

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, 2016 and 2015

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
2016 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)
Steven McLaughlin, M.D.	Chair, Emergency Medicine (Regent appointed)
Chris Pacheco	Independent, non-UNM Faculty (Regent appointed)
Robert Schenck, M.D.	Chair, Orthopedics (Regent appointed)
Elizabeth Steele, M.D.	Assistant Professor, Anesthesiology
Cheryl Willman, M.D.	Director, UNM Cancer Center (Regent appointed)

Officers of UNM Medical Group, Inc.

Jill Klar	Interim 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, New Mexico 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, State of New Mexico, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 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 the entity'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, New Mexico State Auditor

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of UNMMG as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof 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 opinion on the financial statements that collectively comprise the UNMMG's basic financial statements. The accompanying schedules of pledged collateral by banks on page 30 and individual deposit and investment account balances on pages 31-35 are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The accompanying schedules of pledged collateral by banks and individual deposits and investment account balances are the responsibility of management and were derived from and relates 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, New Mexico State Auditor

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016 on our consideration of the UNMMG's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UNMMG's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
October 18, 2016

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

June 30, 2016, 2015 and 2014

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, 2016, 2015, and 2014. 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 presented. 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

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, 2016, 2015 and 2014

Condensed Summary of Net Position

	June 30,		
	2016	2015	2014
Assets:			
Current assets	\$ 57,860,788	59,745,158	51,207,044
Capital assets, net	3,284,128	3,541,317	2,563,899
Other noncurrent assets	23,579,073	19,685,847	22,847,934
Total assets	<u>\$ 84,723,989</u>	<u>82,972,322</u>	<u>76,618,877</u>
Liabilities:			
Current liabilities	\$ 36,534,649	35,609,114	30,365,090
Total liabilities	<u>36,534,649</u>	<u>35,609,114</u>	<u>30,365,090</u>
Net position:			
Invested in capital assets	3,284,128	3,541,317	2,563,899
Unrestricted	44,905,212	43,821,891	43,689,888
Total net position	<u>48,189,340</u>	<u>47,363,208</u>	<u>46,253,787</u>
Total liabilities and net position	<u>\$ 84,723,989</u>	<u>82,972,322</u>	<u>76,618,877</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, 2016, total current assets of \$57.9 million consisted of \$23.8 million of cash and cash equivalents compared to \$59.7 million in total current assets and \$23.4 million of cash and cash equivalents at June 30, 2015, and compared to \$51.2 million in total current assets and \$19.5 million of cash and cash equivalents at June 30, 2014. Current assets also include net patient receivables of \$28.3 million, \$28.5 million, and \$25.5 million in 2016, 2015, and 2014, respectively. Also included in current assets are amounts due from affiliates and other receivables of \$5.6 million (consisting primarily of \$2.4 million due from UNM Health Sciences Center, \$2.9 million due from UNM Hospitals, and \$0.3 million due from SRMC), compared to \$7.9 million in 2015 (consisting primarily of \$1.9 million due from UNM HSC, \$5.9 million due from UNMH, and \$0.1 million due from SRMC), and \$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). Noncurrent assets in 2016 represent capital assets of \$3.3 million and other assets of \$0.8 million compared to \$3.5 million in capital assets and other assets of \$0.7 million in 2015 and compared to \$2.6 million in capital assets, and other assets of \$0.7 million in 2014. Other noncurrent assets also include board-designated investments in cash and cash equivalents, money markets, U.S. government securities, and corporate debt securities of \$22.8 million in 2016, \$19.0 million in 2015, and \$22.1 million in 2014.

Current liabilities are generally defined as amounts due within one year. As of June 30, 2016, total current liabilities of \$36.5 million include purchased services payable to UNM HSC of \$22.6 million compared to \$35.6 million and \$23.4 million in 2015 and \$30.4 million and \$20.4 million in 2014, respectively. Also included in current liabilities are amounts payable to UNM, in the amount of \$6.2 million and other accrued liabilities of

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\$5.8 million, compared to \$5.7 million and \$5.3 million in 2015 and \$2.9 million and \$3.9 million in 2014, respectively.

UNMMG's current ratio, the amount of current assets available to cover current liabilities, was 1.58, 1.68, and 1.69 in 2016, 2015, and 2014, respectively. Payment of UNMMG's current liabilities is dependent on UNMMG's ability to collect patient and other receivables.

Total net position increased \$0.8 million to \$48.2 million at June 30, 2016 from \$47.4 million at June 30, 2015, due to the excess of revenue over expense in 2016 of \$0.8 million. 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 expenses in 2015 of \$1.1 million.

Condensed Summary of Revenues, Expenses and Changes in Net Position

	Year Ended June 30,		
	2016	2015	2014
Net operating revenues	\$ 204,909,472	200,414,095	166,296,918
Operating expenses:			
Purchased clinical services	140,580,678	139,846,399	116,095,384
Salaries and benefits	28,153,974	23,654,038	20,192,064
Other	36,868,853	36,736,398	31,768,447
Total operating expenses	205,603,505	200,236,835	168,055,895
Operating (loss) gain	(694,033)	177,260	(1,758,977)
Nonoperating revenues:			
State appropriations	1,256,900	813,100	815,300
Investment income	263,265	119,061	202,259
Total nonoperating revenues	1,520,165	932,161	1,017,559
Change in net position	826,132	1,109,421	(741,418)
Net position, beginning of year	47,363,208	46,253,787	46,995,205
Net position, end of year	\$ 48,189,340	47,363,208	46,253,787

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 2016 increased \$4.5 million from \$200.4 million in 2015 to \$204.9 million in 2016, reflecting an increase of 2.2%. 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%. The 2016 increase in net operating revenues is primarily due to a \$5.3 million increase in net patient revenues, which increased to \$177.2 million in 2016 from \$171.9 million in 2015, and compared to \$149.1 million in 2014. 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 reduction

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in Charity Care, as illustrated below. This impact is estimated to have been approximately \$3.0 million of the increase in patient revenues in 2016.

