

**UNIVERSITY OF NEW
MEXICO**

FOUNDATION, INC.

**(A Component Unit of the
University of New Mexico)**

FINANCIAL STATEMENTS

JUNE 30, 2008

Moss Adams LLP
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THE UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

Official Roster

June 30, 2008

Officers

David J. Schmidly, Ph. D.	UNM President
Don Chalmers	UNM Board of Regents
Thelma Domenici	Chair of the Board
John R. Stropp	UNM Foundation President
Gary L. Gordon	Vice Chair of the Board
Judith Lavender	Vice Chair of the Board (National)
Carl M. Alongi	Treasurer of the Board
Anne Yegge	Secretary of the Board

Ex-Officio Members

Paul Roth, M.D.	UNM Executive Vice President HSC
Suzanne Ortega, Ph.D.	UNM Executive Vice President for Academic Affairs/Provost
Judy Zanotti	President, UNM Alumni Association

Members

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Michelle Coons	John J. Lopez	Anne Yegge
John Cordova	James Maddox (7/1/08)	Ray Ziler
Thelma Domenici	Sonnet McKinnon	Judy Zanotti
Stephen Durkovich (7/1/08)	Robert Murphy	

Independent Auditors' Report

Board of Trustees
University of New Mexico Foundation, Inc.
and
Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of the University of New Mexico Foundation, Inc. (Foundation), a component unit of the University of New Mexico, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. We have also audited the budgetary comparison for operating fund expenditures for the year ended June 30, 2008. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2008 and 2007 and the changes in its financial position, its cash flows for the years then ended and the budgetary comparison for the operating fund expenditures for the year then ended June 30, 2008, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2008, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of

Board of Trustees
University of New Mexico Foundation, Inc.
and
Hector H. Balderas
New Mexico State Auditor

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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 4 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the Foundation taken as a whole. The supplementary information as listed in the table of contents is presented for additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Moss Adams LLP

Albuquerque, New Mexico
September 20, 2008

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years Ended June 30, 2008 and 2007

As a component unit of the University of New Mexico (UNM), the University of New Mexico Foundation, Inc. (Foundation) has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*.

Overview of the Basic Financial Statements

The Foundation's annual report consists of the Management's Discussion and Analysis (MD&A), which provides a broad narrative overview of its financial statements for the fiscal years ended June 30, 2008 and 2007 and the following which comprise the basic financial statements:

1. Balance Sheet, which presents information on the Foundation's assets and liabilities and resulting net assets.
2. Statement of Revenues, Expenses, and Changes in Net Assets, which provides information on the results of operations for the fiscal years.
3. Statement of Cash Flows, which presents information on changes in cash balances and identifies the source of cash flows resulting in those changes.
4. Notes to Financial Statements, which provide additional information that is essential to a full understanding of the data provided in the financial statements.

Condensed Financial Information

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current assets	\$ 26,586,413	28,288,970	24,953,853
Noncurrent assets	<u>134,108,846</u>	<u>123,749,577</u>	<u>94,052,605</u>
Total assets	<u>160,695,259</u>	<u>152,038,547</u>	<u>119,006,458</u>
Current liabilities	460,140	351,985	472,195
Noncurrent liabilities	<u>2,547,631</u>	<u>1,634,457</u>	<u>1,541,399</u>
Total liabilities	<u>3,007,771</u>	<u>1,986,442</u>	<u>2,013,594</u>
Net assets			
Unrestricted	2,574,456	1,010,572	553,995
Restricted	<u>155,113,032</u>	<u>149,041,533</u>	<u>116,438,869</u>
Total net assets	<u>157,687,488</u>	<u>150,052,105</u>	<u>116,992,864</u>
Total liabilities and net assets	<u>\$160,695,259</u>	<u>152,038,547</u>	<u>119,006,458</u>

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2008 and 2007

Condensed Financial Information (Continued)

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Operating revenues			
Donations and pledges, net	\$22,992,282	20,909,962	17,810,428
Operational support for management services	4,338,881	4,056,741	3,554,481
Non-gift revenue	<u>753,626</u>	<u>649,211</u>	<u>502,455</u>
Total operating revenues	<u>28,084,789</u>	<u>25,615,914</u>	<u>21,867,364</u>
Operating expenses			
General and administrative	5,259,189	4,586,956	3,939,371
Distributions to UNM	32,183,259	23,263,099	20,643,615
Distribution to other organizations	<u>-</u>	<u>176</u>	<u>1,326</u>
Total operating expenses	<u>37,442,448</u>	<u>27,850,231</u>	<u>24,584,312</u>
Operating (loss) income	(9,357,659)	(2,234,317)	(2,716,948)
Nonoperating revenue			
Investment income, net	<u>2,811,404</u>	<u>19,571,802</u>	<u>10,181,401</u>
Income before contributions to permanent endowments	(6,546,255)	17,337,485	7,464,453
Contributions to permanent endowments	<u>14,181,638</u>	<u>15,721,756</u>	<u>5,417,434</u>
Change in net assets	7,635,383	33,059,241	12,881,887
Net assets, beginning of year	<u>150,052,105</u>	<u>116,992,864</u>	<u>104,110,977</u>
Net assets, end of year	<u>\$157,687,488</u>	<u>150,052,105</u>	<u>116,992,864</u>

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2008 and 2007

Financial Analysis

- At June 30, 2008, the Foundation's total assets are \$160,695,259, which represents an increase of 5.7% over June 30, 2007 total assets of \$152,038,547. The June 30, 2007 total assets of \$152,038,547 represented a 27.8% increase over the June 30, 2006 total of \$119,006,458.
- Net assets also increased to \$157,687,488 at June 30, 2008, an increase of \$7,635,383 or 5.1% over the previous year net assets of \$150,052,105 at June 30, 2007. This was an increase of \$33,059,241 or 28.2% over the June 30, 2006 net assets of \$116,992,864.
- The increase in both total assets and net assets was the result of total contributions to permanent endowments exceeding the operating loss generated by the increased distribution to the University of New Mexico for the fiscal year ended June 30, 2008.
- The market value of the CIF at June 30, 2008 is \$330 million, an increase of approximately \$6.4 million over the June 30, 2007 market value of \$324.1 million. Net capital additions increased by \$2.7 million over prior year's \$19.9 million, helping to fund \$14.1 million in spending distributions to UNM departments, a 20% increase over the previous year. Realized gains of \$14.8 million were offset by unrealized losses of \$18.5 million. The CIF had a positive return of .7%, outperforming a policy index of -0.9%. During the same period U.S. and International Equity markets experienced negative returns of 12.5% and 6.6% respectively.
- Total liabilities at June 30, 2008 were \$3,007,771, an increase of approximately 51% over June 30, 2007 total liabilities of \$1,986,442. The liability for deferred annuities payable increased over the previous year, primarily as the result of a major gift of real estate valued at over a million dollars.
- Total operating revenue was \$28,084,789 for the fiscal year ended June 30, 2008, an increase of \$2,468,875 or a 9.6% increase over the previous year total of \$25,615,914. The increase resulted primarily from an increase in non-endowed gifts. Contributions to permanent endowments experienced a 9.8% decrease, primarily due to a decrease in donations and pledges and an increase in the liability for annuities payable.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
Years Ended June 30, 2008 and 2007

