capital assets, and other assets of \$0.4 million in 2012. Other noncurrent assets include board-designated investments in cash and cash equivalents, money markets, U.S. government securities, and corporate debt securities of \$22.1 million in 2014, \$26.5 million in 2013, and \$29.1 million in 2012.

Current liabilities are generally defined as amounts due within one year. As of June 30, 2014, total current liabilities of \$30.4 million include purchased services payable to UNM HSC of \$20.4 million compared to \$32.5 million and \$21.9 million in 2013 and \$34.3 million and \$27.4 million in 2012, respectively. Also included in current liabilities are amounts payable to UNM, in the amount of \$2.9 million, and other accrued liabilities of \$3.9 million, compared to \$3.4 million and \$3.0 million in 2013 and \$1.4 million and \$4.4 million in 2012, respectively.

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At June 30, 2014, UNMMG's current ratio, the amount of current assets available to cover current liabilities, was 1.69 compared to 1.51 in 2013 and 1.34 in 2012. Payment of UNMMG's current liabilities is dependent on UNMMG's ability to collect patient and other receivables.

Total net position decreased \$0.7 million to \$46.3 million at June 30, 2014 from \$47.0 million at June 30, 2013, due to the excess of expenses over revenue in 2014 of \$0.7 million. 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.

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,		
	2014	2013	2012
Net operating revenues	\$ 166,296,918	161,725,107	130,743,368
Operating expenses:			
Purchased clinical services	116,095,384	118,716,666	92,253,968
Salaries and benefits	20,192,064	17,500,066	17,117,155
Other	31,768,447	26,097,760	24,648,856
Total operating expenses	168,055,895	162,314,492	134,019,979
Operating (loss)	(1,758,977)	(589,385)	(3,276,611)
Nonoperating revenues:			
State Appropriations	815,300	815,300	225,696
Investment income (loss)	202,259	(120,414)	181,034
Total nonoperating revenues	1,017,559	694,886	406,730
Change in net position	(741,418)	105,501	(2,869,881)
Net position, beginning of year	46,995,205	46,889,704	49,759,585
Net position, end of year	\$ 46,253,787	46,995,205	46,889,704

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 2014 increased \$4.6 million from \$161.7 million in 2013 to \$166.3 million in 2014, reflecting an increase of 2.8%. Net operating revenues for 2013 increased \$31.0 million from \$130.7 million in 2012 to \$161.7 million in 2013, reflecting an increase of 23.7%. The 2014 increase in net operating revenues is primarily due to the increase in pharmacy revenue of \$5.9 million. These billings represented \$14.7 million, \$8.8 million, and \$1.2 million in 2014, 2013 and 2012, respectively. In addition, the continued growth of UNM Sandoval Regional Medical Center (SRMC) resulted in a net revenue increase of \$4.2 million. Adversely affecting revenues was a change in billing practices at the UNM Cancer Center. The UNM Cancer Center transitioned from a freestanding physician clinic and became hospital-based as of August 30, 2014, resulting in a \$3.6 million decrease in revenue.

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UNMMG received revenue from the State Coverage Initiative (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 received a pro rata portion of the SCI funding from UNM Hospital, net of costs based on claims experience. For the year ended June 30, 2014, UNMMG recognized \$1.8 million in revenues from the SCI program, which represents a \$1.7 million decrease from 2013. For the year ended June 30, 2013, UNMMG recognized revenues of \$3.5 million in revenues, which represented a \$0.6 million increase from 2012. With the implementation of an expanded Medicaid program in New Mexico under the Affordable Care Act on January 1, 2014, the SCI program ended December 31, 2013.

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 2,760,685 in 2014, representing an increase of 173,159, or 6.7% from 2013. In 2013, WRVUs of 2,587,526 increased 250,522 or 10.7% from 2012. UNMMG negotiated rate increases among commercial insurance payors resulting in an estimated overall weighted average increase of 3%. During 2014, the UNMMG operated eight clinics, including the Young Women's Clinic, which was co-located with the Center for Reproductive Health towards the end of fiscal year 2014. These clinics contributed \$21.9 million in revenues in 2014, an increase of \$4.7 million compared to revenues of \$17.2 million in 2013. A condensed summary of the net operating revenue calculation follows:

	Year Ended June 30,		
	2014	2013	2012
Patient service charges billed at established rates	\$ 432,786,073	433,310,972	357,948,084
Adjustments to charges:			
Contractual adjustments	(194,255,273)	(175,300,187)	(144,302,856)
Charity care	(50,889,392)	(66,093,430)	(58,590,252)
Net patient billings	187,641,408	191,917,355	155,054,976
Provision for uncollectible accounts	(38,505,304)	(44,938,372)	(28,553,888)
Net patient service revenues	149,136,104	146,978,983	126,501,088
Pharmacy Revenue	14,677,033	8,768,977	1,200,161
Other revenue	2,483,781	5,977,147	3,042,119
Total net operating revenues	\$ 166,296,918	161,725,107	130,743,368

UNMMG encourages all patients to apply for financial assistance and 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, 2014, 2013, and 2012, there were approximately 20,200, 26,400, and 32,500 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, 2014, UNMMG provided \$50.9 million in charity care compared to \$66.1 million in 2013 and

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\$58.6 million in 2012. The significant decline in charity care can be attributed to the impact of the expansion of Medicaid that went into effect beginning on January 1, 2014.