Pharmacy revenues declined \$0.6 million, from \$17.9 million in 2015 to \$17.3 million in 2016, after a \$3.2 million, or 21.8%, increase in 2015 compared to 2014 revenues of \$14.7 million. Also included in net operating revenues were \$9.1 million in 2016 and \$8.7 million in 2015 of funds allocated from the UNM Health System to support provider costs incurred by UNMMG for physicians and non-physician providers providing services at UNM Sandoval Regional Medical Center.

In 2016, 2015 and 2014, UNMMG received revenue for ACA Enhanced payments for primary care as defined in section 1202 of the Affordable Care Act. This rule requires payment by State Medicaid agencies of at least the Medicare rates in effect in calendar years (CYs) 2013 and 2014 for primary care services delivered by a physician with a specialty designation of family medicine, general internal medicine, or pediatric medicine. This rule implemented the statutory payment provisions uniformly across all States. Specifically, this rule defined for purposes of enhanced Federal match, eligible primary care providers and identified eligible primary care services, as well as specify how the enhanced payment should be calculated. This rule also provided general guidelines for implementing the enhanced payment for managed care services. The State of New Mexico Medicaid Program extended the program through 2016 using the Medicare Fee Schedule in effect for dates of service as the primary care payment rate. In 2016, primary care enhancements were \$2.5 million, an increase of \$0.7 million compared to revenue of \$1.7 million in 2015, and an increase of \$1.1 million, from \$0.7 million in 2014.

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 3,089,477 in 2016, representing an increase of 63,054, or 2.1% from 2015. In 2015, WRVUs of 3,026,423 increased 265,738 or 9.6% from 2014. During 2016, UNMMG operated 20 clinics with approximately 39,000 patient visits. Overall, these clinics contributed \$26.4 million in revenues in 2016 and 2015. A condensed summary of the net operating revenue calculation follows:

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	Year Ended June 30,		
	2016	2015	2014
Patient service charges billed at established rates	\$ 482,289,146	466,862,621	428,788,271
Adjustments to charges:			
Contractual adjustments	(254,399,832)	(247,375,635)	(190,257,471)
Charity care	(8,480,657)	(9,468,283)	(50,889,392)
Net patient billings	219,408,657	210,018,703	187,641,408
Provision for uncollectible accounts	(42,223,340)	(38,081,084)	(38,505,304)
Net patient service revenues	177,185,317	171,937,619	149,136,104
Pharmacy Revenue	17,270,032	17,872,845	14,677,033
Other revenue	10,454,123	10,603,631	2,483,781
Total net operating revenues	\$ <u>204,909,472</u>	<u>200,414,095</u>	<u>166,296,918</u>

UNMMG encourages all patients to apply for financial assistance and participates in the financial assistance program called UNM Care. This program assigns qualifying patients to 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, 2016, 2015, and 2014, there were approximately 6,812, 7,002, and 20,200 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, 2016, UNMMG provided, in terms of charges, \$8.5 million in charity care compared to \$9.5 million in 2015 and \$50.9 million in 2014. 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.

For the year ended June 30, 2016, UNMMG recorded \$42.2 million as a provision for uncollectible accounts, which primarily represents the write-off of self-pay accounts, compared to \$38.1 million and \$38.5 million for the years ended June 30, 2015 and 2014, respectively. Once again, the decline in the provision of uncollectible accounts from 2014 to 2015 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, 2016, the estimated cost of care for providing these services was \$18.2 million compared to \$17.1 million in 2015 and \$38.0 million in 2014.

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Total operating expenses were \$205.6 million for the year ended June 30, 2016, and \$200.2 million and \$168.1 million for the years ended June 30, 2015 and June 30, 2014, respectively. 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 \$150.8 million in 2016, \$149.8 million in 2015 and \$125.0 million in 2014.

Other expense increases from 2015 to 2016 were attributable to increased salary and benefit costs in UNMMG Clinics, allocation of UNM Health System costs to UNMMG, increased expenses 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 UNMMG to retain the taxes within a reserve fund or for UNMMG to use the funds to support purchased services, the expense is adjusted accordingly. Total Dean's and rescission taxes were \$10.2 million in 2016, \$10.0 million in 2015, and \$8.9 million in 2014, respectively, and are reported on the statement of revenues, expenses, and changes in net position as an operating expense. In 2014, the Dean's office waived \$2.5 million of Dean's and rescission tax to help support the purchase of provider services at SRMC, paid by UNMMG. In 2015, UNMMG resumed payments in full of Dean's and rescission tax to the SOM Dean's office. The Dean's office waived payment of the Dean's and rescission taxes for SRMC in 2014, 2015, and 2016.

In 2016 and 2015, UNMH provided funding to UNMMG in the amount of \$1.5 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.

Non-operating revenues (expenses) of \$1.5 million in 2016, \$0.9 million in 2015, and \$1.0 million in 2014 consisted primarily of state appropriations, investment income, unrealized gains and losses on investments, and interest income on a money market account. The increase in non-operating revenues in 2016 is largely due to an allocation from the HSC to support the telehealth program, now managed by UNMMG.

Capital Assets

At June 30, 2016, UNMMG had \$3.3 million invested in capital assets, net of accumulated depreciation of approximately \$6.0 million compared to \$3.5 million and \$5.0 million at June 30, 2015, and compared to \$2.6 million and \$4.2 million at June 30, 2014. 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 \$0.8 million from 2015 to 2016 due to an increase in operating income compared to a net increase of \$1.1 million from 2014 to 2015.

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June 30, 2016, 2015 and 2014

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 2016, UNMMG continued the attestation process for eligible providers under this program. In 2016, 2015, and 2014, there were 3, 11, and 11 UNMMG providers that completed attestation. UNMMG recorded revenues of \$0.02 million, \$0.05 million, and \$0.1 million in 2016, 2015, and 2014, respectively, under the meaningful use program. UNMMG began receiving funds in July 2012 from the Medicaid program and in 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 provided 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.

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 State Coverage Initiative (SCI), charity care or had no other financial assistance.