Financial Analysis (Continued)

- Non-operating revenues, which include interest and dividends, and gains or losses on investments, fell from a record \$19,571,802 achieved during the fiscal year ended June 30, 2007, to \$2,811,404 earned in the fiscal year ended June 30, 2008. Distributions to UNM increased from \$23.2 million in 2006-07 to \$32.2 million in 2007-08. The increased spending meant smaller balances which resulted in less short-term interest earned in 2007-08. CIF investment performance showed a net rate of return of approximately .7% compared with the 19.9% and the 11.9% net rate of return earned during the fiscal years ended June 30, 2007 and June 30, 2006, respectively. Approximately 75.6% of the Foundation's assets are currently held as endowments in the CIF compared to 73.8% in the previous year.
- The Foundation's operating costs are supported by instruction and general funding through the University of New Mexico, short-term interest earned on reserve balances and an administrative allocation based on the market value of the CIF. For 2006-07 the administrative allocation rate was set at .98%. The administrative allocation was increased to 1.10% in 2007-08 in order to provide increased funding for a major fund-raising campaign.
- General and administrative expenses totaled \$5,259,189, where \$5,141,596 of those expenses was paid with instruction and general funds. When the University of New Mexico approved a new capital campaign and a software conversion for the Donor and Financial Reporting systems, the budget increased from \$5,378,871 budgeted in 2006-07 to \$6,966,675 in 2007-08, a 30% increase. Due to the restructuring of the Foundation, these initiatives were delayed. The delays meant that some of the costs budgeted for printing, donor relations, salaries and fringe benefits, travel, professional services and computer equipment/software were not incurred. Actual general and administrative expenses were 26% under-budget.

Contacting the Foundation's Financial Management

If you have questions about this report or need additional financial information, please contact the UNM Foundation Controller, Elaine S. Rivera at Two Woodward Center, 700 Lomas Boulevard NE, Suite 108, Albuquerque, New Mexico 87131 or (505) 277-5612.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
BALANCE SHEETS
June 30, 2008 and 2007

ASSETS

	2008	2007
Current Assets		
Cash and cash equivalents - unrestricted	\$ 2,600,254	1,015,381
Cash and cash equivalents - restricted	23,986,159	27,273,589
	<hr/>	<hr/>
Total current assets	26,586,413	28,288,970
Noncurrent assets, restricted		
Investments held in Consolidated Investment Fund	121,546,524	112,208,591
Investments held by the University of the New Mexico Foundation, Inc.	6,174,765	6,867,074
Pledges receivable, net of allowance and discount of \$402,993 and \$566,662 for the years ended June 30, 2008 and 2007, respectively	4,601,009	3,627,570
Real estate	1,734,358	1,008,658
Other	52,190	37,684
	<hr/>	<hr/>
Total noncurrent assets	134,108,846	123,749,577
Total assets	\$ 160,695,259	152,038,547

LIABILITIES AND NET ASSETS

Current Liabilities		
Due to the University of New Mexico	-	23,376
Accounts payable	40,798	4,809
Deferred annuities payable	419,342	323,800
	<hr/>	<hr/>
Total current liabilities	460,140	351,985
Noncurrent liabilities - deferred annuities payable	2,547,631	1,634,457
	<hr/>	<hr/>
Total liabilities	3,007,771	1,986,442
Contingencies		
Net Assets		
Unrestricted	2,574,456	1,010,572
Restricted, expendable	39,766,944	41,955,297
Restricted, unexpendable	115,346,088	107,086,236
	<hr/>	<hr/>
Total net assets	157,687,488	150,052,105
Total liabilities and net assets	\$ 160,695,259	152,038,547

See Notes to Financial Statements.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenues		
Donations and pledges, net of allowance and change in discounts of (\$163,629) and \$234,263 for the years ended June 30, 2008 and 2007, respectively	\$ 22,992,282	20,909,962
Operational support for management services	4,338,881	4,056,741
Non-gift revenue	753,626	649,211
Total operating revenues	<u>28,084,789</u>	<u>25,615,914</u>
Operating Expenses		
General and administrative expenses	5,259,189	4,586,956
Distributions to the University of New Mexico	32,183,259	23,263,099
Distributions to other organizations	-	176
Total operating expenses	<u>37,442,448</u>	<u>27,850,231</u>
Operating (loss)	(9,357,659)	(2,234,317)
Nonoperating revenues - investment income	<u>2,811,404</u>	<u>19,571,802</u>
(Loss) income before contributions to permanent endowments	<u>(6,546,255)</u>	<u>17,337,485</u>
Contributions to permanent endowments		
Donations and pledges, net of discounts	14,431,151	15,913,965
New gifts	416,506	305,017
Nongift revenue	11,947	14,110
Adjustment of actuarial liability for annuities payable	(174,656)	(110,899)
Expenditure for maintenance of investment and payments to annuitants	(503,310)	(400,437)
Total contributions to permanent endowments	<u>14,181,638</u>	<u>15,721,756</u>
Change in net assets	7,635,383	33,059,241
Net assets, beginning of year	<u>150,052,105</u>	<u>116,992,864</u>
Net assets, end of year	<u>\$ 157,687,488</u>	<u>150,052,105</u>

See Notes to Financial Statements.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities		
Cash received from donors and other sources	\$ 23,560,305	20,322,455
Cash paid to beneficiaries and vendors	(5,223,200)	(4,587,147)
Distributions to the University of New Mexico	(32,206,635)	(23,400,961)
Distributions to the other organizations	-	(176)
	<hr/>	<hr/>
Net cash used by operating activities	(13,869,530)	(7,665,829)
	<hr/>	<hr/>
Cash Flows From Noncapital Financing Activities		
Donations and pledges	13,774,780	8,374,766
Expenditures for maintenance of investments and payments to beneficiaries	(503,310)	(400,437)
	<hr/>	<hr/>
Net cash provided by noncapital financing activities	13,271,470	7,974,329
	<hr/>	<hr/>
Cash Flows From Investing Activities		
Proceeds from sale of investments	12,696,135	19,751,655
Purchases of investments	(17,489,606)	(18,685,457)
Interest and dividends received	3,688,974	1,960,419
	<hr/>	<hr/>
Net cash (used) provided by investing activities	(1,104,497)	3,026,617
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(1,702,557)	3,335,117
	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	28,288,970	24,953,853
	<hr/>	<hr/>
Cash and cash equivalents, end of year	\$ 26,586,413	28,288,970
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See Notes to Financial Statements.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
STATEMENTS OF CASH FLOWS (CONTINUED)
Years Ended June 30, 2008 and 2007

	2008	2007
Reconciliation of Operating (Loss) to Net Cash From Operating Activities		
Operating (loss)	\$ (9,357,659)	(2,234,317)
Adjustments to reconcile operating (loss) to net cash used in operating activities		
Changes in assets and liabilities		
Pledges receivable	(973,439)	(185,873)
Due to the University of New Mexico	(23,376)	(137,862)
Other assets	(14,506)	(2,474)
Accounts payable	35,989	(191)
Donations of investments	(3,536,539)	(5,105,112)
Total adjustments	<u>(4,511,871)</u>	<u>(5,431,512)</u>
Net cash used by operating activities	<u>\$ (13,869,530)</u>	<u>(7,665,829)</u>
Supplemental disclosure of noncash investing, noncapital and financing activities		
Interest and dividends reinvested	\$ 2,137,529	1,805,547
Real estate donations received	1,186,306	-
Change in fair value of investments	(7,786,375)	10,097,899
Donations of investments to permanent endowments	732,578	7,858,328

See Notes to Financial Statements.