UNMMG also provides services to patients who do not have any form of healthcare insurance or do not qualify under any other financial assistance program, and encourages these patients to meet with a financial counselor to develop payment arrangements. Although UNMMG pursues collection of these accounts usually through an extended payment plan or a discounted rate, interest is not charged on these accounts, nor are liens placed on property or assets, or judgments filed against these patients. These accounts are substantially reserved and recorded as provision for uncollectible accounts. As of June 30, 2014, UNMMG recorded \$38.5 million as a provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts, compared to \$44.9 million and \$28.6 million as of June 30, 2013 and 2012, respectively. Once again, the decline in the provision of uncollectible accounts is attributed to the expansion of Medicaid.

UNMMG incurs costs associated with providing charity care and other services for which payment is not received. As of June 30, 2014, the estimated cost of care for providing these services was \$38.0 million compared to \$42.7 million in 2013 and \$36.6 million in 2012.

Total operating expenses were \$168.1 million for the year ended June 30, 2014, \$162.3 million for the year ended June 30, 2013, and \$134.0 million for the year ended June 30, 2012. 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 \$125.0 million in 2014 and \$127.4 million in 2013 and \$103.1 million in 2012. The decline in these costs in 2014 is primarily related to a reduction of payments to the UNM Cancer Center, resulting from the transition from global to professional billing. These costs increased by \$24.3 million from 2012 to 2013, largely related to expanded services at SRMC and the UNM Cancer Center.

Other expense increases from 2013 to 2014 were attributable to the cost of pharmaceuticals associated with the contract pharmacy services agreement, salary and benefit costs in the UNMMG Clinics, allocation of UNM Health System salary and benefit costs to the UNMMG, increased salary and benefit costs 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, as well as the general growth of physician clinical services at Sandoval Regional Medical Center and at UNM Hospital.

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 were \$8.9 million in 2014, \$8.7 million in 2013, and \$10.9 million in 2012, respectively, and are reported on the statement of revenues, expenses, and changes in net position as an operating expense. In 2012, the Dean's office elected for the UNMMG to return \$2.7 million in reserves. In 2014 and 2013, the dean's office waived \$2.5 and \$1.9 million, respectively, of Dean's and recession tax to help support the purchase of provider services at SRMC, paid by the UNMMG.

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In 2014 and 2013, UNMH provided funding to UNMMG in the amount of \$1.2 million and \$1.3 million, respectively, to provide a portion of support for clinical contract services, process improvement, certain ambulatory and other reporting activities that benefit UNMH and the overall Health System. This funding support from UNMH 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 \$1.0 million in 2014, \$0.6 million in 2013, and \$0.4 million in 2012 consisted primarily of state appropriations, investment income, unrealized gains and losses on investments, and interest income on a money market account.

Capital Assets

At June 30, 2014, UNMMG had \$2.6 million invested in capital assets, net of accumulated depreciation of approximately of \$4.2 million compared to \$1.0 million and \$4.1 million at June 30, 2013, and compared to \$1.2 million and \$3.7 million at June 30, 2012. Capital assets consist primarily of leasehold improvements, application software and equipment. With the exception of UNMMG Clinics, capital assets used to provide clinical services are owned by UNMH and are not reported on UNMMG's financial statements.

Change in Net Position

UNMMG's change in net position reflected a net decrease of \$0.7 million from 2013 to 2014 due to an increase in operating expenses compared to a net increase of \$0.1 million from 2012 to 2013 due to an increase 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, 2014, \$2.0 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

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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 2014, UNMMG continued the attestation process for eligible providers under this program. In 2014, 2013, and 2012, there were 11, 148, and 76 UNMMG providers that completed attestation. UNMMG recorded revenues of \$0.1 million, \$2.7 million, and \$1.6 million in 2014, 2013, and 2012, respectively. UNMMG began receiving funds in July 2012 from the Medicaid program and December 2012 from the Medicare 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 for-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 was mandatory for state implementation January 2014 and was optional for years 2010 through 2013. The population most impacted by the new eligibility criteria is expected to be childless adults. States are 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 intended 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 became available in 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 abuse 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.

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The UNMMG, as a result of PPACA, has experienced an increase in patients enrolled in Medicaid, beginning in January 2014. Many of these patients had previously qualified for SCI, charity care or had no other financial assistance. However, the significant expansion of enrollees in Medicaid health plans within the State of New Mexico has not progressed seamlessly. UNMMG has experienced growth in its accounts receivable, due to issues with the state's enrollment and eligibility systems, resulting in delayed payments and longer claims processing times.

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 OF THE UNIVERSITY OF NEW MEXICO)
STATEMENT OF NET POSITION
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,473,694	21,396,402
Receivables:		
Net patient receivables (net of allowance for uncollectable accounts of \$30,655,556 in 2014 and \$35,038,711 in 2013)	25,471,178	23,071,804
Due from affiliates	6,247,472	4,583,757
Other	14,700	16,591
Total net receivables	<u>31,733,350</u>	<u>27,672,152</u>
Total current assets	<u>51,207,044</u>	<u>49,068,554</u>
Noncurrent assets:		
Board designated assets:		
Cash and cash equivalents, non current	1,957,580	3,599,830
Investments	20,152,884	22,864,864
Total board designated assets	<u>22,110,464</u>	<u>26,464,694</u>
Due from affiliates, non current	-	2,040,000
Capital assets, net	2,563,899	1,039,469
Other assets	737,470	904,771
Total noncurrent assets	<u>25,411,833</u>	<u>30,448,934</u>
Total assets	<u>\$ 76,618,877</u>	<u>79,517,488</u>
Liabilities		
Current liabilities		
Purchased services payable due to UNM HSC	\$ 20,381,167	21,933,957
Operating expenses due to UNM	2,915,134	3,354,709
Due to affiliates	3,174,090	4,255,322
Accrued liabilities	3,894,699	2,978,295
Total current liabilities	<u>30,365,090</u>	<u>32,522,283</u>
Net Position		
Investment in capital assets	2,563,899	1,039,469
Unrestricted	43,689,888	45,955,736
Total net position	<u>46,253,787</u>	<u>46,995,205</u>
Total liabilities and net position	<u>\$ 76,618,877</u>	<u>79,517,488</u>