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Contacting UNMMG's Financial Management

This financial report is designed to provide the public with a general overview of UNMMG's finances. If you have questions about this report or need additional financial information, contact UNMMG's Controller's office at 933 Bradbury Street SE, Suite 2222, Albuquerque, NM 87106-4375.

UNM MEDICAL GROUP, INC.
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STATEMENTS OF NET POSITION
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Current assets:		
Cash and cash equivalents	<u>\$ 23,788,644</u>	23,359,944
Receivables:		
Net patient receivables (net of allowance for uncollectable accounts of \$31,361,534 in 2016 and \$24,709,735 in 2015)	28,279,121	28,476,374
Due from affiliates	5,607,181	7,894,204
Other	185,842	14,636
Total net receivables	<u>34,072,144</u>	<u>36,385,214</u>
Total current assets	<u>57,860,788</u>	<u>59,745,158</u>
Noncurrent assets:		
Board designated assets:		
Cash and cash equivalents, non current	4,664,762	1,350,028
Investments	18,113,621	17,634,658
Total board designated assets	<u>22,778,383</u>	<u>18,984,686</u>
Capital assets, net	3,284,128	3,541,317
Other assets	800,690	701,161
Total noncurrent assets	<u>26,863,201</u>	<u>23,227,164</u>
Total assets	<u>\$ 84,723,989</u>	<u>82,972,322</u>
Liabilities		
Current liabilities		
Purchased services due to UNM HSC	\$ 22,594,558	23,389,621
Operating expenses due to UNM	6,232,666	5,679,734
Due to affiliates	1,899,230	1,275,119
Accrued liabilities	5,808,195	5,264,640
Total current liabilities	<u>36,534,649</u>	<u>35,609,114</u>
Net Position		
Investment in capital assets	3,284,128	3,541,317
Unrestricted	44,905,212	43,821,891
Total net position	<u>48,189,340</u>	<u>47,363,208</u>
Total liabilities and net position	<u>\$ 84,723,989</u>	<u>82,972,322</u>

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Patient service revenue, net	\$ 177,185,317	171,937,619
Pharmacy revenue	17,270,032	17,872,845
Other revenue	10,454,123	10,603,631
Total net operating revenues	<u>204,909,472</u>	<u>200,414,095</u>
Operating expenses:		
Purchased clinical services from UNM HSC	140,580,678	139,846,399
Salaries and benefits	28,153,974	23,654,038
Dean's and rescission tax	10,222,699	9,987,806
Pharmacy expenses	9,932,662	10,604,524
Other administrative	4,858,081	4,381,299
Malpractice insurance	4,031,648	4,340,514
Patient care costs	1,976,920	2,414,883
Data processing costs	1,680,993	1,470,186
Patient registration and enrollment support	1,229,138	1,091,137
Occupancy	1,191,346	1,033,139
Depreciation	1,081,340	808,099
Consulting	664,026	604,811
Total operating expenses	<u>205,603,505</u>	<u>200,236,835</u>
Operating (loss) income	<u>(694,033)</u>	<u>177,260</u>
Non operating revenues:		
State appropriations	1,256,900	813,100
Investment income	263,265	119,061
Total nonoperating revenue	<u>1,520,165</u>	<u>932,161</u>
Change in net position	826,132	1,109,421
Net position, beginning of year	<u>47,363,208</u>	<u>46,253,787</u>
Net position, end of year	<u>\$ 48,189,340</u>	<u>47,363,208</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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash receipts from insurance and patients	\$ 194,481,396	186,805,332
Payments to UNM	(151,622,467)	(150,577,427)
Payments to employees	(22,883,344)	(18,844,819)
Payments to suppliers	(21,533,166)	(21,599,979)
Payments for employee benefits	(5,270,630)	(4,809,219)
Other receipts	10,354,594	10,639,940
Net cash provided by operating activities	<u>3,526,383</u>	<u>1,613,828</u>
Cash flows from noncapital financing activities:		
State appropriations	1,256,900	813,100
Net cash provided by noncapital financing activities	<u>1,256,900</u>	<u>813,100</u>
Cash flows from investing activities:		
Purchase of capital assets	(824,151)	(1,785,517)
Net (purchases) proceeds from maturity of investments	(478,963)	2,518,226
Proceeds from investments	263,265	119,061
Net cash (used in) provided by investing activities	<u>(1,039,849)</u>	<u>851,770</u>
Net increase in cash and cash equivalents	3,743,434	3,278,698
Cash and cash equivalents, beginning of year	<u>24,709,972</u>	<u>21,431,274</u>
Cash and cash equivalents, end of year	<u>\$ 28,453,406</u>	<u>24,709,972</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating (loss) income	\$ (694,033)	177,260
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,081,340	808,099
Provision for doubtful accounts	42,223,340	38,081,084
Changes in assets and liabilities:		
Patient receivables	(42,026,087)	(41,086,280)
Due from affiliates	2,287,023	(1,646,732)
Other receivables	(171,206)	64
Other assets	(99,529)	36,309
Purchase services due to UNM HSC	(795,063)	3,008,454
Due to affiliates	1,177,043	865,629
Accrued liabilities	543,555	1,369,941
Net cash provided by operating activities	<u>\$ 3,526,383</u>	<u>1,613,828</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, 2016 and 2015

(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.

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, 2016, 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:

- *Investment 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 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, 2016 and 2015 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, 2016 and 2015, 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 non-operating 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.

UNMMG follows GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. UNMMG uses the market approach to determine fair value, which uses prices and other relevant information generated by market transactions involving identical or similar items.

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

UNMMG revenues result from providing professional medical services to patients in healthcare facilities of UNM HSC and other locations contracted with UNM or owned/managed by 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 is established when services are provided.

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.

(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 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 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. In November 2014, Blue Cross Blue Shield notified the mail order pharmacy they would not be renewing their contract. Subsequently, in September 2015, UNM Truman Clinic expanded its operations and opened a 340B outpatient pharmacy. Total combined pharmacy revenues were \$17.3 million and \$17.9 million for the years ended June 30, 2016 and 2015, respectively. Pharmacy expenses reflect cost of goods sold, pharmacy management and dispensing fees. Pharmacy expenses were \$9.9 million and \$10.6 million for the years ended June 30, 2016 and 2015, 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 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 non-operating 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 UNMMG. The cost of the clinical purchased services is negotiated by UNM HSC and 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 UNMMG will determine and approve the purchase of any additional services.