THE UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1. NATURE OF BUSINESS

The University of New Mexico Foundation, Inc. (Foundation) was organized on May 3, 1979, as a New Mexico not-for-profit corporation to solicit, receive, hold, invest, and transfer funds for the benefit of the University of New Mexico (UNM). By managing funds, identifying and developing new sources of private support, encouraging the adoption of common goals, and nurturing cooperation towards meeting those goals, the Foundation helps provide time and resources to allow educators to educate and researchers to pursue research.

In accordance with the Memorandum of Agreement (Memorandum) between the Foundation and the UNM Board of Regents, UNM, through its Development Office, provides without cost to the Foundation and primarily through its Development Office, a portion of the personnel, office and meeting space, computing and other operational support so that the Foundation can undertake its sole purpose of fund-raising and fund management for the benefit of UNM. In return for this support, the Foundation guarantees that all private gifts and donations it receives, records and reflects in the accompanying financial statements are for the exclusive benefit of UNM. These financial statements only reflect private support received directly by the Foundation. In addition, the Foundation provides solicitation assistance, consultation, and other related services through its board of directors, including investment oversight responsibilities associated with the UNM Consolidated Investment Fund (CIF). The Foundation has no component units.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Foundation have been prepared as a governmental not-for-profit organization on the accrual basis of accounting. The significant accounting policies utilized by the Foundation in the preparation of the financial statements are described below.

A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

As a component unit of UNM, the Foundation prepares the financial statements using the provisions of Governmental Accounting Standards Board (GASB).

Pursuant to GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Foundation has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), except those issued after

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

**A. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(Continued)**

November 30, 1989. GASB No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*, which is effective for fiscal years beginning after December 15, 1995, prohibits the application of FASB statements that prescribe accounting for not-for-profit entities.

The Foundation's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Operating income reported in the financial statements includes revenues and expenses related to the primary, continuing operations of the Foundation. Principal operating revenues are non-endowed donations and pledges. Principal operating expenses are direct general and administrative expenses and distributions to UNM. Other revenues and expenses are classified as nonoperating in the financial statements.

B. Cash and Cash Equivalents

Cash and cash equivalents principally include cash on deposit with UNM in a pooled account. For purposes of reporting cash flows, these accounts have a maturity of three months or less and do not include Foundation investments held by the CIF.

C. Investments and Real Estate

Investments are reported at fair value, with the exception of money market investments with maturities less than one year, which include short-term governmental and corporate debt securities, which are reported at amortized cost as this approximates market value. All real estate reflected in the accompanying balance sheets was contributed to the Foundation.

The following methods were used to estimate fair value:

Other non-real estate investments - quoted market prices.

Real estate - fair value at the date of the gift. When real estate is received, an estimated reserve is provided to reduce property to net realizable value.

Investments held by the Foundation have been classified as current and noncurrent based on the nature of the underlying investment. Investment in the CIF has been classified as noncurrent due to the inability to immediately liquidate the Foundation's interest in the CIF.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

D. Revenue Recognition

The Foundation is accounted for as a governmental not-for-profit organization, and it follows revenue recognition rules as defined below:

Donations - The Foundation recognizes revenue on donations when all applicable eligibility requirements are met.

Pledges - The Foundation recognizes nonendowed pledges as increases in assets and revenue upon receipt of a signed pledge commitment, so long as collectibility is probable, and when all applicable eligibility requirements are met. Endowed pledges are recognized as assets and revenues when all applicable eligibility requirements are met. An allowance for doubtful pledges is recorded when the pledge is recorded. The allowance is based on past pledge loss experience and other factors that management considers necessary in estimating pledge losses.

Pledges are made primarily by UNM graduates and other New Mexico residents and businesses.

Nongift - Includes the dollar value of any benefit received by a donor making a charitable contribution to participate in an event that results in a benefit to the donor. Also included is the excess of the present value amount to maintain a deferred annuity payable.

Wills and Bequests - Contributions resulting from wills and bequests are recognized as revenue in the reporting period during which the respective estates are probated and all applicable eligibility requirements are met.

E. Income Taxes

The Foundation is an organization described in Internal Revenue Code (IRC) Section 501(c)(3) and as such is exempt from federal and state income tax on its related income under Section 501(a). Furthermore, as a publicly supported organization it is classified as a public charity and not a private foundation under Section 509(a)(1). The Foundation had no material unrelated business income therefore no provision for income taxes is included in the financial statements.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

F. Budgetary Process

The operating budget of UNM's Development Office is submitted for approval to the Board of Regents, the New Mexico Higher Education Department (HED), and the State Budget Division of the Department of Finance and Administration (DFA). The operating budget is on a GAAP basis for operating expenses. Similarly, separate legislative budget requests are submitted to the Board of Regents, CHE, and the DFA for inclusion in the state of New Mexico Executive Budget for consideration of appropriations by the state legislature. The Development Office's budget does not include revenues generated through funding activities.

The Development Office, in accordance with the Memorandum, performs the activities of the Foundation on behalf of UNM, which includes the solicitation, consultation, and other related services, in efforts to maximize private gifts and donations from various sources; therefore, the Development Office's budget is assumed by the Foundation in its budgeting process.

G. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

H. Reclassification

Certain prior year amounts have been reclassified in order to be consistent with current year presentation.

NOTE 3. CASH AND CASH EQUIVALENTS

The Foundation has a carrying value of \$25,750,399 and \$27,745,177 on deposit in pooled accounts with UNM at June 30, 2008 and 2007, respectively. The UNM deposits are held in demand and time accounts at local financial institutions. New Mexico statutes require financial institutions to pledge qualifying collateral to UNM to cover at least 50% of the uninsured deposits. All collateral is held by third parties in safekeeping. The Foundation is at risk to the extent that UNM's funds are uninsured or uncollateralized.

The Foundation also has deposits in money market accounts held outside of the University. The amounts in money market accounts have a carrying value of \$836,014 and \$543,793 at June 30, 2008 and 2007, respectively.

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NOTE 3. CASH AND CASH EQUIVALENTS (CONTINUED)

Risk disclosure information relating to the cash and cash equivalents may be obtained by reference to the annual financial report of the University of New Mexico. That report may be obtained by contacting the Controller's office at 1 University of New Mexico, MSC01 1300, University of New Mexico, Albuquerque, NM 87131.

