

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, 2015 and 2014

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
2015 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
John Brandt, M.D.	Professor & Vice Chair, Pediatrics
Loretta Cordova de Ortega, M.D.	Chair, Pediatrics (Regent appointed)
Martha McGrew, M.D.	Chair, Family & Community Medicine (Regent appointed)
Steve McKernan	CEO, UNMH & COO UNM Health System (Regent appointed)
Pope Moseley, M.D.	Chair, Internal Medicine (Regent appointed)
Chris Pacheco	Independent, non-UNM Faculty (Regent appointed)
Elizabeth Steele, M.D.	Assistant Professor, Anesthesiology
Philip Wiest, M.D.	Chair, Radiology (Regent appointed)
Cheryl Willman, M.D.	Director, UNM Cancer Center (Regent appointed)

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. Timothy Keller, 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, 2015 and 2014, 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. Timothy Keller, State Auditor

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNMMG as of June 30, 2015 and 2014, 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.

Supplementary and 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 individual deposit 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. Timothy Keller, State Auditor

The accompanying schedule of vendor information (Schedule 3) has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015 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 29, 2015

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

Management's Discussion and Analysis

June 30, 2015, 2014 and 2013

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, 2015, 2014, and 2013. 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

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Condensed Summary of Net Position

	June 30		
	2015	2014	2013
Assets:			
Current assets	\$ 59,745,158	51,207,044	49,068,554
Capital assets, net	3,541,317	2,563,899	1,039,469
Other noncurrent assets	19,685,847	22,847,934	29,409,465
Total assets	<u>82,972,322</u>	<u>76,618,877</u>	<u>79,517,488</u>
Liabilities:			
Current liabilities	35,609,114	30,365,090	32,522,283
Total liabilities	<u>35,609,114</u>	<u>30,365,090</u>	<u>32,522,283</u>
Net position:			
Invested in capital assets	3,541,317	2,563,899	1,039,469
Unrestricted	43,821,891	43,689,888	45,955,736
Total net position	<u>47,363,208</u>	<u>46,253,787</u>	<u>46,995,205</u>
Total liabilities and net position	<u>\$ 82,972,322</u>	<u>76,618,877</u>	<u>79,517,488</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, 2015, total current assets of \$59.7 million consisted of \$23.4 million of cash and cash equivalents compared to \$51.2 million in total current assets and \$19.5 million of cash and cash equivalents at June 30, 2014, and compared to \$49.1 million in total current assets and \$21.4 million of cash and cash equivalents at June 30, 2013. Current assets also include net patient receivables of \$28.5 million, \$25.5 million, and \$23.1 million in 2015, 2014, and 2013, respectively. Also included in current assets are amounts due from affiliates and other receivables of \$7.9 million (consisting primarily of \$1.9 million due from UNM HSC, \$5.9 million due from UNM Hospitals, and \$0.1 million due from SRMC), compared to \$6.2 million in 2014 (consisting primarily of \$2.3 million due from UNM HSC, \$1.9 million due from UNMH, and \$2.0 million due from SRMC), and \$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). Noncurrent assets in 2015 represent capital assets of \$3.5 million and other assets of \$0.7 million compared to \$2.6 million in capital assets and other assets of \$0.7 million in 2014 and compared to \$2.0 million due from SRMC, \$1.0 million in capital assets, and other assets of \$0.9 million in 2013. Other noncurrent assets include board-designated investments in cash and cash equivalents, money markets, U.S. government securities, and corporate debt securities of \$19.0 million in 2015, \$22.1 million in 2014, and \$26.5 million in 2013.

Current liabilities are generally defined as amounts due within one year. As of June 30, 2015, total current liabilities of \$35.6 million include purchased services payable to UNM HSC of \$23.4 million compared to \$30.4 million and \$20.4 million in 2014 and \$32.5 million and \$21.9 million in 2013, respectively. Also included in current liabilities are amounts payable to UNM, in the amount of \$5.7 million and other accrued liabilities of

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\$5.3 million, compared to \$2.9 million and \$3.9 million in 2014 and \$3.4 million and \$3.0 million in 2013, respectively.

UNMMG's current ratio, the amount of current assets available to cover current liabilities, was 1.68, 1.69, and 1.51 in 2015, 2014, and 2013, respectively. Payment of UNMMG's current liabilities is dependent on UNMMG's ability to collect patient and other receivables.

Total net position increased \$1.1 million to \$47.4 million at June 30, 2015 from \$46.3 million at June 30, 2014, due to the excess of revenue over expense in 2015 of \$1.1 million. 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.

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,		
	2015	2014	2013
Net operating revenues	\$ 200,414,095	166,296,918	161,725,107
Operating expenses:			
Purchased clinical services	139,846,399	116,095,384	118,716,666
Salaries and benefits	23,654,038	20,192,064	17,500,066
Other	36,736,398	31,768,447	26,097,760
Total operating expenses	200,236,835	168,055,895	162,314,492
Operating gain (loss)	177,260	(1,758,977)	(589,385)
Nonoperating revenues:			
State Appropriations	813,100	815,300	815,300
Investment income (loss)	119,061	202,259	(120,414)
Total nonoperating revenues	932,161	1,017,559	694,886
Change in net position	1,109,421	(741,418)	105,501
Net position, beginning of year	46,253,787	46,995,205	46,889,704
Net position, end of year	\$ 47,363,208	46,253,787	46,995,205

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 2015 increased \$34.1 million from \$166.3 million in 2014 to \$200.4 million in 2015, reflecting an increase of 20.5%. 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%. The 2015 increase in net operating revenues is primarily due to a \$22.8 million increase in net patient revenues, which increased to \$171.9 million in 2015 from \$149.1 million in 2014, and compared to \$147.0 million in 2013. The increase in net patient revenues is primarily due to the impact of the expanded Medicaid program in the State of New Mexico under the Affordable Care Act, and the corresponding

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reduction in Charity Care, as illustrated below. This impact is estimated to have been approximately \$16.8 million of the increase in patient revenues.