(l) *Salaries and Benefits*

At June 30, 2016, the staff of UNMMG was comprised of 546 UNMMG and 40 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. 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.

(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, 2016 and 2015 are categorized as follows:

	<u>2016</u>	<u>2015</u>
Operating accounts	\$ 28,102,596	24,234,571
Savings account	525,324	524,396
Total bank balances	<u>\$ 28,627,920</u>	<u>24,758,967</u>
Amount insured by FDIC	<u>\$ 616,543</u>	<u>607,118</u>
Amount collateralized with securities held in UNMMG's name	<u>\$ 28,011,377</u>	<u>24,151,849</u>

Also included in cash and cash equivalents at June 30, 2016 is a money market account in the amount of \$0.2 million. 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, 2016. Marketable securities of \$18,113,621 at June 30, 2016 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 non-debt 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, 2016 and 2015 to credit risk follows:

June 30, 2016

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations	Corporate Bonds	Other Government Bonds
AAA	\$ 230,819	-	-	230,819
AA	13,382,260	11,550,577	1,729,691	101,992
A	3,039,124	-	2,911,915	127,209
BBB	1,461,418	-	1,461,418	-
Total	<u>\$ 18,113,621</u>	<u>11,550,577</u>	<u>6,103,024</u>	<u>460,020</u>

June 30, 2016

	Investment Maturities (in years)		
	Fair Value	Less than 1	1 to 5
U.S. government obligations	\$ 11,550,577	3,496,412	8,054,165
Corporate bonds	6,103,024	2,291,269	3,811,755
Other government bonds	460,020	230,819	229,201
Total	<u>\$ 18,113,621</u>	<u>6,018,500</u>	<u>12,095,121</u>

June 30, 2015

Credit Rating (S&P)	Total	U.S. Government and Agency Obligations	Corporate Bonds	Other 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>

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, 2016 and 2015, UNMMG's investment portfolio had no investments exposed to concentration of credit risk.

(c) ***Fair Value Measurement***

UNMMG utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 consist of quoted prices (unadjusted) in the active markets for identical assets or liabilities accessible at the measurement date.

Level 2 include inputs other than quoted prices in Level 1 directly or indirectly observable for the assets or liabilities.

Level 3 are unobservable inputs for the assets or liabilities.

The table below presents the amounts within each valuation hierarchy level for those assets measured at fair value: cash and cash equivalents and investments; based on the inputs used to value them as of June 30, 2016 and 2015:

	2016			
	Level 1	Level 2	Level 3	Total
Investments, at fair value:				
Cash and cash equivalents	\$ 28,453,406	\$ -	\$ -	\$ 28,453,406
U.S. government obligations	-	11,550,577	-	11,550,577
Corporate bonds	-	6,103,024	-	6,103,024
Other government bonds	-	460,020	-	460,020
Total assets	<u>\$ 28,453,406</u>	<u>\$ 18,113,621</u>	<u>\$ -</u>	<u>\$ 46,567,027</u>

	2015			
	Level 1	Level 2	Level 3	Total
Investments, at fair value:				
Cash and cash equivalents	\$ 24,709,972	\$ -	\$ -	\$ 24,709,972
U.S. government obligations	-	11,055,533	-	11,055,533
Corporate bonds	-	5,786,943	-	5,786,943
Other government bonds	-	792,182	-	792,182
Total assets	<u>\$ 24,709,972</u>	<u>\$ 17,634,658</u>	<u>\$ -</u>	<u>\$ 42,344,630</u>

(4) Concentration of Risk

UNMMG receives payment for professional medical services to patients in healthcare facilities of 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.

	<u>2016</u>	<u>2015</u>
Medicare and Medicaid	64%	63%
Commercial insurance	34	34
Other	2	3
	<u>100%</u>	<u>100%</u>

(5) Board-Designated Assets

Board-designated assets are classified in the accompanying statements of net position as noncurrent assets, as these assets are designated by the Board for future use subject to approval by the Board. At June 30, 2016 and 2015, 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, 2016 and 2015, assets are designated for the following purposes:

	<u>2016</u>	<u>2015</u>
Department reserve	\$ 7,997,964	6,256,179
Other MG reserve	7,911,987	6,183,273
Quality reserve	6,809,381	6,345,377
Hardware and technology	767,425	908,231
Investment reserve	(708,374)	(708,374)
Total board-designated assets	<u>\$ 22,778,383</u>	<u>18,984,686</u>

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. The existing negative reserve will largely be replenished in year ending June 30, 2017 through the withholding of purchased services payments to the SOM departments.

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

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

Other MG reserve – Represents 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, which 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:

	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Balance, June 30, 2014	\$ 6,757,097	4,193,198	2,563,899
Additions	1,785,517	808,099	977,418
Deletions	36,150	36,150	-
Balance, June 30, 2015	<u>8,506,464</u>	<u>4,965,147</u>	<u>3,541,317</u>
Additions	824,151	1,081,340	(257,189)
Deletions	93,303	93,303	-
Balance, June 30, 2016	<u><u>\$ 9,237,312</u></u>	<u><u>5,953,184</u></u>	<u><u>3,284,128</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, 2016 and 2015, refunds payable were \$0.8 million and \$0.5 million, respectively. The amount is included in accrued liabilities on the accompanying statements of net position.

(8) Accrued Liabilities

Accrued liabilities consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Accrued leave	\$ 2,061,270	1,271,455
Accrued operating expenses	1,571,797	1,388,635
Payroll and benefits liability	1,342,473	1,442,594
Refunds Payable	769,181	537,734
Unclaimed Property	63,474	51,144
Malpractice liability	-	502,758
Other	-	70,320
	<u>\$ 5,808,195</u>	<u>5,264,640</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 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 \$4.0 million and \$4.3 million for the years ended June 30, 2016 and 2015, respectively.