A detail of the cash accounts at June 30, 2008 is included below:

Name of Depository	Account Name	Account Type	Bank Balance	Reconciling Items	Reconciled Balance
University of New Mexico	Operating	Cash	\$ 2,598,976	(8,958)	2,590,018
University of New Mexico	Development	Cash	23,190,099	(100,669)	23,089,430
University of New Mexico	Development – Specific uses	Cash	70,951	-	70,951
Southwest Securities	Charitable Trust Fund	Money Market	18,401	-	18,401
Bank of America	Scholarship Fund	Money Market	99,215	(170)	99,045
Bank of America	Scholarship Trust	Money Market	29,430	(52)	29,378
Wells Fargo	Irrevocable Trust Fund	Money Market	133,182	-	133,182
UBS Financial Services	Endowed Chair	Money Market	493,996	-	493,996
UBS Financial Services	Endowed Professorship	Money Market	62,012	-	62,012
			<u>\$26,696,262</u>	<u>(109,849)</u>	<u>26,586,413</u>

A detail of the cash accounts at June 30, 2007 is included below:

Name of Depository	Account Name	Account Type	Bank Balance	Reconciling Items	Reconciled Balance
University of New Mexico	Operating	Cash	\$ 1,015,731	(350)	1,015,381
University of New Mexico	Development	Cash	25,058,965	1,510,959	26,569,924
University of New Mexico	Development – Specific uses	Cash	159,872	-	159,872
Morgan Stanley	UNM Foundation Inc. TTEE	Money Market	6,805	-	6,805
Bank of America	Scholarship Fund	Money Market	23,005	-	23,005
Bank of America	Scholarship Trust	Money Market	38,189	-	38,189
Wells Fargo	Irrevocable Trust Fund	Money Market	105,174	-	105,174
UBS Financial Services	Endowed Chair	Money Market	320,083	-	320,083
UBS Financial Services	Endowed Professorship	Money Market	50,537	-	50,537
			<u>\$26,778,361</u>	<u>1,510,609</u>	<u>28,288,970</u>

Money market funds are money market mutual funds and not subject to custodial credit risk.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
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NOTE 4. INVESTMENTS

Consolidated Investment Fund - Investments are held by the Foundation as well as in UNM's CIF, a unitized investment pool. Investments held by the Foundation represent investments physically contributed to the Foundation and which are still being held by the Foundation at June 30, 2008. It is the Foundation's policy to liquidate contributed investments as soon as possible following receipt.

Investments in the CIF are diversified with the intention of minimizing the risk of large investment losses. Consequently, the target portfolio is comprised of 18% domestic equity, 17% international equities, 15% fixed income (including TIPS and cash investments), 15% private equity and 35% other investments including alternative investments. Equity holdings are restricted to high-quality, readily marketable securities of corporations that are actively traded on the major exchanges, including NASDAQ. Alternative investments can include the following hedge funds: equity, multi-strategy, and fund of funds. This entire investment policy is in accordance with the Uniform Prudent Investor Act, NMSA 45-7 (601-612).

Exclusive of the U.S. government and agency issues, all other fixed-income issues of the CIF are limited to "A" or better quality as established by a recognized rating service and further reinforced by independent in-house credit analyses. In cases where the yield spread adequately compensates for additional risk, "BAA" ratings are purchased up to a maximum of 10% of the market value of fixed-income portfolio.

Cash equivalent reserves consist of interest-bearing or discount instruments of the U.S. Government or agencies thereof, money market funds, corporate discounted instruments, corporate-issued commercial paper rated at least A-1 by Standard & Poors and B-1 by Moody's, time deposits of U.S. or foreign banks, bankers acceptances, and fully collateralized repurchase agreements. Both U.S. and foreign offerings are permissible.

The investment of the CIF Endowment funds is in accordance with the laws of 1991, chapter 69 of the State of New Mexico. In accordance with UNM and the Foundation's "Memorandum of Agreement," the endowment assets of the Foundation and UNM are commingled for investment purposes whenever possible in the CIF. The investment of UNM and Foundation endowment funds is in accordance with Sections 6-8-10 and 46-9-1 through 46-9-12, NMSA 1978.

At June 30, 2008 and 2007, the CIF consisted of 1,266,055 and 1,181,672 total units valued at \$330,514,044 and \$324,065,543, respectively. Of these totals, 465,591 and 409,157 units of the pool are held by the Foundation with a fair value of \$121,546,524 and \$112,208,591, respectively. The remaining 800,463 and 772,515 units of the pool are recorded on the financial statements of UNM at a fair value of \$208,967,520 and \$211,856,952, respectively.

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NOTE 4. INVESTMENTS (CONTINUED)

Risk disclosure information relating to the CIF fund may be obtained by reference to the annual financial report of the University of New Mexico. That report may be obtained by contacting the Controller's office at 1 University of New Mexico, MSC01 1300, University of New Mexico, Albuquerque, NM 87131.

Investments Held by the Foundation - At June 30, 2008 and 2007, the Foundation held approximately 95% and 94% of its investments in the CIF, respectively. Under the terms of an agreement with the UNM Board of Regents, the Foundation provides management oversight for the entire CIF. Investment managers separate from the Foundation and UNM are responsible for implementing the investment transactions directed by the Foundation's CIF Investment Committee.

A detail of the investment accounts at June 30, 2008 is included below:

Name of Depository	Account Name	Account Type	Bank Balance
Bank of America	Scholarship Trust	Mutual Funds, Fixed	\$ 166,441
		Mutual Funds, Equity	361,605
Bank of America	Scholarship Fund	Mutual Funds, Equity	731,069
		Mutual Funds, Fixed	287,524
Wells Fargo	Charitable Trust Fund	FHLB US Agency Bonds	130,913
		Municipal Bonds	50,004
		Domestic Corporate Bonds	237,993
		Mutual Funds, Fixed	361,491
		Domestic Corporate Stock	719,983
		Real Estate	68,270
		Other	157,053
UBS Financial Services	Endowed Chair	Municipal Bonds	2,191,288
		Mutual Funds, Fixed	33,785
UBS Financial Services	Endowed Professorship	Municipal Bonds	312,686
Southwest Securities	Charitable Trust Fund	Domestic Corporate Stock	364,660
			<u>\$ 6,174,765</u>

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NOTE 4. INVESTMENTS (CONTINUED)

A detail of the investment accounts at June 30, 2007 is included below:

Name of Depository	Account Name	Account Type	Bank Balance
Bank of America	Scholarship Trust	Mutual Funds, Fixed	\$ 170,484
		Mutual Fund, Equity	425,150
Bank of America	Scholarship Fund	Domestic Corporate Bonds	19,770
		Mutual Funds, Fixed	770,353
		Real Estate Contract	455,000
Wells Fargo	Charitable Trust Fund	FHLB US Agency Bonds	175,463
		Municipal Bonds	50,660
		Domestic Corporate Bonds	213,319
		Domestic Corporate Stock	669,279
		Mutual Funds, Fixed	739,888
		Real Estate	38,720
		Other	15,420
UBS Financial Services	Endowed Chair	Municipal Bonds	2,236,473
		Domestic Corporate Bonds	118,924
UBS Financial Services	Endowed Professorship	Municipal Bonds	307,751
Morgan Stanley	UNM Foundation Inc.	Domestic Corporate Stock	10,100
Southwest Securities	Charitable Trust Fund	Domestic Corporate Stock	450,320
			<u>\$ 6,867,074</u>

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Mutual funds and external investment pools are not exposed to credit risk.