Other factors contributing to the increase in net operating revenues were pharmacy revenues of \$17.9 million, which represented a \$3.3 million increase over 2014 revenues of \$14.7 million, and compared to 2013 revenues of \$8.8 million. Also included in 2015 net operating revenues were \$8.7 million of funds allocated from the UNM Health System to support provider costs incurred by the UNMMG for physicians and non-physician providers providing services at UNM Sandoval Regional Medical Center.

In 2014 and 2013, 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 represented a \$1.7 million decrease from 2013 revenues of \$3.5 million. With the implementation of the expanded Centennial Managed 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 3,026,423 in 2015, representing an increase of 265,738, or 9.6% from 2014. In 2014, WRVUs of 2,760,685 increased 173,159 or 6.7% from 2013. UNMMG negotiated rate increases among our commercial insurance payors resulting in an estimated overall weighted average increase of 2%. During 2015, the UNMMG operated 14 clinics with approximately 45,000 patient visits. Overall, these clinics contributed \$26.4 million in revenues in 2015, an increase of \$4.5 million compared to revenues of \$21.9 million in 2014. A condensed summary of the net operating revenue calculation follows:

	Year Ended June 30,		
	2015	2014	2013
Patient service charges billed at established rates	\$ 466,862,621	428,788,271	425,384,671
Adjustments to charges:			
Contractual adjustments	(247,375,635)	(190,257,471)	(167,373,886)
Charity care	(9,468,283)	(50,889,392)	(66,093,430)
Net patient billings	210,018,703	187,641,408	191,917,355
Provision for uncollectible accounts	(38,081,084)	(38,505,304)	(44,938,372)
Net patient service revenues	171,937,619	149,136,104	146,978,983
Pharmacy Revenue	17,872,845	14,677,033	8,768,977
Other revenue	10,603,631	2,483,781	5,977,147
Total net operating revenues	\$ 200,414,095	166,296,918	161,725,107

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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, 2015, 2014, and 2013, there were approximately 7,002, 20,200, and 26,400 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, 2015, UNMMG provided at charge level \$9.5 million in charity care compared to \$50.9 million in 2014 and \$66.1 million in 2013. The significant decline in charity care can be attributed to the impact of the expansion of Medicaid that went into effect beginning 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, 2015 UNMMG recorded \$38.1 million as a provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts, compared to \$38.5 million and \$44.9 million as of June 30, 2014 and 2013, 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. For the year ended June 30, 2015, the estimated cost of care for providing these services was \$17.1 million-compared to \$38.0 million in 2014 and \$42.7 million in 2013.

Total operating expenses were \$200.2 million for the year ended June 30, 2015, \$168.1 million for the year ended June 30, 2014, and \$162.3 million for the year ended June 30, 2013. 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 \$149.8 million in 2015, \$125.0 million in 2014 and \$127.4 million in 2013. The \$2.4 million reduction in costs from 2013 to 2014 is primarily related to a reduction in payments to the UNM Cancer Center, resulting from the transition from global to professional billing on behalf of the Cancer Center.

Other expense increases from 2014 to 2015 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 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 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

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expense is adjusted accordingly. Total Dean's and rescission taxes were \$10.0 million in 2015, \$8.9 million in 2014, and \$8.7 million in 2013, respectively, and are reported on the statement of revenues, expenses, and changes in net position as an operating expense. In 2014 and 2013, the Dean's office waived \$2.5 and \$1.9 million, respectively, of Dean's and rescission tax to help support the purchase of provider services at SRMC, paid by the UNMMG. In 2015, the UNMMG resumed payments in full of Dean's and rescission tax to the SOM Dean's office.

In 2015 and 2014, UNMH provided funding to UNMMG in the amount of \$1.3 million and \$1.2 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 \$0.9 million in 2015, \$1.0 million in 2014, and \$0.7 million in 2013 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, 2015, UNMMG had \$3.5 million invested in capital assets, net of accumulated depreciation of approximately \$5.0 million compared to \$2.6 million and \$4.2 million at June 30, 2014, and compared to \$1.0 million and \$4.1 million at June 30, 2013. 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 increase of \$1.1 million from 2014 to 2015 due to an increase in operating income compared to a net decrease of \$0.7 million from 2013 to 2014 due to an increase of operating expenses.

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 was 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. During the year ended June 30, 2015, the remaining balance was paid in full.

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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 2014, UNMMG continued the attestation process for eligible providers under this program. In 2015, 2014, and 2013, there were 11, 11, and 148 UNMMG providers that completed attestation. UNMMG recorded revenues of \$0.05 million, \$0.1 million, and \$2.7 million in 2015, 2014, and 2013, respectively, under the meaningful use program. 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 FPL, eliminating other non-income-based criteria (such as age, disability, or asset testing). This FPL criteria was mandatory for state implementation in 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

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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.