(10) Patient Service Revenues

UNMMG generates net operating revenue through the provision of healthcare services and is reimbursed through the billing and collection of 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 2016 and 2015, respectively, of UNMMG's gross patient revenue was derived from third-party payors. Of this, Medicare and Medicaid represented approximately 65% in 2016 and 2015. 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Patient service charges billed at established rates	\$ 482,289,146	466,862,621
Adjustments to charges:		
Contractual adjustments	(254,399,832)	(247,375,635)
Charity care	(8,480,657)	(9,468,283)
Net patient billing	219,408,657	210,018,703
Provision for uncollectible accounts	(42,223,340)	(38,081,084)
Net patient service revenues	<u>\$ 177,185,317</u>	<u>171,937,619</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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Charges forgone, based on established rates	\$ 8,480,657	9,468,283
Estimated costs and expenses incurred to provide charity care	4,096,157	4,573,181
Equivalent percentage of charity care to total gross revenue	1.7%	1.9%

(12) Related-Party Transactions

A summary of the related-party balances as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Current Assets:		
Due from HSC	\$ 2,383,269	1,903,261
Due from SRMC	324,718	103,542
Due from UNMH	2,899,194	5,887,401
	<u>\$ 5,607,181</u>	<u>7,894,204</u>
Current Liabilities:		
Purchased Services Payable to HSC	\$ 22,594,558	23,389,621
Due to UNMH	1,853,917	1,203,635
Operating Expenses due to HSC	6,229,885	5,626,411
Indigent Distribution (HSC)	2,780	53,323
Due to SRMC	45,314	71,484
	<u>\$ 30,726,454</u>	<u>30,344,474</u>

UNMMG processes payroll and various other expenses through its business office on behalf of UNM. UNM reimburses UNMMG for the expenses. At June 30, 2016 and 2015, UNMMG's receivable for these expenses were approximately \$2.2 million and \$1.9 million, respectively, and are reported as a current asset on the statements of net position. The offset in expenses is shown within the appropriate categories on the statements of revenues, expenses, and changes in net position.

In 2016 and 2015, UNMH provided funding to UNMMG in the amount of \$1.5 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. 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 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, UNMMG and SRMC fund the clinical and academic component cost of the 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 years ended June 30, 2016 and 2015 the reimbursements was were \$9.1 million and \$8.7 million, respectively.

For the years ended June 30, 2016 and 2015, total UNMMG purchased services were \$140.6 million and \$139.8 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 \$22.6 million and \$23.4 million at June 30, 2016 and 2015, 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, 2016 and 2015, UNMMG's liabilities for these expenses were approximately \$6.2 million and \$5.6 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, 2016 and 2015 were approximately \$3.6 million and \$2.5 million, respectively, and are reported within the appropriate categories on the statements of revenues, expenses, and changes in net position. At June 30, 2016 and 2015, approximately \$1.9 million and \$1.2 million, respectively, were reported in due to affiliates on the statements of net position.

UNM HSC and the SOM allocate administrative support costs in exchange for administrative services provided to the clinical departments and UNMMG via the assessment of Dean's and rescission taxes; taxes assessed as a fixed percentage of clinical revenues collected. In the event the Dean's office elects for UNMMG to retain the taxes within a reserve fund or for UNMMG to use the funds to support purchased services, the expense is adjusted accordingly. Total Dean's and rescission taxes of approximately \$10.2 million and \$10.0 million for the years ended June 30, 2016 and 2015, 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 \$0.002 million and \$0.05 million for the years ended June 30, 2016 and 2015, 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 2016 and 2015. Total employer contributions were \$1.4 million and \$1.2 million and employee contributions were \$2.2 million and \$1.7 million for the years ended June 30, 2016 and 2015, 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. UNMMG's rent expense for the years ended June 30, 2016 and 2015 were \$1.2 million and \$1.0 million, respectively.

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 \$1.3 million and \$1.2 million in 2016 and 2015, respectively.

(a) Minimum Lease Payments

The following is a schedule of future minimum lease payments for operating leases at June 30, 2016:

Years ending June 30:	
2017	\$ 595,787
2018	434,687
2019	353,976
2020	356,512
2021	317,230
2022-2023	296,650
	<u>\$ 2,354,842</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 \$4.0 million and \$4.3 million, respectively), which was \$0.03 million and \$0.02 million in 2016 and 2015, 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, 2016 and 2015, there were 3 and 11 providers that completed attestation. UNMMG recorded revenue of \$0.02 million and \$0.05 million in 2016 and 2015, respectively, which is reported on the statement of revenues, expenses, and changes in net position.

In 2016 and 2015, UNM Health System provided \$9.1 million and \$8.7 million, respectively, 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, 2016

Schedule 1

Deposits per bank (Wells Fargo)	\$ 28,627,920
Less:	
FDIC Coverage	(616,543)
Total uninsured public funds	<u>\$ 28,011,377</u>
State of New Mexico: Collateral Requirement - 50%	<u>\$ 14,005,688</u>
Pledged collateral:	
FMAC, FGPC, 3.000%, 05/01/2043 (3132J9QB7)	17,423,011
FNMA, FNMS, 3.000%, 06/01/2042 (3138LUSQ9)	3,840,218
FNMA, FNMS, 3.000%, 06/01/2042 (31417CCC7)	15,639,863
FNMA, FNMS, 3.500%, 02/01/2043 (31417FNA2)	<u>9,725,182</u>
Total pledged collateral	<u>46,628,274</u>
Over collateralized	<u>\$ 32,622,586</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, 2016