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NOTE 4. INVESTMENTS (CONTINUED)

A summary of the Investments held by the Foundation at June 30, 2008 and 2007 and the Foundation's exposure to custodial credit risk is as follows:

	2008	2007
Custodial Credit Risk		
US Government Agency securities, FHLB	\$ 130,912	175,463
Municipal bonds, City	643,249	1,502,220
Municipal bonds, County	154,197	261,258
Municipal bonds, State	252,591	415,741
Municipal bonds, other	1,503,940	415,665
Domestic corporate bonds	237,993	352,012
Domestic corporate stock	<u>1,084,643</u>	<u>1,129,699</u>
Total securities held by custodians	4,007,525	4,252,058
Investments not subject to custodial credit risk		
Mutual funds	1,941,917	2,105,875
Real estate	68,270	493,720
Other	<u>157,053</u>	<u>15,421</u>
	<u>\$ 6,174,765</u>	<u>6,867,074</u>

Concentration of Credit Risk - Investments: Concentration risk is the risk of loss attributed to the magnitude of the Foundation's investment in a single issuer. Investments in any one issuer that represents 5% or more of total investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued and explicitly guaranteed by the U. S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement. Currently, the Foundation does not have a policy to limit its exposure to concentrated credit risk.

As of June 30, 2008 and 2007, the Foundation did not have any investments in one issuer that represented more than 5% of total investments.

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

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June 30, 2008

NOTE 4. INVESTMENTS (CONTINUED)

A summary of the investments held by the Foundation and the respective maturities at June 30, 2008 and 2007 and the exposure to interest rate risk is as follows:

	Fair Value	2008 Investment maturities			
		Less than one year	1-5 years	6-10 years	More than 10 years
At interest rate risk					
U.S. Agency bonds, FHLB	\$ 130,913	-	49,438	81,475	-
Municipal bonds, City	643,249	50,004	-	15,217	578,028
Municipal bonds, County	154,197	-	-	-	154,197
Municipal bonds, State	252,591	-	-	-	252,591
Municipal bonds, other	1,503,940	5,036	76,953	115,759	1,306,192
Domestic Corporate bonds	237,993	20,144	217,849	-	-
	<u>2,922,883</u>	<u>75,184</u>	<u>344,240</u>	<u>212,451</u>	<u>2,291,008</u>
Not at interest rate risk					
Domestic corporate stock	1,084,643				
Mutual funds	1,941,916				
Real estate	68,270				
Other	<u>157,053</u>				
Total investments	<u>\$ 6,174,765</u>				
	Fair Value	2007 Investment maturities			
		Less than one year	1-5 years	6-10 years	More than 10 years
At interest rate risk					
U.S. Agency bonds, FHLB	\$ 175,463	-	77,525	97,938	-
Municipal bonds, City	1,502,220	-	61,481	15,255	1,425,484
Municipal bonds, County	261,258	-	-	-	261,258
Municipal bonds, State	415,741	-	10,164	63,359	342,218
Municipal bonds, other	415,665	-	-	52,844	362,821
Domestic corporate bonds	352,012	-	233,088	118,924	-
	<u>3,122,359</u>	<u>-</u>	<u>382,258</u>	<u>348,320</u>	<u>2,391,781</u>
Not at interest rate risk					
Domestic corporate stock	1,129,699				
Mutual funds	2,105,875				
Real estate	493,720				
Other	<u>15,421</u>				
Total investments	<u>\$ 6,867,074</u>				

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
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NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 4. INVESTMENTS (CONTINUED)

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation is required to disclose credit ratings of its investments in order to assess credit risk.

A summary of the Foundation's investments at June 30, 2008 and 2007 that are subject to credit risk are as follows:

June 30, 2008

Category	Rating	Fair Value	% of Bond Portfolio
FHLB Agency	No rating	<u>\$ 130,913</u>	4.50%
City Municipal	Moody's – A1	60,017	2.10%
City Municipal	Moody's – A2	296,204	10.10%
City Municipal	Moody's – Aa1	15,217	0.50%
City Municipal	Moody's – Aa3	198,725	6.80%
City Municipal	Moody's – Aaa	73,087	2.50%
County Municipal	Moody's – A1	154,197	5.30%
State Municipal	Moody's – A1	75,731	2.60%
State Municipal	Moody's – Aa1	151,490	5.20%
State Municipal	Moody's – Aaa	25,370	0.90%
Other Municipal	Moody's – AAA	43,901	1.50%
Other Municipal	Moody's – A1	76,539	2.60%
Other Municipal	Moody's – A2	259,483	8.90%
Other Municipal	Moody's – Aaa	743,832	25.40%
Other Municipal	Moody's – Aa2	112,100	3.80%
Other Municipal	Moody's – Aa3	<u>268,082</u>	9.20%
		<u>2,553,975</u>	
Domestic corporate	Moody's – AAA	\$ 20,897	0.70%
	Moody's – A1	71,342	2.40%
	Moody's – A2	125,612	4.30%
	Moody's – A3	<u>20,144</u>	0.70%
		<u>237,995</u>	

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
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NOTE 4. INVESTMENTS (CONTINUED)

June 30, 2007

Category	Rating	Fair Value	% of Bond Portfolio
FHLB Agency	No rating	<u>\$ 175,463</u>	5.62%
City Municipal	Moody's – Aa1	15,255	0.49%
City Municipal	Moody's – Aa2	126,981	4.07%
City Municipal	Moody's – Aa3	10,822	0.35%
City Municipal	Moody's – Aaa	1,349,162	43.21%
County Municipal	Moody's – Aa3	73,541	2.36%
County Municipal	Moody's – Aaa	187,717	6.01%
State Municipal	Moody's – A1	107,849	3.45%
State Municipal	Moody's – Aa1	20,684	0.66%
State Municipal	Moody's – Aaa	287,208	9.20%
Other Municipal	Moody's – Aa3	10,009	0.32%
Other Municipal	Moody's – Aaa	<u>405,656</u>	12.99%
		<u>2,594,884</u>	
Domestic corporate	Moody's – Aaa	161,011	5.16%
	Moody's – Aa3	73,346	2.35%
	Moody's – A2	68,263	2.19%
	Moody's – A3	<u>49,392</u>	1.58%
		<u>352,012</u>	

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
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NOTE 4. INVESTMENTS (CONTINUED)

Real Estate Investments

The Foundation also has investments in real estate. The real estate activity for the years ended June 30, 2008 and 2007 follows:

	2008	2007
Real estate		
Beginning balance at July 1	\$ 1,438,059	1,477,059
Additions	1,482,882	-
Deletions	<u>(622,882)</u>	<u>(39,000)</u>
Balance at June 30	<u>2,298,059</u>	<u>1,438,059</u>
Real estate reserve		
Beginning balance at July 1	\$ (429,401)	(437,201)
Additions	(296,576)	-
Deletions	<u>162,276</u>	<u>7,800</u>
Balance at June 30	<u>(563,701)</u>	<u>(429,401)</u>
Real Estate, net	<u>\$ 1,734,358</u>	<u>1,008,658</u>

All Investments

During the years ended June 30, 2008 and 2007, the Foundation recognized realized and unrealized gains (losses) on investments held as outlined below:

		CIF	Foundation	Total
2008				
Realized gains (losses)	\$	5,203,237	292,425	5,495,662
Unrealized (losses)		(6,901,268)	(885,107)	(7,786,375)
2007				
Realized gains (losses)	\$	5,750,034	(38,674)	5,711,360
Unrealized gains (losses)		9,828,218	269,681	10,097,899

The calculation of realized gains/losses is independent of a calculation of the net change in fair value of investments. In addition, realized gains/losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year and current year.

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NOTE 5. PLEDGES RECEIVABLE

Pledges receivable consisted of the following at June 30, 2008 and 2007:

	2008	2007
Amounts due in less than one year	\$ 2,447,832	1,403,239
Amounts due in more than one year	<u>2,556,170</u>	<u>2,790,953</u>
Total pledges receivable	5,004,002	4,194,192
Discounts to net present value	<u>(106,220)</u>	<u>(280,965)</u>
Allowance for doubtful pledges	<u>(296,773)</u>	<u>(285,657)</u>
Pledges receivable, net	<u>\$ 4,601,009</u>	<u>3,627,570</u>

Noncurrent pledges receivable are discounted at the U.S. Treasury Bill 90-day rate of 1.87% and 4.68% for the years ended June 30, 2008 and 2007, respectively.

NOTE 6. ENDOWMENTS

True Endowments. True endowments are those funds subject to restrictions in gift instruments permitting only the income be used as specified by the donor and that the principal be held in perpetuity.

Term Endowments. Term endowments are funds similar to true endowment funds except that upon the passage of a stated period of time or a particular occurrence, all or part of the principal may be expended.

Quasi Endowments. Quasi-endowment funds are internally designated by the Board of Trustees for similar purposes as true endowment funds; however, funds are donor unrestricted and any portion of the principal of quasi-endowment funds may be expended at the discretion of the Board of Trustees.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 6. ENDOWMENTS (CONTINUED)

At June 30, 2008 and 2007, endowments were comprised of the following:

	2008	2007
True endowment	\$ 112,378,209	103,806,195
Term endowment	444,238	466,625
Quasi-endowment (designated by the Board of Trustees)	<u>12,286,609</u>	<u>11,888,524</u>
	<u>\$ 125,109,056</u>	<u>116,161,344</u>

If a donor has not provided specific instructions, state law permits the Board of Trustees (as delegated by UNM Board of Regents) to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. Distributions are made from the CIF to UNM entities that benefit from the endowment funds. The endowment spending policy provides for the total annual distribution of Spendable Income to each unit of the CIF. Distributions shall not exceed 6% nor be less than 4% of the Average Market Value of a unit of the CIF. The Average Market Value of a unit will be based on the average unit values of the CIF for the preceding 12 quarters. The target annual distribution rate shall be 5% of the average unit market value. If, in any given 12 quarter rolling period, Total Return is less than target annual distribution, actual distribution shall not be less than 4% of the average unit market value for such 12 quarter rolling period. If in any 12 quarter rolling period the distribution exceeds 5% of the current market value then the actual distribution will be determined by the CIF Investment Committee. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. The amount of net appreciation on the quasi-endowments that is available for authorization for expenditure by the Board of Trustees was \$531,782 and \$3,012,643 as of June 30, 2008 and 2007, respectively, and is reported as restricted net assets.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 7. OTHER ASSETS

Other assets consisted of the following at June 30:

	2008	2007
Art collection, net	\$ 8,000	8,000
Other	<u>44,190</u>	<u>29,684</u>
	<u>\$ 52,190</u>	<u>37,684</u>

NOTE 8. RESTRICTED ASSETS AND RESTRICTED NET ASSETS

Certain assets are restricted for donations that are subject to donor restrictions requiring that only the income be used by the Foundation or transferred to UNM programs and that the principal be held in perpetuity. These assets are classified as true endowments. Other restricted net assets include the net assets classified as quasi-endowments (endowments designated by the Board of Trustees for similar purposes as true endowment funds). The Board of Regents of the University approves the establishment of all quasi-endowments. All other assets not specifically restricted by the donor or the University of New Mexico Board of Regents, with the exception of the investment income earned on the non-endowed gifts, are considered restricted in accordance with a memorandum of agreement between the University of New Mexico and the Foundation. When both restricted and unrestricted funds are available, the Foundation expends restricted funds first.

Restricted net assets consisted of the following at June 30:

	2008	2007
True endowments, unexpendable	\$ 112,378,209	103,806,194
Term endowments, unexpendable	444,238	466,625
Annuity gifts, unexpendable	<u>2,523,641</u>	<u>2,813,417</u>
Total unexpendable	<u>115,346,088</u>	<u>107,086,236</u>
Quasi-endowments, expendable	12,286,609	11,888,524
Donations and gifts, expendable	<u>27,480,335</u>	<u>30,066,773</u>
Total expendable	<u>39,766,944</u>	<u>41,955,297</u>
Total unexpendable and expendable	<u>\$ 155,113,032</u>	<u>149,041,533</u>

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
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NOTES TO FINANCIAL STATEMENTS
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NOTE 9. DEFERRED ANNUITIES PAYABLE

Deferred annuities payable represents a liability established for donations whereby a specified amount of funds are to be paid to the donor for the duration of his or her life. The amount paid to the donor is determined through the use of the rate of return agreed upon by all parties involved. The Foundation uses annuity rates, including the discount and remainder factor, from the IRS to establish the liability and factors such as the donor's age and amount of donation are included in the calculation of the liability owed to the donor which is adjusted on an annual basis. During the years ended June 30, 2008 and 2007, the Foundation had the following deferred annuities payable activity:

	2008	2007
Balance due at July 1	\$ 1,958,257	1,847,356
Additions to deferred annuities payable	834,060	117,161
Net adjustment of actuarial liability	<u>174,656</u>	<u>(6,260)</u>
Balance due at June 30	<u>\$ 2,966,973</u>	<u>1,958,257</u>
Amount due in one year	<u>\$ 419,342</u>	<u>323,800</u>

NOTE 10. WILLS AND BEQUESTS

The Foundation has been named as a beneficiary in wills and bequests totaling approximately \$11,117,276 and \$11,235,176 at June 30, 2008 and 2007, respectively, which will be recognized by the Foundation in the reporting period during which the respective estates are probated and all eligibility requirements related to such funds are met.