See accompanying notes to financial statements.

UNM MEDICAL GROUP, INC.
(A COMPONENT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Patient service revenue, net	\$ 149,136,104	146,978,983
Pharmacy revenue	14,677,033	8,768,977
Other revenue	2,483,781	5,977,147
Total net operating revenues	<u>166,296,918</u>	<u>161,725,107</u>
Operating expenses:		
Purchased clinical services from UNM HSC	116,095,384	118,716,666
Salaries and benefits	20,192,064	17,500,066
Dean's and rescission tax	8,856,934	8,670,192
Pharmacy expenses	8,573,229	5,331,496
Malpractice insurance	4,107,696	4,104,203
Other administrative	3,604,386	2,426,626
Patient care costs	2,180,469	1,143,736
Data processing costs	1,563,623	1,554,597
Patient registration and enrollment support	947,959	1,015,402
Occupancy	887,622	815,677
Depreciation	594,095	537,386
Consulting	452,434	498,445
Total operating expenses	<u>168,055,895</u>	<u>162,314,492</u>
Operating loss	<u>(1,758,977)</u>	<u>(589,385)</u>
Non operating revenues (expenses):		
State appropriations	815,300	815,300
Investment income (loss)	202,259	(120,414)
Total nonoperating revenues	<u>1,017,559</u>	<u>694,886</u>
Change in net position	<u>(741,418)</u>	<u>105,501</u>
Net position, beginning of year	<u>46,995,205</u>	<u>46,889,704</u>
Net position, end of year	<u>\$ 46,253,787</u>	<u>46,995,205</u>

See accompanying notes to financial statements.

UNM MEDICAL GROUP, INC.
(A COMPONENT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENT OF CASH FLOWS
Years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Payments from insurance and patients	\$ 161,415,653	153,909,828
Payments to UNM	(130,840,922)	(134,312,783)
Payments to employees	(16,424,245)	(12,195,816)
Payments to suppliers	(18,209,720)	(12,785,979)
Payments for employee benefits	(3,767,819)	(5,304,250)
Other receipts	2,651,080	5,440,436
Net cash used by operating activities	<u>(5,175,973)</u>	<u>(5,248,564)</u>
Cash flows from noncapital financing activities:		
State appropriations	815,300	815,300
Net cash provided by noncapital financing activities	<u>815,300</u>	<u>815,300</u>
Cash flows from investing activities:		
Purchase of capital assets	(2,118,525)	(336,070)
Proceeds from maturity of investments	2,711,980	6,034,241
Purchases of investments	202,260	(120,414)
Net cash provided by investing activities	<u>795,715</u>	<u>5,577,757</u>
Net (decrease) increase in cash and cash equivalents	<u>(3,564,958)</u>	1,144,493
Cash and cash equivalents, beginning of year	<u>24,996,232</u>	<u>23,851,739</u>
Cash and cash equivalents, end of year	<u>\$ 21,431,274</u>	<u>24,996,232</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ (1,758,977)	(589,385)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	594,095	537,386
Provision for doubtful accounts	38,505,304	44,938,372
Changes in assets and liabilities:		
Patient receivables	(40,904,677)	(46,762,182)
Due from affiliates	376,285	(1,054,619)
Other receivables	1,891	(14,321)
Other assets	167,299	(536,711)
Purchase services due to UNM HSC	(1,552,790)	(5,432,413)
Due to affiliates	(1,520,807)	4,876,428
Accrued liabilities	916,404	(1,211,119)
Net cash used by operating activities	<u>\$ (5,175,973)</u>	<u>(5,248,564)</u>

See accompanying notes to financial statements

UNM MEDICAL GROUP, INC.
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June 30, 2014 and 2013

(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.

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

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.

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities, was adopted by UNMMG in fiscal year 2014. 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. At June 30, 2014, the UNMMG had no items meeting the criteria of "deferred inflows" and "deferred outflows."

(b) 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, 2014, 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, 2014 and 2013

(c) ***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).

(d) ***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.

(e) ***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, 2014 and 2013 by U.S. government agency securities held by the financial institution in UNMMG's name.

(f) ***Marketable Securities***

Investments are recorded at fair market value. At June 30, 2014 and 2013, investments consisted primarily of corporate debt securities, U.S. government and government agency securities, municipal bonds, sovereign securities and money markets. Investment income includes interest and realized and unrealized gains and losses. Investment income is reported as nonoperating revenue when earned.

UNMMG 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.