Schedule 2

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
Wells Fargo	UNMMG Main Operating	\$ 27,986,053	(406,084)	27,579,969
	Cancer Center	41,543	-	41,543
	Truman RX	75,000	-	75,000
	Savings	525,324	-	525,324
		28,627,920	(406,084)	28,221,836
	Cash on Hand	5,900	-	5,900
Investments:				
Morgan Stanley				
Smith Barney	Money Market			
	Cash	17,761	-	17,761
	Western Asset Institutional Money Market Fund (Tax Free)	207,909	-	207,909
	Total Money Market	225,670	-	225,670
	Total cash and cash equivalents	\$ 28,859,490	(406,084)	28,453,406
	Corporate Bonds			
	Aetna Inc.-00817YAN8	\$ 8,196	-	8,196
	Air Products & Chemicals Inc.-009158AQ9	72,655	-	72,655
	Air Products & Chemicals Inc.-009158AQ9	30,273	-	30,273
	American Express Credit-0258MODP1	61,755	-	61,755
	American Express Credit-0258MODT3	25,635	-	25,635
	American Express-0258MODT3	10,254	-	10,254
	American Honda Finance-02665WAC5	82,516	-	82,516
	American Honda Finance-02665WAC5	36,101	-	36,101
	American Honda Finance-02665WAC5	51,573	-	51,573
	Amgen Inc.-031162BQ2	75,825	-	75,825
	Amgen Inc.-031162BQ2	50,550	-	50,550
	Amgen Inc.-031162BQ2	101,100	-	101,100
	Apple Inc-037833AJ9	110,445	-	110,445
	Apple Inc-037833AJ9	5,020	-	5,020
	APPLE INC-037833AJ9	140,566	-	140,566
	AT&T Inc.-00206RBM3	100,273	-	100,273
	AT&T INC.-00206RBM3	125,341	-	125,341
	AT&T INC.-00206RBM3	25,068	-	25,068
	AT&T Inc.-00206RCL4	25,524	-	25,524
	AT&T Inc.-00206RCL4	25,524	-	25,524
	AT&T Inc.-00206RCL4	2,042	-	2,042
	AT&T Inc.-00206RCL4	15,314	-	15,314
	Bank of America-06051GFN4	43,426	-	43,426
	Bank of America-06051GFN4	3,030	-	3,030
	Bank of America-06051GFN4	2,020	-	2,020
	Bank of America-06051GFN4	40,396	-	40,396
	Bank of America-06051GFN4	10,099	-	10,099
	Bank of Montreal-06367VHL2	79,836	-	79,836
	Bank of Montreal-06367VHL2	25,921	-	25,921
	Bank of Montreal-06367VHL2	41,473	-	41,473
	Berkshire Hathaway Inc.-084670BD9	116,676	-	116,676
	BHP Billiton Fin USA LTD-055451AK4	69,326	-	69,326
	BHP Billiton Fin USA LTD-055451AK4	100,472	-	100,472
	Boeing Capital Corp-097014AL8	7,861	-	7,861
	Brown Forman-115637AN0	110,556	-	110,556
	Brown-Forman Corp-115637AN0	160,809	-	160,809
	Caterpillar Financial-14912L4X6	10,095	-	10,095
	Caterpillar Financial-14912L4X6	10,095	-	10,095
	Chevron Corp 166764AE0	151,795	-	151,795
	Chevron Corp 166764AE0	9,108	-	9,108

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNT BALANCES
June 30, 2016

Schedule 2

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
	Cisco Systems Inc.-17275RAR3	113,749	-	113,749
	Cisco Systems Inc.-17275RAR3	56,875	-	56,875
	Cisco Systems Inc.-17275RAS1	110,243	-	110,243
	Cisco Systems Inc.-17275RAS1	10,022	-	10,022
	Cisco Systems Inc.-17275RAS1	50,111	-	50,111
	Citigroup Inc.-172967HU8	97,766	-	97,766
	Citigroup Inc.-172967HU8	12,349	-	12,349
	Conocophillips Canada-20825TAA5	103,419	-	103,419
	Conocophillips Canada-20825TAA5	82,940	-	82,940
	CSX Corp-126408GT4	54,014	-	54,014
	Dominion Resources Inc.-25746UBN8	126,034	-	126,034
	Dominion Resources Inc.-25746UBR9	11,030	-	11,030
	Dominion Resources Inc-25746UBN8	60,496	-	60,496
	Fifth Third Bancorp-316773CQ1	61,581	-	61,581
	General Electric Capital-36962G6K5	10,107	-	10,107
	General Electric Capital-36962G6K5	101,070	-	101,070
	Goldman Sachs Group-38141GRC0	7,876	-	7,876
	Goldman Sachs Group-38141GRC0	76,081	-	76,081
	Goldman Sachs Group-38141GRC0	34,811	-	34,811
	Honeywell Intl.-438516AS5	41,888	-	41,888
	International Business Mach.-459200HE4	102,140	-	102,140
	JOHN DEER CAPITAL CORP-24422ERF8	2,015	-	2,015
	JOHN DEER CAPITAL CORP-24422ERF8	93,716	-	93,716
	John Deere Capital Corp 24422ESF7	51,092	-	51,092
	John Deere Capital Corp 24422ESF7	13,284	-	13,284
	John Deere Capital Corp 24422ESF7	12,262	-	12,262
	JOHN DEERE CAPITAL CORP-24422ESF7	81,747	-	81,747
	JP Morgan Chase-46625HKA7	46,060	-	46,060
	JPMorgan Chase&Co-46625HKA7	53,225	-	53,225
	Marsh & McLennan Cos Inc.-571748AW2	11,317	-	11,317
	McKesson Corp.-581557BD6	5,146	-	5,146
	McKesson Corp-581557BD6	84,386	-	84,386
	Midamerican Energy-59562VAX5	137,572	-	137,572
	Midamerican Energy-59562VAX5	50,953	-	50,953
	Oracle Corp.-68389XAX3	117,073	-	117,073
	Oracle Corp.-68389XAX3	56,982	-	56,982
	PACCAR FINANCIAL CORP-69371RK54	6,064	-	6,064
	PACCAR FINANCIAL CORP-69371RK54	101,075	-	101,075
	PACCAR FINANCIAL CORP-69371RK54	75,806	-	75,806
	PACCAR FINANCIAL CORP-69371RK54	9,097	-	9,097
	Royal Bank of Canada-78008SVD5	55,604	-	55,604
	Royal Bank of Canada-78008SVD5	35,384	-	35,384
	Royal Bank of Canada-78008SVD5	25,274	-	25,274
	Royal Bank of Canada-78008SVD5	20,219	-	20,219
	Simon Property GRP-828807CJ4	105,740	-	105,740
	Simon Property GRP-828807CJ4	20,335	-	20,335
	Time Warner Inc.- 887317AT2	12,182	-	12,182
	Toronto-Dominion Bank-89114QAB4	5,060	-	5,060
	Toronto-Dominion Bank-89114QAB4	10,120	-	10,120
	Toronto-Dominion Bank-89114QAS7	129,261	-	129,261
	Toyota Motor Credit Corp. 89233P6D3	151,449	-	151,449
	Toyota Motor Credit Corp. 89233P6D3	25,241	-	25,241
	Toyota Motor Credit Corp. 89233P6D3	10,097	-	10,097
	United Technologies Corp-913017BU2	126,138	-	126,138
	United Technologies Corp-913017BU2	35,319	-	35,319
	United Technologies Corp-913017BU2	5,046	-	5,046
	US Bankcorp-91159HHD5	161,096	-	161,096
	US Bankcorp-91159HHD5	10,069	-	10,069
	US Bankcorp-91159HHD5	241,645	-	241,645