The UNMMG, as a result of PPACA, 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 UNIT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENTS OF NET POSITION
June 30, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 23,359,944	19,473,694
Receivables:		
Net patient receivables (net of allowance for uncollectable accounts of \$24,709,735 in 2015 and \$30,655,556 in 2014)	28,476,374	25,471,178
Due from affiliates	7,894,204	6,247,472
Other	14,636	14,700
Total net receivables	36,385,214	31,733,350
Total current assets	59,745,158	51,207,044
Noncurrent assets:		
Board designated assets:		
Cash and cash equivalents, non current	1,350,028	1,957,580
Investments	17,634,658	20,152,884
Total board designated assets	18,984,686	22,110,464
Capital assets, net	3,541,317	2,563,899
Other assets	701,161	737,470
Total noncurrent assets	23,227,164	25,411,833
Total assets	\$ 82,972,322	76,618,877
Liabilities		
Current liabilities		
Purchased services due to UNM HSC	\$ 23,389,621	20,381,167
Operating expenses due to UNM	5,679,734	2,915,134
Due to affiliates	1,275,119	3,174,090
Accrued liabilities	5,264,640	3,894,699
Total current liabilities	35,609,114	30,365,090
Net Position		
Investment in capital assets	3,541,317	2,563,899
Unrestricted	43,821,891	43,689,888
Total net position	47,363,208	46,253,787
Total liabilities and net position	\$ 82,972,322	76,618,877

See accompanying notes to financial statements.

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Operating revenues:		
Patient service revenue, net	\$ 171,937,619	149,136,104
Pharmacy revenue	17,872,845	14,677,033
Other revenue	10,603,631	2,483,781
Total net operating revenues	<u>200,414,095</u>	<u>166,296,918</u>
Operating expenses:		
Purchased clinical services from UNM HSC	139,846,399	116,095,384
Salaries and benefits	23,654,038	20,192,064
Pharmacy expenses	10,604,524	8,573,229
Dean's and rescission tax	9,987,806	8,856,934
Other administrative	4,381,299	3,604,386
Malpractice insurance	4,340,514	4,107,696
Patient care costs	2,414,883	2,180,469
Data processing costs	1,470,186	1,563,623
Patient registration and enrollment support	1,091,137	947,959
Occupancy	1,033,139	887,622
Depreciation	808,099	594,095
Consulting	604,811	452,434
Total operating expenses	<u>200,236,835</u>	<u>168,055,895</u>
Operating income (loss)	<u>177,260</u>	<u>(1,758,977)</u>
Non operating revenues:		
State appropriations	813,100	815,300
Investment income	119,061	202,259
Total nonoperating revenues	<u>932,161</u>	<u>1,017,559</u>
Change in net position	<u>1,109,421</u>	<u>(741,418)</u>
Net position, beginning of year	<u>46,253,787</u>	<u>46,995,205</u>
Net position, end of year	<u>\$ 47,363,208</u>	<u>46,253,787</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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Cash receipts from insurance and patients	\$ 186,805,332	161,415,653
Payments to UNM	(150,577,427)	(130,840,922)
Payments to employees	(18,844,819)	(16,424,245)
Payments to suppliers	(21,599,979)	(18,209,720)
Payments for employee benefits	(4,809,219)	(3,767,819)
Other receipts	10,639,940	2,651,080
Net cash provided by (used in) operating activities	<u>1,613,828</u>	<u>(5,175,973)</u>
Cash flows from noncapital financing activities:		
State appropriations	813,100	815,300
Net cash provided by noncapital financing activities	<u>813,100</u>	<u>815,300</u>
Cash flows from investing activities:		
Purchase of capital assets	(1,785,517)	(2,118,525)
Proceeds from maturity of investments, net	2,518,226	2,711,980
Investment income	119,061	202,260
Net cash provided by investing activities	<u>851,770</u>	<u>795,715</u>
Net increase (decrease) in cash and cash equivalents	3,278,698	(3,564,958)
Cash and cash equivalents, beginning of year	<u>21,431,274</u>	24,996,232
Cash and cash equivalents, end of year	<u>\$ 24,709,972</u>	<u>21,431,274</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income (loss)	\$ 177,260	(1,758,977)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	808,099	594,095
Provision for doubtful accounts	38,081,084	38,505,304
Changes in assets and liabilities:		
Patient receivables	(41,086,280)	(40,904,677)
Due from affiliates	(1,646,732)	376,285
Other receivables	64	1,891
Other assets	36,309	167,299
Purchase services due to UNM HSC	3,008,454	(1,552,790)
Due to affiliates	865,629	(1,520,807)
Accrued liabilities	1,369,941	916,404
Net cash provided by (used in) operating activities	<u>\$ 1,613,828</u>	<u>(5,175,973)</u>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2015 and 2014

(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 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, 2015, the UNMMG had no items meeting the criteria of "deferred inflows" and "deferred outflows."

(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.

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Notes to Financial Statements

June 30, 2015 and 2014

- *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, 2015 and 2014 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, 2015 and 2014, 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.

(f) *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.

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 when services are provided.

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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.

(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 changes in net position.

(h) *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 \$17.9 million and \$14.7 million for the years ended June 30, 2015 and 2014, respectively. Pharmacy expenses reflect cost of goods sold, pharmacy management and dispensing fees. Pharmacy expenses were \$10.6 million and \$8.6 million for the years ended June 30, 2015 and 2014, respectively.