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

UNMMG revenues result 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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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. Self-pay accounts, regardless of days outstanding, are substantially 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 participated in the State Coverage Initiative (SCI) Program. This program was a Medicaid waiver program, funded in part by the State of New Mexico Human Services Department (HSD). Funding was modeled after a capitated payment program. UNMMG received a pro rata portion of SCI reimbursement, net of costs, based on claim experience. The program ended in December, 2013 and UNMMG received its final payment in June 2014.

(h) *Charity Care*

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

(i) *Pharmacy Revenue and 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 \$14.7 million and \$8.8 million for the years ended June 30, 2014 and 2013, respectively. Pharmacy expenses reflect the cost of goods sold, and pharmacy management and dispensing fees. Pharmacy expenses were \$8.6 million and \$5.3 million for the years ended June 30, 2014 and 2013, respectively.

(j) *Capital Assets*

Capital assets consist primarily of leasehold improvements, application software and equipment and are stated at cost at the date of acquisition. Capital assets with a cost of \$1,000 or greater are capitalized and depreciated over useful lives ranging from three to five years. Depreciation is

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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.

(k) 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.

(l) 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.

(m) Salaries and Benefits

At June 30, 2014, the staff of UNMMG was comprised of 365 UNMMG and 54 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, 2008. See Note 13 for further discussion.

(n) 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 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 509(a)(3) supporting organizations, with Revenue Procedure 95-48

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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.

(o) **Reclassifications**

As part of the UNM Health System strategic goals, UNMMG implemented a new ERP system. As part of the implementation certain 2013 amounts have been reclassified to conform to the 2014 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, 2014 and 2012 are categorized as follows:

	2014	2013
Operating accounts	\$ 20,712,074	21,573,620
Savings account	523,557	522,678
Total bank balances	\$ 21,235,631	22,096,298
Amount insured by FDIC	\$ 629,347	590,095
Amount collateralized with securities held in UNMMG's name	\$ 20,606,284	21,506,203

Also included in cash and cash equivalents at June 30, 2014 is a money market account in the amount of \$458,573. 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.

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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, 2014. Marketable securities of \$20,152,884 at June 30, 2014 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, 2014 and 2013 to credit risk follows:

June 30, 2014

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations		Other Government Bonds		Sovereign Bonds
			Corporate Bonds			
AAA	\$ 10,545,789	10,294,026	-	251,763	-	-
AA	2,801,223	-	1,755,008	1,046,215	-	-
A	5,389,134	-	5,149,330	239,804	-	-
BAA	1,416,738	-	1,416,738	-	-	-
Total	\$ 20,152,884	10,294,026	8,321,076	1,537,782	-	-

June 30, 2014

	Investment Maturities (in years)			
	Fair Value	Less than 1	1 to 5	6 to 10
U.S. government obligations	\$ 10,294,026	1,146,506	9,147,520	-
Corporate bonds	8,321,076	1,608,838	6,712,238	-
Other government bonds	1,537,782	493,708	1,044,074	-
Sovereign bonds	-	-	-	-
Total	\$ 20,152,884	3,249,052	16,903,832	-

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June 30, 2014 and 2013

June 30, 2013

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations		Other Government Bonds	International Bonds
			Corporate Bonds		
AAA	\$ 15,914,544	14,176,792	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	14,176,792	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	244,634	13,932,158	-
Corporate bonds	6,631,135	4,299,476	2,331,659	-
Other government bonds	1,289,005	120,986	1,168,019	-
Sovereign bonds	767,932	767,932	-	-
Total	\$ 22,864,864	5,433,028	17,431,836	-

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, 2014 and 2013, UNMMG's investment portfolio had no investments exposed to concentration of credit risk.

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(4) Concentration of Risk

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

	2014	2013
Medicare and Medicaid	64%	53%
Commercial insurance	33	40
Other	3	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, 2014, and 2013, 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).

As of June 30, 2014 and 2013, assets are designated for the following purposes:

	2014	2013
Investment reserve	\$ -	3,554,338
Department reserve	10,945,607	13,450,130
Quality reserve	5,573,028	6,001,583
Other MG reserve	4,519,272	1,600,000
Hardware and technology	1,072,557	1,858,643
Total board-designated assets	\$ 22,110,464	26,464,694

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

Other MG reserve – Represents funds designated on behalf of UNMMG specific programs such as Locum Tenens, whose mission is to advance the strength and sustainability of those we serve in an effort to improve access to health care in communities throughout New Mexico, and Truman Street Clinic, who has designated funds from 340B revenue.

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:

	Cost	Accumulated depreciation	Net
Balance, June 30, 2012	\$ 4,902,589	3,661,804	1,240,785
Additions	431,454	537,386	(105,932)
Deletions	234,475	139,091	(95,384)
Balance, June 30, 2013	<u>5,099,568</u>	<u>4,060,099</u>	<u>1,039,469</u>
Additions	2,128,773	602,871	1,525,902
Deletions	471,244	469,772	(1,472)
Balance, June 30, 2014	<u><u>\$ 6,757,097</u></u>	<u><u>4,193,198</u></u>	<u><u>2,563,899</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, 2014 and 2013, refunds payable were \$484,649 and \$326,068, respectively. The amount is included in accrued liabilities on the accompanying statements of net position.