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNT BALANCES
June 30, 2016

Schedule 2

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
	Verizon Communications-92343VBF0	90,142	-	90,142
	Verizon Communications-92343VBF0	120,189	-	120,189
	Verizon Communications-92343VBF0	30,047	-	30,047
	Verizon Communications-92343VBP8	106,155	-	106,155
	Verizon Communications-92343VBP8	53,077	-	53,077
	Wells Fargo & Co.-94974BFG0	10,119	-	10,119
	Total Corporate Bonds	6,103,026	-	6,103,026
	Government & government sponsored enterprise (GSE) bonds			
	FARMER MAC MEDIUM TERM - 31315PRV3	25,152	-	25,152
	FED FARM CR BK-3133EE3V0	125,960	-	125,960
	FED HOME LN MTG CORP-3134G7QS3	50,219	-	50,219
	FED HOME LN MTG CORP-3134G7QS3	25,109	-	25,109
	FED NATL MTG ASSN-3135G0D75	50,977	-	50,977
	FED NATL MTG ASSN-3135G0F73	25,455	-	25,455
	FED NATL MTG ASSN-3135G0F73	35,637	-	35,637
	FED NATL MTG ASSN-3135G0G31	15,079	-	15,079
	FED NATL MTG ASSN-3135G0TQ6	75,588	-	75,588
	FEDERAL FARM CREDIT BANK - 3133ECMZ4	175,201	-	175,201
	FEDERAL FARM CREDIT BANK - 3133ECMZ4	40,046	-	40,046
	FEDERAL FARM CREDIT BANK - 3133EE3V0	201,536	-	201,536
	FEDERAL FARM CREDIT BANK - 3133EFJE8	100,227	-	100,227
	FEDERAL NATL MTG ASSN - 3135G0D75	76,466	-	76,466
	FEDERAL NATL MTG ASSN - 3135G0F73	5,091	-	5,091
	FEDERAL NATL MTG ASSN - 3135G0G31	70,367	-	70,367
	FEDERAL NATL MTG ASSN - 3135G0TQ6	90,705	-	90,705
	FEDERAL NATL MTG ASSN - 3135GOYT4	15,342	-	15,342
	FEDERAL NATL MTG ASSN - 3135GOYT4	20,456	-	20,456
	FEDERAL NATL MTG ASSN - 3135GOYT4	5,114	-	5,114
	FEDERAL NATL MTG ASSN - 3136G0U25	125,376	-	125,376
	FEDERAL NATL MTG ASSN - 3136G1KD0	200,357	-	200,357
	FEDERAL NATL MTG ASSN - 3136G1KD0	400,715	-	400,715
	U S TREASURY NOTE-912828PC8	53,735	-	53,735
	U S TREASURY NOTE-912828RH5	254,985	-	254,985
	U S TREASURY NOTE-912828RH5	127,492	-	127,492
	U S TREASURY NOTE-912828TB6	170,393	-	170,393
	U S TREASURY NOTE-912828TB6	120,277	-	120,277
	U S TREASURY NOTE-912828TB6	75,173	-	75,173
	U S TREASURY NOTE-912828TB6	25,058	-	25,058
	U S TREASURY NOTE-912828TW0	401,465	-	401,465
	U S TREASURY NOTE-912828TW0	40,147	-	40,147
	U S TREASURY NOTE-912828TW0	371,355	-	371,355
	U S TREASURY NOTE-912828TW0	30,110	-	30,110
	U S TREASURY NOTE-912828TW0	160,586	-	160,586
	U S TREASURY NOTE-912828UF5	126,343	-	126,343
	U S TREASURY NOTE-912828UF5	116,235	-	116,235
	U S TREASURY NOTE-912828UF5	237,524	-	237,524
	U S TREASURY NOTE-912828UF5	75,806	-	75,806
	U S TREASURY NOTE-912828UU2	50,230	-	50,230
	U S TREASURY NOTE-912828UU2	50,230	-	50,230
	U S TREASURY NOTE-912828UV0	60,777	-	60,777
	U S TREASURY NOTE-912828UV0	91,166	-	91,166
	U S TREASURY NOTE-912828UV0	20,259	-	20,259
	U S TREASURY NOTE-912828UV0	65,842	-	65,842
	U S TREASURY NOTES -912828F70	225,126	-	225,126
	U S TREASURY NOTES -912828G20	326,701	-	326,701
	U S TREASURY NOTES -912828G20	100,523	-	100,523
	U S TREASURY NOTES -912828G20	326,701	-	326,701