(i) *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 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

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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 and Benefits

At June 30, 2015, the staff of UNMMG was comprised of 447 UNMMG and 49 UNM employees. For staff who are UNM employees, 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 in accordance with the Master Service Agreement. UNMMG does not have any further obligation or responsibility to pay these individuals beyond the allocated cost from UNM.

(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 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 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, and 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.

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(3) Cash, 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, 2015 and 2014 are categorized as follows:

	2015	2014
Operating accounts	\$ 24,234,571	20,712,074
Savings account	524,396	523,557
Total bank balances	\$ 24,758,967	21,235,631
Amount insured by FDIC	\$ 607,118	629,347
Amount collateralized with securities held in UNMMG's name	\$ 24,151,849	20,606,284

Also included in cash and cash equivalents at June 30, 2015 is a money market account in the amount of \$462,848. 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, 2015. Marketable securities of \$17,634,658 at June 30, 2015 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

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recognized statistical rating organizations. A summary of the marketable securities and their respective maturities and their exposure at June 30, 2015 and 2014 to credit risk follows:

June 30, 2015

Credit Rating (S&P)	Total	U.S. Government and Agency		Other
		Obligations	Corporate Bonds	Government Bonds
AAA	\$ 11,287,697	11,055,533	-	232,164
AA	1,563,509	-	1,241,991	321,518
A	3,961,344	-	3,722,843	238,501
BBB	822,108	-	822,108	-
Total	<u>\$ 17,634,658</u>	<u>11,055,533</u>	<u>5,786,942</u>	<u>792,183</u>

June 30, 2015

	Investment Maturities (in years)		
	Fair Value	Less than 1	1 to 5
U.S. government obligations	\$ 11,055,533	1,763,127	9,292,406
Corporate bonds	5,786,943	982,436	4,804,507
Other government bonds	792,182	333,302	458,880
Total	<u>\$ 17,634,658</u>	<u>3,078,865</u>	<u>14,555,793</u>

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June 30, 2015 and 2014

June 30, 2014

Credit Rating (S&P)	Total	U.S. Government and Agency		Other Government Bonds
		Obligations	Corporate Bonds	
AAA	\$ 10,726,411	10,294,026	-	432,385
AA	2,935,099	-	2,069,506	865,593
A	5,618,116	-	5,378,312	239,804
BBB	873,258	-	873,258	-
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
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
Total	\$ 20,152,884	3,249,052	16,903,832

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, 2015 and 2014, 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 substantially reserves.

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June 30, 2015 and 2014

	2015	2014
Medicare and Medicaid	63%	64%
Commercial insurance	34	33
Other	3	3
	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, 2015, and 2014, 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, 2015 and 2014, assets are designated for the following purposes:

	2015	2014
Quality reserve	\$ 6,345,377	5,573,028
Department reserve	6,256,179	10,945,607
Other MG reserve	6,183,273	4,519,272
Hardware and technology	908,231	1,072,557
Investment reserve	(708,374)	-
Total board-designated assets	\$ 18,984,686	22,110,464

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.

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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, 2013	\$ 5,099,568	4,060,099	1,039,469
Additions	2,127,301	602,871	1,524,430
Deletions	469,772	469,772	-
Balance, June 30, 2014	<u>6,757,097</u>	<u>4,193,198</u>	<u>2,563,899</u>
Additions	1,785,517	808,099	977,418
Deletions	36,150	36,150	-
Balance, June 30, 2015	<u><u>\$ 8,506,464</u></u>	<u><u>4,965,147</u></u>	<u><u>3,541,317</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, 2015 and 2014, refunds payable were \$537,734 and \$484,649, respectively. The amount is included in accrued liabilities on the accompanying statements of net position.

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Notes to Financial Statements

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(8) Accrued Liabilities

Accrued liabilities consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Payroll and benefits liability	\$ 1,442,594	429,253
Accrued operating expenses	1,388,635	1,377,124
Accrued leave	1,271,455	1,007,092
Refunds Payable	537,734	484,649
Malpractice liability	502,758	502,758
Other	70,321	17,709
Unclaimed Property	51,144	76,114
	<u>\$ 5,264,641</u>	<u>3,894,699</u>

(9) Malpractice Insurance

As a New Mexico University Research Park and Economic Development Act corporation, UNMMG has 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. Malpractice expense was \$4.3 million and \$4.1 million for the years ended June 30, 2015 and 2014, respectively. As of June 30, 2015 and 2014, a liability of \$502,758 was recorded as an accrued liability on the statements of net position.

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(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 92% in 2015 and 80% in 2014, respectively of UNMMG's gross patient revenue was derived from third-party payors. Of this, Medicare and Medicaid represented approximately 65% in 2015 and 54% in 2014. 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, 2015 and 2014:

	2015	2014
Patient service charges billed at established rates	\$ 466,862,621	428,788,271
Adjustments to charges:		
Contractual adjustments	(247,375,635)	(190,257,471)
Charity care	(9,468,283)	(50,889,392)
Net patient billing	210,018,703	187,641,408
Provision for uncollectible accounts	(38,081,084)	(38,505,304)
Net patient service revenues	\$ 171,937,619	149,136,104

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(11) Charity Care

UNMMG maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The following information measures the level of charity care provided during the years ended June 30, 2015 and 2014:

	2015	2014
Charges forgone, based on established rates	\$ 9,468,283	50,889,392
Estimated costs and expenses incurred to provide charity care	4,573,181	23,867,125
Equivalent percentage of charity care to total gross revenue	1.9%	11.4%