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(8) Accrued Liabilities

Accrued liabilities consisted of the following at June 30:

	2014	2013
Accrued operating expenses	\$ 1,377,124	734,334
Accrued leave	1,007,092	838,935
Malpractice liability	502,758	502,758
Refunds Payable	484,649	326,068
Payroll and benefits liability	429,253	470,487
Unclaimed Property	76,114	96,414
Other	17,709	9,299
	\$ 3,894,699	2,978,295

During the years ended June 30, 2014 and 2013, the following changes occurred in accrued leave:

Balance, July 1, 2013	Increase	Decrease	Balance, June 30, 2014
\$ 838,934	1,007,093	(838,934)	1,007,093
Balance, July 1, 2012	Increase	Decrease	Balance, June 30, 2013
\$ 762,242	838,934	(762,242)	838,934

(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

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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. Malpractice expense was \$4.1 million for the years ended June 30, 2014 and 2013. As of June 30, 2014 and 2013, a liability of \$502,758 was recorded as an accrued liability on the statements of net position.

(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 80% in 2014 and 78% in 2013, respectively of UNMMG's gross patient revenue was derived from third-party payors. Of this, Medicare and Medicaid represented approximately 54% in 2014 and 48% in 2013. A summary of the basis of reimbursement from major-third party payors follows:

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

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

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A summary of the net patient service revenues follows for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Patient service charges billed at established rates	\$ 432,786,073	433,310,972
Adjustments to charges:		
Contractual adjustments	(194,255,273)	(175,300,187)
Charity care	(50,889,392)	(66,093,430)
Net patient billing	187,641,408	191,917,355
Provision for uncollectible accounts	(38,505,304)	(44,938,372)
Net patient service revenues	<u>\$ 149,136,104</u>	<u>146,978,983</u>

(11) Charity Care

UNMMG maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Charges forgone, based on established rates	\$ 50,889,392	66,093,430
Estimated costs and expenses incurred to provide charity care	38,022,879	42,698,483
Equivalent percentage of charity care to total gross revenue	11.4%	14.9%

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

Notes to Financial Statements

June 30, 2014 and 2013

(12) Related-Party Transactions

A summary of the related-party balances as of June 30, 2014 and 2013 is as follows:

	2014	2013
Current Assets:		
Due from HSC	\$ 2,287,447	3,175,447
Due from SRMC	2,048,511	36,266
Due from UH	1,911,514	1,372,044
	\$ 6,247,472	4,583,757
Noncurrent Assets:		
Due from SRMC	-	2,040,000
Current Liabilities:		
Purchased Services Payable	\$ 20,381,167	21,933,957
Due to UH	3,174,090	1,756,863
Operating Expenses due to HSC	2,712,592	3,080,082
Indigent Distribution (HSC)	202,542	274,629
Due to SRMC	-	2,498,459
	\$ 26,470,391	29,543,990

UNMMG processes payroll and various other expenses through its business office on behalf of UNM. UNM reimburses UNMMG for the expenses. At June 30, 2014 and 2013, UNMMG's receivable for these expenses were approximately \$2.3 million and \$3.2 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 2014 and 2013, UNMH provided funding to UNMMG in the amount of \$1.2 million and \$1.3 million, to provide a portion of support for clinical contract services, process improvement, certain ambulatory and other reporting activities that benefit UNMH and the overall Health System. The amount of funding provided is negotiated annually and is reported as an offset of salary and benefit costs on the statements of revenues, expenses, and changes in net position.

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

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Under a Master Services Agreement between UNMMG, UNM Sandoval Regional Medical Center (SRMC) and UNM HSC, provider staffing levels for clinical services at SRMC have been 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, 2014 and 2013, total UNMMG purchased services were \$116.1 million and \$118.7 million, respectively, and are recorded as an operating expense on the statements of revenues, expenses, and changes in net position. The related unpaid amounts of approximately \$20.4 million and \$21.9 million at June 30, 2014 and 2013, 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, 2014 and 2013, UNMMG's liabilities for these expenses were approximately \$2.7 million and \$3.1 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, 2014 and 2013 were approximately \$1.7 million and \$1.8 million, and are reported within the appropriate categories on the statements of revenues, expenses, and changes in net position. At June 30, 2014 and 2013, approximately \$3.2 million and \$1.8 million, respectively, were reported in due to 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 \$8.9 million and \$8.7 million for the years ended June 30, 2014 and 2013, 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 \$202,542 and \$274,629 for the years ended June 30, 2014 and 2013, 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.

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. 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

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Notes to Financial Statements

June 30, 2014 and 2013

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, 2014, the receivable from SRMC associated with the negative arbitrage requirement is \$2.0 million, of which is deemed current. The \$2.0 million payment was received in July 2014.

(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 2014 and 2013. Total contributions were \$923,262 and \$827,792 for the years ended June 30, 2014 and 2013, 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. The UNMMG's rent expense for the years ended June 30, 2014 and 2013 were \$887,622 and \$815,677, respectively.

The UNMMG is committed under various leases for building and office space and data processing equipment. Rental expenses on operating leases and data processing equipment were \$1,027,415 and \$955,470 in 2014 and 2013, respectively.

(a) Minimum Lease Payments

The following is a schedule of future minimum lease payments for operating leases at June 30, 2014:

<u>June 30,</u>	<u>Lease Payments</u>
2015	\$ 736,068
2016	605,170
2017	561,721
2018	428,115
2019	351,353
2020	353,446
2021	355,539
2022	168,842
2023	<u>127,809</u>
	<u>\$ 3,688,063</u>

UNM MEDICAL GROUP, INC.
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Notes to Financial Statements

June 30, 2014 and 2013

(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 \$4.1 million, respectively), which was \$18,358 and \$34,075 in 2014 and 2013, 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, 2014, 2013, and 2012, there were 11, 148, and 76 providers that completed attestation. UNMMG recorded revenue of \$0.1 million, \$2.7 million, and \$1.6 million in 2014, 2013, and 2012, respectively, which is reported as other revenue on the statement of revenues, expenses, and net position.