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNT BALANCES
June 30, 2016

Schedule 2

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
	U S TREASURY NOTES -912828G20	10,052	-	10,052
	U S TREASURY NOTES -912828G20	226,178	-	226,178
	U S TREASURY NOTES -912828G20	125,654	-	125,654
	U S TREASURY NOTES -912828G20	5,026	-	5,026
	U S TREASURY NOTES -912828G20	50,262	-	50,262
	U S TREASURY NOTES -912828G20	10,052	-	10,052
	U S TREASURY NOTES -912828G20	55,288	-	55,288
	U S TREASURY NOTES -912828PC8	107,469	-	107,469
	U S TREASURY NOTES -912828PC8	53,735	-	53,735
	U S TREASURY NOTES -912828RH5	8,160	-	8,160
	U S TREASURY NOTES -912828RH5	7,140	-	7,140
	U S TREASURY NOTES -912828RH5	341,679	-	341,679
	U S TREASURY NOTES -912828RH5	127,492	-	127,492
	U S TREASURY NOTES -912828RX0	45,104	-	45,104
	U S TREASURY NOTES -912828RX0	130,300	-	130,300
	U S TREASURY NOTES -912828RX0	95,219	-	95,219
	U S TREASURY NOTES -912828RX0	275,635	-	275,635
	U S TREASURY NOTES -912828RX0	400,924	-	400,924
	U S TREASURY NOTES -912828RX0	501,155	-	501,155
	U S TREASURY NOTES -912828SY7	110,155	-	110,155
	U S TREASURY NOTES -912828TB6	265,612	-	265,612
	U S TREASURY NOTES -912828TB6	102,236	-	102,236
	U S TREASURY NOTES -912828TB6	8,018	-	8,018
	U S TREASURY NOTES -912828TB6	35,081	-	35,081
	U S TREASURY NOTES -912828TB6	117,270	-	117,270
	U S TREASURY NOTES -912828TB6	2,005	-	2,005
	U S TREASURY NOTES -912828TR1	126,243	-	126,243
	U S TREASURY NOTES -912828TW0	304,110	-	304,110
	U S TREASURY NOTES -912828TW0	57,209	-	57,209
	U S TREASURY NOTES -912828TW0	15,055	-	15,055
	U S TREASURY NOTES -912828TW0	20,073	-	20,073
	U S TREASURY NOTES -912828TW0	55,201	-	55,201
	U S TREASURY NOTES -912828TW0	90,330	-	90,330
	U S TREASURY NOTES -912828TW0	100,366	-	100,366
	U S TREASURY NOTES -912828UF5	90,967	-	90,967
	U S TREASURY NOTES -912828UF5	25,269	-	25,269
	U S TREASURY NOTES -912828UF5	45,483	-	45,483
	U S TREASURY NOTES -912828UF5	75,806	-	75,806
	U S TREASURY NOTES -912828UF5	15,161	-	15,161
	U S TREASURY NOTES -912828UF5	55,591	-	55,591
	U S TREASURY NOTES -912828UF5	25,269	-	25,269
	U S TREASURY NOTES -912828UF5	232,470	-	232,470
	U S TREASURY NOTES -912828UU2	20,092	-	20,092
	U S TREASURY NOTES -912828UU2	45,207	-	45,207
	U S TREASURY NOTES -912828UU2	160,735	-	160,735
	U S TREASURY NOTES -912828UU2	100,459	-	100,459
	U S TREASURY NOTES -912828UV0	40,518	-	40,518
	U S TREASURY NOTES -912828UV0	240,071	-	240,071
	U S TREASURY NOTES -912828UV0	25,324	-	25,324
	U S TREASURY NOTES -912828UV0	21,272	-	21,272
	U S TREASURY NOTES -912828UV0	5,065	-	5,065
	U S TREASURY NOTES -912828UV0	128,646	-	128,646
	U S TREASURY NOTES -912828RX0	400,924	-	400,924
	U S TREASURY NOTES -912828RX0	150,346	-	150,346
	Total Government bonds	11,550,577	-	11,550,577

UNM MEDICAL GROUP, INC.
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
INDIVIDUAL DEPOSIT AND INVESTMENT ACCOUNT BALANCES
June 30, 2016

Schedule 2

Account	Type of Account Name of Asset	Bank Balance	Reconciling Items	Book Balance
	Municipal Bonds			
	ARIZONA WTR INFRASTRUCTURE -040688NH2	70,289	-	70,289
	ARIZONA WTR INFRASTRUCTURE -040688NK5	30,124	-	30,124
	ARIZONA WTR INFRASTRUCTURE FIN-040688NH2	45,185	-	45,185
	ARIZONA WTR INFRASTRUCTURE FIN-040688NK5	20,083	-	20,083
	Houston Tex Util-4424354U4	101,992	-	101,992
	OAKLAND UNIV MICH-673588EH8	55,971	-	55,971
	OAKLAND UNIV-673588EH8	71,237	-	71,237
	OHIO ST WTR DEV AUTH WTR POLLUTN CTL-67766WUW0	65,137	-	65,137
	Total Municipal Bonds	460,018	-	460,018
	Total Investments	\$ 18,113,621	-	18,113,621

**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, New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of UNM Medical Group, Inc. (UNMMG), a component unit of the University of New Mexico, State of New Mexico, which comprise the statements of net position as of June 30, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2016.

Internal Control Over Financial Reporting

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

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

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

The Board of Directors
UNM Medical Group, Inc. and
Mr. Timothy Keller, New Mexico State Auditor

Compliance and Other Matters

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

Purpose of this Report

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

Mess Adams LLP

Albuquerque, New Mexico
October 18, 2016

UNM MEDICAL GROUP, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Fiscal year ended June 30, 2016

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

No matters were reported.

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

Exit Conference

Fiscal year ended June 30, 2016

An exit conference was conducted on October 5, 2016, with a member of the board of directors and members of UNMMG management. During this meeting, the contents of this report were discussed with the following:

Dr. Michael Richards	UNM Health System, Executive Physician-in-Chief UNM Medical Group, Chairman of Board
Scot Sauder	Deputy University Counsel for Health Sciences, HSC University Counsel
Jill Klar	Chief Executive Officer
Marjorie Goldstein	Vice President & CFO
Angela V. Hawthorne	Executive Director Finance/Controller
DeVon Wiens	Engagement Partner, Moss Adams LLP
Josh Lewis	Assurance Senior Manager, Moss Adams LLP