(12) Related-Party Transactions

A summary of the related-party balances as of June 30, 2015 and 2014 is as follows:

	2015	2014
Current Assets:		
Due from HSC	\$ 1,903,261	2,287,447
Due from SRMC	103,542	2,048,511
Due from UH	5,887,401	1,911,514
	\$ 7,894,204	6,247,472
Current Liabilities:		
Purchased Services Payable	\$ 23,389,621	20,381,167
Due to UH	1,203,635	3,174,090
Operating Expenses due to HSC	5,626,411	2,712,592
Indigent Distribution (HSC)	53,323	202,542
Due to SRMC	71,484	-
	\$ 30,344,474	26,470,391

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Notes to Financial Statements

June 30, 2015 and 2014

UNMMG processes payroll and various other expenses through its business office on behalf of UNM. UNM reimburses UNMMG for the expenses. At June 30, 2015 and 2014, UNMMG's receivable for these expenses were approximately \$1.9 million and \$2.3 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 2015 and 2014, UNMH provided funding to UNMMG in the amount of \$1.3 million and \$1.2 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.

Under a Master Services Agreement among 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. Under the Master Service Agreement, UNM Health System reimburses UNMMG for a portion of these costs. For the year ended June 30, 2015 this reimbursement was \$8.7 million.

For the years ended June 30, 2015 and 2014, total UNMMG purchased services were \$139.8 million and \$116.1 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 \$23.4 million and \$20.4 million at June 30, 2015 and 2014, 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, 2015 and 2014, UNMMG's liabilities for these expenses were approximately \$5.6 million and \$2.7 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, 2015 and 2014 were approximately \$2.5 million and \$1.7 million, respectively, and are reported within the appropriate categories on the statements of revenues, expenses, and changes in net position. At June 30, 2015 and 2014, approximately \$1.2 million and \$3.2 million, respectively, were reported in due to affiliates 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, 2015 and 2014

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 \$10.0 million and \$8.9 million for the years ended June 30, 2015 and 2014, 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 \$53,323 and \$202,542 for the years ended June 30, 2015 and 2014, 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.

(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 an employee's elective deferral. The plan document was amended so employees hired on or after January 1, 2012, follow 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's salary. The discretionary contribution percentages were 4% in 2015 and 2014. Total employer contributions were \$1,182,330 and \$923,262 and employee contributions were \$1,664,926 and \$1,262,706 for the years ended June 30, 2015 and 2014, respectively. Employees paid under UNM participate in the defined benefit retirement plan under the Educational Retirement Act of the State of New Mexico. As these are employees of UNM, the net pension liability related to these employees is reflected in the financial statements of UNM.

(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, 2015 and 2014 were \$1,033,139 and \$887,622, 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 \$1,175,399 and \$1,027,415 in 2015 and 2014, respectively.

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

Notes to Financial Statements

June 30, 2015 and 2014

(a) Minimum Lease Payments

The following is a schedule of future minimum lease payments for operating leases at June 30, 2015:

<u>Years ending June 30:</u>	<u>Payments</u>
2016	\$ 606,216
2017	570,259
2018	426,652
2019	353,976
2020	356,512
2021-2023	613,881
	<u>\$ 2,927,496</u>

(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 \$4.3 million and \$4.1 million, respectively), which was \$24,070 and \$18,358 in 2015 and 2014, 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. For the years ended June 30, 2015 and 2014, there were 11 providers in each year that completed attestation. UNMMG recorded revenue of \$50,000 and \$100,000 in 2015 and 2014, respectively, which is reported on the statement of revenues, expenses, and changes in net position.

In 2015, UNM Health System provided \$8.7 million in revenue support to help cover provider costs for UNM Sandoval Regional Medical Center.

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
PLEDGED COLLATERAL BY BANKS
June 30, 2015

Schedule 1

Deposits per bank (Wells Fargo)	\$ 24,758,967
Less:	
FDIC Coverage	(607,118)
Total uninsured public funds	<u>\$ 24,151,849</u>
State of New Mexico: Collateral Requirement - 50%	<u>\$ 12,075,924</u>
Pledged collateral:	
FN, AR8932, 3.000%, 03/01/2043	1,392,146
FN, AS0036, 3.500%, 07/01/2043	2,798,028
FN, AJ1407, 4.000%, 09/01/2041	5,010,142
FN, AB7585, 3.000%, 01/01/2043	1,121,594
FN, AJ4744, 3.000%, 12/01/2026	1,618,140
FN, AR2039, 3.000%, 01/01/2043	3,676,495
FN, AB7817, 3.000%, 02/01/2043	1,701,447
FN, AH6176, 4.500%, 02/01/2041	2,688,975
FN, AE0313, 4.500%, 09/01/2040	1,786,227
FN, AD6960, 4.500%, 07/01/2040	2,833,955
FN, AU7868, 3.500%, 09/01/2043	<u>1,978,246</u>
Total pledged collateral	<u>26,605,395</u>
Over collateralized	<u>\$ 14,529,471</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)
INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNT BALANCES
June 30, 2015