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NOTE 11. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consisted of the following for the years ended June 30:

	2008	2007
Salaries	\$ 3,820,287	3,195,274
Professional services	392,303	432,503
Printing	163,655	170,321
Equipment and remodeling expense	4,316	18,367
Rent – building and equipment	205,005	214,716
Postage	87,677	73,721
Entertainment	18,507	14,850
Computer maintenance	86,392	70,952
General office supplies	31,549	41,837
Special events	197,512	123,557
Travel	51,221	54,764
Dues and subscriptions	11,776	37,645
Communication line	27,339	30,806
Professional development	38,534	32,075
Taxes	65,239	26,678
Insurance expense	13,444	15,449
Telephone	13,827	14,055
Bank charges	26,613	18,056
Automobile	3,993	1,330
	<u>\$ 5,259,189</u>	<u>4,586,956</u>

Included in the total general and administrative expenses recognized by the Foundation are expenses incurred by the UNM Development Office in support of the Foundation's management and fund-raising responsibilities, pursuant to the Memorandum. This includes the salaries for the employees, which are UNM employees. For the years ended June 30, 2008 and 2007, the expenses incurred by the UNM Development Office were \$4,338,881 and 4,056,741, respectively. Corporate and program expenses paid directly by the Foundation for the years ended June 30, 2008 and 2007 were \$920,307 and \$530,215, respectively.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 12. CONTINGENCIES

Insurance Coverage. The Foundation 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. The Foundation is insured through private carriers for liability, casualty and director and officer liability insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NOTE 13. SUBSEQUENT EVENTS

Subsequent to year end the investment markets experienced significant fluctuations. This may impact the value of investments reported in the balance sheet in the subsequent fiscal year.

SUPPLEMENTAL INFORMATION

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
 (A Component Unit of the University of New Mexico)
 OPERATING FUND EXPENDITURES (WITH BUDGET COMPARISONS)
 Year Ended June 30, 2008

	Original Budget	Final Budget	Actual	Over/ (Under) Budget
Expenditures				
General and administrative	\$ 6,966,675	6,966,675	5,141,596	(1,825,079)

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
FINANCIAL ANALYSIS BY FUND
June 30, 2008

OPERATING FUND

The Operating Fund is used to account for the services provided by the University, the operating expenses of the Foundation/Development Program and the interest revenue that is earned in the General Fund and then transferred to the Operating Fund.

The net assets of the Operating Fund increased from \$1,010,572 at June 30, 2007 to \$2,574,457 at June 30, 2008. Operating expenses exceeded operating revenues by \$802,715, however, transfers of short-term investment income from the General Fund totaled \$1,672,324 for 2007-08 compared to \$872,328 for 2006-07 primarily because of the increase in short-term investment income resulting from increases in short-term interest rates and a change in the methodology for allocating short-term investment income.

GENERAL FUND

The General Fund is used to account for current or non-endowed gifts that are expendable by UNM for purposes designated by the donor and for the interest earned on cash balances on deposit with the University. Currently, interest earned on non-endowed gifts is transferred to the Operating Fund. As new gifts are received and all applicable eligibility requirements are met, the Foundation recognizes an asset and revenue.

The net assets in the General Fund decreased from \$30,066,773 at June 30, 2007 to 27,480,335 at June 30, 2008. General Fund operating revenues increased from \$21,559,173 in 2006-07 to \$23,745,908 in 2007-08. Pledges receivable increased from \$3,627,570 at June 30, 2007 to \$4,601,009 at June 30, 2008.

Distributions from the General Fund to the University increased from \$18,713,203 in 2006-07 to \$26,938,743 in 2007-08, an increase of \$8,225,540 or 43.9%.

ENDOWMENT FUND

The Endowment Fund is used to account for gifts that are designated by the donor for endowment requiring that the principal or corpus be held in perpetuity and that only a portion of the income be allocated for spending, subject to the restrictions imposed by the donor in the gift instrument.

The net assets of the Endowment Fund increased from \$116,161,344 at June 30, 2007 to \$125,109,056 at June 30, 2008, an increase of \$8,947,712 or 7.7%. The majority of this increase is due to an increase in donations that exceeded distributions to the University of New Mexico.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
FINANCIAL ANALYSIS BY FUND (CONTINUED)
June 30, 2008

LIFE INCOME FUND

The Life Income Fund is used to account for charitable gift annuities and charitable remainder trusts. Charitable Gift Annuities require that a portion of the income earned on the fund assets be paid to the donor or other designated beneficiaries. When the gift is received, a liability is recorded that represents an actuarial calculation of the present value of future amounts due under the gift agreement. This liability is adjusted annually.

The majority of Life Income Fund assets is co-invested with Endowment Fund assets in the CIF and will exhibit similar return characteristics. Net assets in the Life Income Fund decreased from \$2,813,416 at June 30, 2007 to \$2,523,641 at June 30, 2008. Although there were \$415,914 in new Life Income Fund gifts during 2007-08, net assets were also decreased by non-operating investment losses of \$31,504, payments made to annuitants of \$503,310 and the adjustment to the actuarial liability of \$174,656. During the year, the Foundation established eight new charitable gift annuities compared to four in the prior year.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
BALANCE SHEET BY FUND
June 30, 2008

	Operating Fund	General Fund	Endowment Fund	Life Income Fund	Combined Total
ASSETS					
Current Assets					
Cash and cash equivalents - unrestricted	\$ 2,600,254	-	-	-	2,600,254
Cash and cash equivalents - restricted	-	22,815,638	1,065,159	105,362	23,986,159
Total current assets	2,600,254	22,815,638	1,065,159	105,362	26,586,413
Noncurrent assets					
Investments held in Consolidated Investment Fund - restricted	-	-	117,791,933	3,754,591	121,546,524
Investments held by the University of the New Mexico Foundation, Inc.	-	(2)	5,810,107	364,660	6,174,765
Pledges receivable - restricted	-	4,601,009	-	-	4,601,009
Real estate - restricted	-	63,690	404,667	1,266,001	1,734,358
Other - restricted	-	-	52,190	-	52,190
Total noncurrent assets	-	4,664,697	124,058,897	5,385,252	134,108,846
Total assets	\$ 2,600,254	27,480,335	125,124,056	5,490,614	160,695,259
LIABILITIES AND NET ASSETS					
Current Liabilities					
Due to the University of New Mexico	\$ -	-	-	-	-
Accounts payable	25,798	-	15,000	-	40,798
Deferred annuities payable	-	-	-	419,342	419,342
Total current liabilities	25,798	-	15,000	419,342	460,140
Noncurrent liabilities - deferred annuities payable	-	-	-	2,547,631	2,547,631
Total liabilities	25,798	-	15,000	2,966,973	3,007,771
Net Assets					
Unrestricted	2,574,456	-	-	-	2,574,456
Restricted	-	27,480,335	125,109,056	2,523,641	155,113,032
Total net assets	2,574,456	27,480,335	125,109,056	2,523,641	157,687,488
Total liabilities and net assets	\$ 2,600,254	27,480,335	125,124,056	5,490,614	160,695,259