UNM MEDICAL GROUP, INC.
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PLEDGED COLLATERAL BY BANKS
June 30, 2014

Deposits per bank (Wells Fargo)	\$ 21,235,631
Less:	
FDIC Coverage	(629,347)
Total uninsured public funds	<u>\$ 20,606,284</u>
State of New Mexico: Collateral Requirement - 50%	<u>\$ 10,303,142</u>
3	
Pledged collateral:	
FNMA, 3138W6RL2, 3.500%, 06/01/2043.	359,914
FNMA, 3138AW4D2, 4.0%, 11/01/2041.	3,728,084
FNMA, 3138W7GG3, 3.00%, 03/01/2043.	29,666,522
FNMA, 3138X3XU1, 4.00%, 09/01/2043.	<u>2,136,467</u>
Total pledged collateral	<u>35,890,987</u>
Over collateralized	<u>\$ 25,587,845</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)
CASH AND INVESTMENT ACCOUNT BALANCES
June 30, 2014

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
Wells Fargo	UNMMG Main Operating	\$ 20,582,727	(269,281)	20,313,446
	Pathology Depository	18,373	-	18,373
	Cancer Center	35,974	-	35,974
	Truman RX	75,000	-	75,000
	Savings	523,557	-	523,557
		<u>21,235,631</u>	<u>(269,281)</u>	<u>20,966,350</u>
	Cash on Hand	<u>6,351</u>	<u>-</u>	<u>6,351</u>
Investments:				
Morgan Stanley				
Smith Barney	Money Market			
	Cash	7,929	-	7,929
	Morgan Stanley U.S. Government Money Market Trust	450,644	-	450,644
	Total Money Market	<u>458,573</u>	<u>-</u>	<u>458,573</u>
	Total cash and cash equivalents	<u>21,700,555</u>	<u>(269,281)</u>	<u>21,431,274</u>
	Corporate Bonds			
	Air Products & Chemical-009158AQ9	155,183	-	155,183
	Air Products & Chemicals Inc.-009158AQ9	74,487	-	74,487
	Air Products & Chemicals Inc.-009158AQ9	31,037	-	31,037
	American Express CO-0258M0DA4	67,224	-	67,224
	Amgen Inc.-031162BQ2	77,070	-	77,070
	Amgen Inc.-031162BQ2	102,760	-	102,760
	Anheuser-Busch Inbev Wor-03523TBM9	201,632	-	201,632
	Anheuser-Busch Inbev-03523TBM9	201,632	-	201,632
	Anheuser-Busch Inbev-03523TBM9	12,097	-	12,097
	Apple Inc-037833AJ9	107,749	-	107,749
	Apple Inc-037833AJ9	4,897	-	4,897
	APPLE INC-037833AJ9	137,136	-	137,136
	AT&T Inc.-00206RBM3	99,694	-	99,694
	AT&T INC.-00206RBM3	124,617	-	124,617
	AT&T INC.-00206RBM3	24,923	-	24,923
	Bank of Montreal-06367VHL2	79,042	-	79,042
	Bank of Montreal-06367VHL2	102,652	-	102,652
	Berkshire Hathaway Inc.-084670BD9	118,678	-	118,678
	BHP Billiton Fin USA LTD-055451AK4	70,811	-	70,811
	BHP Billiton Fin USA LTD-055451AK4	102,624	-	102,624
	Brown Forman-115637AN0	107,985	-	107,985
	Brown-Forman Corp-115637AN0	157,069	-	157,069
	Catepillar Financial-14912L4X6	10,359	-	10,359
	Catepillar Financial-14912L4X6	10,359	-	10,359
	Chevron Corp 166764AE0	151,220	-	151,220
	CIGNA Corp-125509BR9	104,195	-	104,195
	CIGNA Corp-125509BR9	52,097	-	52,097
	CIGNA Corp-125509BR9	26,049	-	26,049
	Cisco Systems Inc.-17275RAR3	111,614	-	111,614
	Cisco Systems Inc.-17275RAR3	177,568	-	177,568
	Cisco Systems Inc.-17275RAS1	110,479	-	110,479
	Cisco Systems Inc.-17275RAS1	10,044	-	10,044
	Cisco Systems Inc.-17275RAS1	50,218	-	50,218
	Conocophillips Canada-20825TAA5	113,092	-	113,092
	Conocophillips Canada-20825TAA5	90,697	-	90,697
	Cooper US Inc-216871AF0	77,704	-	77,704
	Cooper US Inc-216871AF0	103,606	-	103,606
	Discovery Commun-25470DAB5	87,763	-	87,763
	Discovery Commun-25470DAB5	118,739	-	118,739
	Discovery Commun-25470DAB5	61,951	-	61,951
	EBAY - 278642AG8	\$ 101,090	-	101,090

UNM MEDICAL GROUP, INC.
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CASH AND INVESTMENT ACCOUNT BALANCES
June 30, 2014