Schedule 2

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
Wells Fargo	UNMMG Main Operating	\$ 24,127,453	(518,118)	23,609,335
	Cancer Center	32,118	-	32,118
	Truman RX	75,000	-	75,000
	Savings	524,396	-	524,396
		<u>24,758,967</u>	<u>(518,118)</u>	<u>24,240,849</u>
	Cash on Hand	<u>6,275</u>	<u>-</u>	<u>6,275</u>
Investments:				
Morgan Stanley	Money Market			
Smith Barney	Cash	13,074	-	13,074
	Morgan Stanley U.S. Government Money Market Trust	449,774	-	449,774
	Total Money Market	<u>462,848</u>	<u>-</u>	<u>462,848</u>
	Total cash and cash equivalents	<u>\$ 25,228,090</u>	<u>(518,118)</u>	<u>24,709,972</u>
Corporate Bonds				
	Aetna Inc.-00817YAN8	\$ 8,062	-	8,062
	Air Products & Chemicals Inc.-009158AQ9	73,671	-	73,671
	Air Products & Chemicals Inc.-009158AQ9	30,696	-	30,696
	American Express CO-0258M0DA4	65,773	-	65,773
	American Honda Finance-02665WAC5	81,589	-	81,589
	American Honda Finance-02665WAC5	35,695	-	35,695
	American Honda Finance-02665WAC5	50,993	-	50,993
	Amgen Inc.-031162BQ2	76,382	-	76,382
	Amgen Inc.-031162BQ2	50,921	-	50,921
	Amgen Inc.-031162BQ2	101,843	-	101,843
	Anheuser-Busch Inbev-03523TBM9	200,755	-	200,755
	Anheuser-Busch Inbev-03523TBM9	12,045	-	12,045
	Apple Inc-037833AJ9	109,062	-	109,062
	Apple Inc-037833AJ9	4,957	-	4,957
	APPLE INC-037833AJ9	138,806	-	138,806
	AT&T Inc.-00206RBM3	99,457	-	99,457
	AT&T INC.-00206RBM3	124,321	-	124,321
	AT&T INC.-00206RBM3	24,864	-	24,864
	AT&T Inc.-00206RCL4	24,602	-	24,602
	AT&T Inc.-00206RCL4	24,602	-	24,602
	Bank of America-06051GFN4	42,403	-	42,403
	Bank of America-06051GFN4	39,444	-	39,444
	Bank of America-06051GFN4	9,861	-	9,861
	Bank of Montreal-06367VHL2	78,772	-	78,772
	Bank of Montreal-06367VHL2	25,575	-	25,575
	Bank of Montreal-06367VHL2	40,921	-	40,921
	Berkshire Hathaway Inc.-084670BD9	117,704	-	117,704
	BHP Billiton Fin USA LTD-055451AK4	69,939	-	69,939
	BHP Billiton Fin USA LTD-055451AK4	101,361	-	101,361
	Boeing Capital Corp-097014AL8	7,818	-	7,818
	Brown Forman-115637AN0	109,050	-	109,050
	Brown-Forman Corp-115637AN0	158,618	-	158,618
	Caterpillar Financial-14912L4X6	10,217	-	10,217
	Caterpillar Financial-14912L4X6	10,217	-	10,217
	Chevron Corp 166764AE0	150,937	-	150,937
	Chevron Corp 166764AE0	9,056	-	9,056
	Cisco Systems Inc.-17275RAS1	110,202	-	110,202
	Cisco Systems Inc.-17275RAS1	10,018	-	10,018
	Cisco Systems Inc.-17275RAS1	50,092	-	50,092
	Citigroup Inc.-172967HU8	96,136	-	96,136
	Citigroup Inc.-172967HU8	12,143	-	12,143
	Conocophillips Canada-20825TAA5	\$ 107,960	-	107,960