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS BY FUND
June 30, 2008

	Operating Fund	General Fund	Endowment Fund	Life Income Fund	Combined Total
Operating Revenues					
Donations and pledges, net	\$ -	22,992,282	-	-	22,992,282
Operational support for management services	4,338,881	-	-	-	4,338,881
Nongift revenue	-	753,626	-	-	753,626
Total operating revenues	4,338,881	23,745,908	-	-	28,084,789
Operating Expenses					
General and administrative expenses	5,141,596	26,659	90,934	-	5,259,189
Distributions to the University of New Mexico	-	26,938,744	5,244,515	-	32,183,259
Distributions to the other organizations	-	-	-	-	-
Total operating expenses	5,141,596	26,965,403	5,335,449	-	37,442,448
Operating (loss)	(802,715)	(3,219,495)	(5,335,449)	-	(9,357,659)
Nonoperating revenues - investment income	694,275	1,786,254	362,379	(31,504)	2,811,404
(Loss) income before contributions to permanent endowment	(108,440)	(1,433,241)	(4,973,070)	(31,504)	(6,546,255)
Contributions to permanent endowments					
Donations and pledges, net	-	-	14,431,151	-	14,431,151
New gifts	-	-	592	415,914	416,506
Nongift revenue	-	-	11,947	-	11,947
Adjustment of actuarial liability for annuities payable	-	-	-	(174,656)	(174,656)
Expenditure for maintenance of investment and payments to annuitants	-	-	-	(503,310)	(503,310)
Total contributions to permanent endowments	-	-	14,443,690	(262,052)	14,181,638
Transfers to (from)	1,672,324	(1,153,197)	(522,908)	3,781	-
Change in net assets	1,563,884	(2,586,438)	8,947,712	(289,775)	7,635,383
Net assets, beginning of year	1,010,572	30,066,773	116,161,344	2,813,416	150,052,105
Net assets, end of year	\$ 2,574,456	27,480,335	125,109,056	2,523,641	157,687,488

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
NOTES TO SUPPLEMENTAL INFORMATION
June 30, 2008

**NOTE 1. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND
FINANCIAL STATEMENT PRESENTATION**

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the assets, liabilities, and net assets are reported internally in four self-balancing funds as follows:

Operating Fund. Funds of the Foundation consisting of unrestricted resources and interest and dividends transferred from the General Fund as further discussed below.

General Fund. Expendable funds for conveyance to UNM for scholarships, academic and administrative departments, building projects, and other university-related activities. Interest and dividends earned on assets in this fund are distributed to individual accounts based upon their account balances. Those amounts not distributed are transferred to the Operating Fund. Cash held in this fund is restricted for the purpose of distributions to UNM.

Endowment Fund. True endowments are those funds subject to restrictions in gift instruments requiring that only the income be used as specified by the donor and that the principal be held in perpetuity. Term endowment funds are funds similar to true endowment funds except that upon the passage of a stated period of time or a particular occurrence, all or part of the principal may be expended. Quasi-endowment funds are funds internally designated by the Board of Trustees for similar purposes as true endowment funds; however, funds are unrestricted and any portion of the principal of quasi-endowment funds may be expended at the discretion of the Board of Trustees.

Life Income Fund. Funds subject to the requirement that part of the income earned on the fund assets be paid periodically to donor-designated beneficiaries. Such income payments terminate at a time specified in the agreements, at which time the principal reverts to the Foundation and equivalent revenue will be recognized. Annually, any net residual income or loss is credited/charged to the liability account, "Deferred Annuities." This payable is adjusted annually, through the fund balance, to represent the present value of the aggregate liability for amounts estimated to be paid to beneficiaries based upon the actuarially determined expected lives of the designated beneficiaries.

NOTE 2. TRANSFERS

Transfers among funds are the result of gifts whose restrictions have been satisfied, donors' requests to amend their initial gift restrictions, or actions of the Board of Trustees.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
NOTES TO SUPPLEMENTAL INFORMATION (CONTINUED)
June 30, 2008

NOTE 3. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consisted of the following for the year ended June 30, 2008

	Operating Fund	General Fund	Endowment Fund	Combined Total
Salaries	\$ 3,820,287	-	-	3,820,287
Professional services	334,289	-	58,014	392,303
Printing	163,655	-	-	163,655
Equipment and remodeling expense	4,316	-	-	4,316
Rent – building and equipment	205,005	-	-	205,005
Postage	87,677	-	-	87,677
Entertainment	18,507	-	-	18,507
Computer maintenance	86,392	-	-	86,392
General office expense	31,549	-	-	31,549
Special events	197,512	-	-	197,512
Travel	51,221	-	-	51,221
Dues and subscriptions	11,776	-	-	11,776
Communication line	27,339	-	-	27,339
Professional development	38,534	-	-	38,534
Taxes	32,388	21	32,830	65,239
Insurance expense	13,329	-	115	13,444
Telephone	13,827	-	-	13,827
Bank charges (refunds)	-	26,638	(25)	26,613
Automobile	3,993	-	-	3,993
	<u>\$ 5,141,596</u>	<u>26,659</u>	<u>90,934</u>	<u>5,259,189</u>

Expenses that can be identified with a specific fund are allocated directly according to their natural expenditure classification.

Included in the \$5,259,189 of general and administrative expenses recognized by the Foundation is approximately \$4,338,881 of expenses including salaries incurred by the UNM Development Office in support of the Foundation's management and fund-raising responsibilities, pursuant to the Memorandum. Corporate and program expenses paid directly by the Foundation were \$920,306.

**Report 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***

Board of Trustees
University of New Mexico Foundation, Inc.
and
Hector H. Balderas
New Mexico State Auditor

We have audited the basic financial statements of the University of New Mexico Foundation, Inc. (Foundation), a component unit of the University of New Mexico as of and for the year ended June 30, 2008. We have audited the budgetary comparison, and have issued our report thereon dated September 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Board of Trustees
University of New Mexico Foundation, Inc.
and
Hector H. Balderas
New Mexico State Auditor

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Foundation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Audit Committee, Board of Trustees, Management, the New Mexico State Auditor, and is not intended to be, and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
September 20, 2008

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2008

Prior Year Findings

None

Current Year Findings

None

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)
EXIT CONFERENCE
June 30, 2008

An exit conference was conducted on September 23, 2008, in which the contents of this report were discussed with the following:

For the University of New Mexico Foundation, Inc.:

Audit Committee Members:

Carl Alongi, Board Member
Thelma Domenici, Chair of the Board
Michael K. Kingan, President, UNM VP for Advancement
Henry K. Rivera, Board Member

Foundation Management:

John R. Stropp, President
John A. Maes, Fiscal Officer
Elaine S. Rivera, Controller

For Moss Adams LLP:

Larry Carmony, Partner
Julie Alliman, Supervisor

The financial statements have been prepared by the University of New Mexico Foundation, Inc. with assistance from Moss Adams LLP.