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
	Ebay Inc-278642AD5	201,432	-	201,432
	Emerson Elec Co- 291011AZ7	134,965	-	134,965
	Emerson Elec Co- 291011AZ7	51,910	-	51,910
	Enterprise Products-29379VAX1	101,180	-	101,180
	Fifth Third Bancorp-316773CQ1	60,773	-	60,773
	General Electric Cap Corp-36962G4G6	203,556	-	203,556
	Honeywell Intl.-438516AS5	45,130	-	45,130
	Honeywell Intl.-438516BC9	150,130	-	150,130
	Intel Corp - 458140AH3	175,262	-	175,262
	Intel Corp - 458140AH3	30,929	-	30,929
	JOHN DEER CAPITAL CORP-24422ERF8	2,056	-	2,056
	JOHN DEER CAPITAL CORP-24422ERF8	95,620	-	95,620
	John Deere Capital Corp 24422ESF7	50,184	-	50,184
	John Deere Capital Corp 24422ESF7	13,048	-	13,048
	John Deere Capital Corp 24422ESF7	12,044	-	12,044
	JOHN DEERE CAPITAL CORP-24422ERF8	123,381	-	123,381
	JOHN DEERE CAPITAL CORP-24422ESF7	80,294	-	80,294
	Kinder Morgan Energy-494550BR6	86,960	-	86,960
	Kinder Morgan Energy-494550BR6	117,652	-	117,652
	McDonalds Corp - 58013MEP5	100,490	-	100,490
	McDonalds Corp-58013MEP5	5,024	-	5,024
	Northern States Power Co-665772cf4	87,141	-	87,141
	Northern States Power Co-665772cf4	25,630	-	25,630
	Novartis Capital Corp-66989HAC2	102,660	-	102,660
	Novartis Capital Corp-66989HAC2	76,995	-	76,995
	Oracle Corp-68389XAF2	305,528	-	305,528
	Paccar Financial Corp - 69371RK54	127,126	-	127,126
	PACCAR FINANCIAL CORP-69371RK54	6,102	-	6,102
	PACCAR FINANCIAL CORP-69371RK54	101,701	-	101,701
	PACCAR FINANCIAL CORP-69371RK54	76,275	-	76,275
	PACCAR FINANCIAL CORP-69371RK54	9,153	-	9,153
	ROYAL BANK OF CANADA-78008T2C7	6,057	-	6,057
	Southern Cal Edison-842400EY5	54,517	-	54,517
	TORONTO-DOMINION BANK-89114QAA6	302,022	-	302,022
	Toronto-Dominion Bank-89114QAB4	5,236	-	5,236
	Toronto-Dominion Bank-89114QAB4	10,472	-	10,472
	Toyota Motor Credit Co-89233P6D3	204,215	-	204,215
	Toyota Motor Credit Corp. 89233P6D3	153,162	-	153,162
	Toyota Motor Credit Corp. 89233P6D3	25,527	-	25,527
	United Technologies Corp-913017BU2	127,856	-	127,856
	United Technologies Corp-913017BU2	35,800	-	35,800
	United Technologies Corp-913017BU2	5,114	-	5,114
	United Technologies-913017BU2	204,570	-	204,570
	US Bankcorp-91159HHD5	162,773	-	162,773
	US Bankcorp-91159HHD5	244,160	-	244,160
	Verizon Communications-92343VBF0	89,341	-	89,341
	Verizon Communications-92343VBF0	119,121	-	119,121
	Verizon Communications-92343VBF0	29,780	-	29,780
	WALT DISNEY CO/THE-25468PCQ7	45,158	-	45,158
	Walt Disney Co-25468PCQ7	6,021	-	6,021
		8,321,076	-	8,321,076
	Total Corporate Bonds	8,321,076	-	8,321,076

UNM MEDICAL GROUP, INC.
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CASH AND INVESTMENT ACCOUNT BALANCES
June 30, 2014