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNT BALANCES
June 30, 2015

Schedule 2

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
	Conocophillips Canada-20825TAA5	86,582	-	86,582
	Cooper US Inc-216871AF0	76,482	-	76,482
	Cooper US Inc-216871AF0	101,976	-	101,976
	Dominion Resources Inc.-25746UBR9	11,042	-	11,042
	Enterprise Products-29379VAX1	100,523	-	100,523
	Fifth Third Bancorp-316773CQ1	60,514	-	60,514
	General Electric Capital-36962G6K5	10,080	-	10,080
	General Electric Capital-36962G6K5	100,796	-	100,796
	Goldman Sachs Group-38141GRC0	7,888	-	7,888
	Goldman Sachs Group-38141GRC0	76,214	-	76,214
	Goldman Sachs Group-38141GRC0	34,872	-	34,872
	Honeywell Intl.-438516AS5	43,522	-	43,522
	Honeywell Intl.-438516BC9	150,064	-	150,064
	International Business Mach.-459200HE4	100,171	-	100,171
	JOHN DEER CAPITAL CORP-24422ERF8	2,039	-	2,039
	JOHN DEER CAPITAL CORP-24422ERF8	94,810	-	94,810
	John Deere Capital Corp 24422ESF7	50,569	-	50,569
	John Deere Capital Corp 24422ESF7	13,148	-	13,148
	John Deere Capital Corp 24422ESF7	12,136	-	12,136
	JOHN DEERE CAPITAL CORP-24422ESF7	80,910	-	80,910
	JP Morgan Chase-46625HKA7	44,662	-	44,662
	JPMorgan Chase&Co-46625HKA7	51,610	-	51,610
	Marsh & McLennan Cos Inc.-571748AW2	11,115	-	11,115
	McKesson Corp-58155QAC7	3,077	-	3,077
	McKesson Corp-58155QAC7	99,506	-	99,506
	Northern States Power Co-665772CF4	85,738	-	85,738
	Northern States Power Co-665772CF4	25,217	-	25,217
	PACCAR FINANCIAL CORP-69371RK54	6,086	-	6,086
	PACCAR FINANCIAL CORP-69371RK54	101,439	-	101,439
	PACCAR FINANCIAL CORP-69371RK54	76,079	-	76,079
	PACCAR FINANCIAL CORP-69371RK54	9,129	-	9,129
	Prudential Financial-74432QBJ3	61,280	-	61,280
	Simon Property GRP-828807CJ4	106,505	-	106,505
	Simon Property GRP-828807CJ4	20,482	-	20,482
	Time Warner Inc.- 887317AT2	11,941	-	11,941
	Toronto-Dominion Bank-89114QAB4	5,143	-	5,143
	Toronto-Dominion Bank-89114QAB4	10,285	-	10,285
	Toronto-Dominion Bank-89114QAS7	126,782	-	126,782
	Toyota Motor Credit Corp. 89233P6D3	152,352	-	152,352
	Toyota Motor Credit Corp. 89233P6D3	25,392	-	25,392
	Toyota Motor Credit Corp. 89233P6D3	10,157	-	10,157
	United Technologies Corp-913017BU2	127,003	-	127,003
	United Technologies Corp-913017BU2	35,561	-	35,561
	United Technologies Corp-913017BU2	5,080	-	5,080
	US Bankcorp-91159HHD5	162,258	-	162,258
	US Bankcorp-91159HHD5	10,141	-	10,141
	US Bankcorp-91159HHD5	243,387	-	243,387
	Verizon Communications-92343VBF0	89,122	-	89,122
	Verizon Communications-92343VBF0	118,829	-	118,829
	Verizon Communications-92343VBF0	29,707	-	29,707
	Total Corporate Bonds	5,786,943	-	5,786,943
	Government & government sponsored enterprise (GSE) bonds			
	FARMER MAC MEDIUM TERM - 31315PRV3	25,358	-	25,358
	FEDERAL FARM CREDIT BANK - 3133EA2P2	385,606	-	385,606
	FEDERAL FARM CREDIT BANK - 3133ECMZ4	175,114	-	175,114
	FEDERAL FARM CREDIT BANK - 3133ECMZ4	40,026	-	40,026
	FEDERAL FARM CREDIT BANK - 3133ECSS4	355,068	-	355,068
	FEDERAL FARM CREDIT BANK - 3133ECSS4	\$ 400,077	-	400,077
	FEDERAL HOME LOAN BNK-3135G0RL9	74,570	-	74,570

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNT BALANCES
June 30, 2015

Schedule 2

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
	FEDERAL NATL MTG ASSN - 3135G0RL9	173,997	-	173,997
	FEDERAL NATL MTG ASSN - 3135G0XE8	24,904	-	24,904
	FEDERAL NATL MTG ASSN - 3135G0XE8	323,758	-	323,758
	FEDERAL NATL MTG ASSN - 3135GOYT4	15,204	-	15,204
	FEDERAL NATL MTG ASSN - 3135GOYT4	20,272	-	20,272
	FEDERAL NATL MTG ASSN - 3135GOYT4	5,068	-	5,068
	FEDERAL NATL MTG ASSN - 3136G0U25	124,270	-	124,270
	FEDERAL NATL MTG ASSN - 3136G1KD0	199,035	-	199,035
	FEDERAL NATL MTG ASSN - 3136G1KD0	398,071	-	398,071
	FEDERAL NATL MTG ASSN - 31398AU34	91,049	-	91,049
	FEDERAL NATL MTG ASSN - 31398AU34	390,500	-	390,500
	FEDERAL NATL MTG ASSN - 31398AU34	165,912	-	165,912
	U S TREASURY NOTE-912828TB6	170,332	-	170,332
	U S TREASURY NOTE-912828TB6	120,234	-	120,234
	U S TREASURY NOTE-912828TB6	75,146	-	75,146
	U S TREASURY NOTE-912828TB6	25,049	-	25,049
	U S TREASURY NOTE-912828TW0	400,156	-	400,156
	U S TREASURY NOTE-912828TW0	40,016	-	40,016
	U S TREASURY NOTE-912828TW0	370,144	-	370,144
	U S TREASURY NOTE-912828TW0	30,012	-	30,012
	U S TREASURY NOTE-912828TW0	160,062	-	160,062
	U S TREASURY NOTE-912828UU2	49,840	-	49,840
	U S TREASURY NOTE-912828UV0	58,866	-	58,866
	U S TREASURY NOTE-912828UV0	88,298	-	88,298
	U S TREASURY NOTE-912828UV0	19,622	-	19,622
	U S TREASURY NOTE-912828WK2	265,022	-	265,022
	U S TREASURY NOTE-912828WK2	40,003	-	40,003
	U S TREASURY NOTES -912828F70	225,021	-	225,021
	U S TREASURY NOTES -912828G20	325,966	-	325,966
	U S TREASURY NOTES -912828G20	100,297	-	100,297
	U S TREASURY NOTES -912828G20	325,966	-	325,966
	U S TREASURY NOTES -912828G20	10,030	-	10,030
	U S TREASURY NOTES -912828G20	225,669	-	225,669
	U S TREASURY NOTES -912828G20	125,372	-	125,372
	U S TREASURY NOTES -912828G20	5,015	-	5,015
	U S TREASURY NOTES -912828G20	50,149	-	50,149
	U S TREASURY NOTES -912828RH5	8,094	-	8,094
	U S TREASURY NOTES -912828RX0	45,264	-	45,264
	U S TREASURY NOTES -912828RX0	130,762	-	130,762
	U S TREASURY NOTES -912828RX0	95,557	-	95,557
	U S TREASURY NOTES -912828RX0	276,612	-	276,612
	U S TREASURY NOTES -912828RX0	402,344	-	402,344
	U S TREASURY NOTES -912828RX0	502,930	-	502,930
	U S TREASURY NOTES -912828SY7	110,040	-	110,040
	U S TREASURY NOTES -912828TB6	265,517	-	265,517
	U S TREASURY NOTES -912828TB6	102,199	-	102,199
	U S TREASURY NOTES -912828TB6	8,016	-	8,016
	U S TREASURY NOTES -912828TB6	35,068	-	35,068
	U S TREASURY NOTES -912828TB6	117,228	-	117,228
	U S TREASURY NOTES -912828TB6	2,004	-	2,004
	U S TREASURY NOTES -912828TR1	122,979	-	122,979
	U S TREASURY NOTES -912828TW0	303,118	-	303,118
	U S TREASURY NOTES -912828TW0	57,022	-	57,022
	U S TREASURY NOTES -912828TW0	15,006	-	15,006
	U S TREASURY NOTES -912828TW0	20,008	-	20,008
	U S TREASURY NOTES -912828TW0	55,021	-	55,021
	U S TREASURY NOTES -912828TW0	90,035	-	90,035
	U S TREASURY NOTES -912828TW0	100,039	-	100,039
	U S TREASURY NOTES -912828UF5	88,418	-	88,418
	U S TREASURY NOTES -912828UF5	\$ 24,561	-	24,561
	U S TREASURY NOTES -912828UF5	44,209	-	44,209
	U S TREASURY NOTES -912828UU2	19,936	-	19,936

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNT BALANCES
June 30, 2015

Schedule 2

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
	U S TREASURY NOTES -912828UU2	44,856	-	44,856
	U S TREASURY NOTES -912828UV0	39,244	-	39,244
	U S TREASURY NOTES -912828UV0	232,519	-	232,519
	U S TREASURY NOTES -912828UV0	24,527	-	24,527
	U S TREASURY NOTES -912828WK2	300,024	-	300,024
	U S TREASURY NOTES -912828WK2	125,010	-	125,010
	U S TREASURY NOTES-912828RX0	402,344	-	402,344
	U S TREASURY NOTES-912828RX0	150,876	-	150,876
	Total Government bonds	11,055,533	-	11,055,533
	Municipal Bonds			
	ARIZONA WTR INFRASTRUCTURE -040688NH2	70,570	-	70,570
	ARIZONA WTR INFRASTRUCTURE -040688NK5	30,342	-	30,342
	ARIZONA WTR INFRASTRUCTURE FIN-040688NH2	45,367	-	45,367
	ARIZONA WTR INFRASTRUCTURE FIN-040688NK5	20,228	-	20,228
	Houston Tex Util-4424354U4	100,636	-	100,636
	OAKLAND UNIV MICH-673588EH8	55,475	-	55,475
	OAKLAND UNIV-673588EH8	70,605	-	70,605
	OHIO ST WTR DEV AUTH WTR POLLUTN CTL-67766WUW	65,657	-	65,657
	SAN FRANCISCO CALIF CITY & TXBLE-79766DAX7	102,201	-	102,201
	SAN FRANCISCO CALIF CITY -79766DAX7	10,220	-	10,220
	WYANDOTTE CNTY KANS UNI SCH-982696QB5	95,381	-	95,381
	Wyandotte Cnty Kans Uni Sch-982696QB5	125,500	-	125,500
	Total Municipal Bonds	792,182	-	792,182
	Total Investments	\$ 17,634,658	-	17,634,658

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
SCHEDULE OF VENDOR INFORMATION
June 30, 2015

Schedule 3

Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of ALL Vendor(s) that responded	In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work
Recruitment	Merritt Hawkins& Assoc	\$ 152,000	\$ 180,000	12400 High Bluff Dr, Suite 100, San Diego, CA 92130	Y	N	Physician Recruitment services
Recruitment	Witt/Kieffer	90,990	90,990	2015 Spring Road, Oak Brook, IL 60523	Y	N	Recruitment services
Consulting	Spectrum Health Partners	210,000	210,000	109 International Drive, Suite 140, Franklin, TN 37067	Y	N	Consulting
Actuarial services	Axene Health Partners	500,000	500,000	38975 Sky Canyon Drive, Suite 105, Murrieta, CA 92563	Y	N	Actuarial services

**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. Timothy Keller, 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, 2015, and the related notes to the financial statements, which collectively comprise UNMMG's basic financial statements, and have issued our report thereon dated October 29, 2015.

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. Timothy Keller, 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 29, 2015

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2015

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, 2015

An exit conference was conducted on October 13, 2015, 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	Chair, Audit Committee
Dr. Michael Richards	UNM Health System, Executive Physician-in-Chief UNM Medical Group, Chairman of Board
Dr. Martha McGrew	UNM HSC School of Medicine, Executive Vice Dean
Anthony R. Masciotra, Jr.	Chief Executive Officer
Marjorie Goldstein	Vice President & CFO
Angela V. Hawthorne	Financial Controller
DeVon Wiens	Engagement Partner, Moss Adams LLP
Joshua Lewis	Assurance Senior Manager, Moss Adams LLP