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
	Government & government sponsored entity (GSE) bonds			
	FARMER MAC MEDIUM TERM - 31315PFS3	\$ 334,520	-	334,520
	FARMER MAC MEDIUM TERM - 31315PRV3	25,496	-	25,496
	Farmer Mac Medium-31315PFS3	360,254	-	360,254
	FEDERAL FARM CREDIT BANK - 3133EA2P2	385,514	-	385,514
	FEDERAL FARM CREDIT BANK - 3133ECL93	335,170	-	335,170
	FEDERAL FARM CREDIT BANK - 3133ECMZ4	174,848	-	174,848
	FEDERAL FARM CREDIT BANK - 3133ECMZA	39,965	-	39,965
	FEDERAL FARM CREDIT BANK - 3133ECSS4	355,075	-	355,075
	FEDERAL FARM CREDIT BANK - 3133ECSS4	400,085	-	400,085
	FEDERAL HOME LOAN BANK-3130A15F1	198,912	-	198,912
	FEDERAL HOME LOAN BANK-3130A1RX8	125,126	-	125,126
	FEDERAL HOME LOAN BANK-3130A2FG6	199,870	-	199,870
	FEDERAL HOME LOAN BANK-3134G4FP8	310,690	-	310,690
	FEDERAL HOME LOAN BNK-3130A15F1	198,912	-	198,912
	FEDERAL HOME LOAN MTG CORP - 3134G3K33	330,686	-	330,686
	FEDERAL NATL MTG ASSN - 3135G0BY8	301,244	-	301,244
	FEDERAL NATL MTG ASSN - 3135G0XE8	24,734	-	24,734
	FEDERAL NATL MTG ASSN - 3135G0XE8	321,545	-	321,545
	FEDERAL NATL MTG ASSN - 3135GOBY8	30,124	-	30,124
	FEDERAL NATL MTG ASSN - 3135GOYT4	15,103	-	15,103
	FEDERAL NATL MTG ASSN - 3135GOYT4	20,137	-	20,137
	FEDERAL NATL MTG ASSN - 3135GOYT4	5,034	-	5,034
	FEDERAL NATL MTG ASSN - 3136G1KD0	197,031	-	197,031
	FEDERAL NATL MTG ASSN - 3136G1KD0	394,063	-	394,063
	U S TREASURY NOTE-912828QU7	120,363	-	120,363
	U S TREASURY NOTE-912828TB6	169,310	-	169,310
	U S TREASURY NOTE-912828TB6	119,513	-	119,513
	U S TREASURY NOTE-912828TB6	74,696	-	74,696
	U S TREASURY NOTE-912828TB6	24,899	-	24,899
	U S TREASURY NOTE-912828TW0	396,621	-	396,621
	U S TREASURY NOTE-912828TW0	39,662	-	39,662
	U S TREASURY NOTE-912828TW0	366,875	-	366,875
	U S TREASURY NOTE-912828TW0	29,747	-	29,747
	U S TREASURY NOTE-912828TW0	158,649	-	158,649
	U S TREASURY NOTE-912828WK2	265,026	-	265,026
	U S TREASURY NOTES -912828RJ1	126,522	-	126,522
	U S TREASURY NOTES -912828RX0	45,235	-	45,235
	U S TREASURY NOTES -912828RX0	130,680	-	130,680
	U S TREASURY NOTES -912828TB6	263,924	-	263,924
	U S TREASURY NOTES -912828TB6	101,586	-	101,586
	U S TREASURY NOTES -912828TB6	7,968	-	7,968
	U S TREASURY NOTES -912828TB6	34,858	-	34,858
	U S TREASURY NOTES -912828TB6	116,525	-	116,525
	U S TREASURY NOTES -912828TB6	1,992	-	1,992
	U S TREASURY NOTES -912828TW0	300,441	-	300,441
	U S TREASURY NOTES -912828TW0	56,519	-	56,519
	U S TREASURY NOTES -912828TW0	14,873	-	14,873
	U S TREASURY NOTES -912828TW0	19,831	-	19,831
	U S TREASURY NOTES -912828TW0	54,535	-	54,535
	U S TREASURY NOTES -912828WK2	600,058	-	600,058
	U S TREASURY NOTES -912828WK2	125,012	-	125,012
	U S TREASURY NOTES-912828RJ1	506,088	-	506,088
	U S TREASURY NOTES-912828RX0	128,669	-	128,669
	U S TREASURY NOTES-912828RX0	206,072	-	206,072
	U S TREASURY NOTES-912828RX0	50,262	-	50,262
	U S TREASURY NOTES-912828RX0	402,092	-	402,092
	U S TREASURY NOTES-912828RX0	150,785	-	150,785
	Total Government bonds	10,294,026	-	10,294,026

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
CASH AND INVESTMENT ACCOUNT BALANCES
June 30, 2014

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
	Municipal Bonds			
	ARIZONA WTR INFRASTRUCTURE -040688MD2	\$ 100,771	-	100,771
	ARIZONA WTR INFRASTRUCTURE FIN-040688MD2	65,501	-	65,501
	CHICAGO ILL MET WTR-167560PP0	10,035	-	10,035
	CHICAGO ILL MET WTR-167560PP0	170,587	-	170,587
	COLUMBUS OHIO TAXABLE -SER C-1994914G3	20,149	-	20,149
	Houston Tex Util-4424354T7	250,779	-	250,779
	Houston Tex Util-4424354U4	100,375	-	100,375
	NEW YORK NY GENL OBLIG-64966JDX1	292,937	-	292,937
	OAKLAND UNIV MICH-673588EH8	54,959	-	54,959
	OAKLAND UNIV-673588EH8	69,948	-	69,948
	OHIO ST WTR DEV AUTH WTR POLLUTN CTL-67766WUWC	65,342	-	65,342
	SAN FRANCISCO CALIF CITY & TXBLE-79766DAX7	104,452	-	104,452
	SAN FRANCISCO CALIF CITY -79766DAX7	10,445	-	10,445
	WYANDOTTE CNTY KANS UNI SCH-982696QB5	95,649	-	95,649
	Wyandotte Cnty Kans Uni Sch-982696QB5	125,853	-	125,853
	Total Municipal Bonds	1,537,782	-	1,537,782
	Total Investments	\$ 20,152,884	-	20,152,884

**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) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise UNMMG's basic financial statements, and have issued our report thereon dated October 23, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 23, 2014

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2014

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, 2014

An exit conference was conducted on October 15, 2014, with a member of the board of directors and members of UNMMG management. During this meeting, the contents of this report were discussed with the following:

Chris Pacheco	Audit Committee Member
Dr. Michael Richards	UNM Health System, Executive Physician-in-Chief UNM Medical Group, Chairman of Board
Dr. Thomas Williams	UNM HSC School of Medicine, Executive Vice Dean UNM Medical Group, President
Anthony R. Masciotra, Jr.	Chief Executive Officer
Marjorie Goldstein	Vice President & CFO
Angela V. Hawthorne	Controller
DeVon Wiens	Engagement Partner, Moss Adams LLP