



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

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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

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

Official Roster

June 30, 2013

Officers

Gary Gordon	Chair
Henry Nemcik	UNM Foundation President
Carl Alongi	Vice Chair/Chair Elect
Stephanie Bennett-Smith	National Vice-Chair
Randy Velarde	Assistant Treasurer of the Board
Dorothy Rainosek	Secretary of the Board

Members

Larry Abraham	Mark Leshner
Carl Alongi	Laurie Moye
Laura Bass	Henry Nemcik
Gary Beal	Kimberly Peña
Stephanie Bennett-Smith	Steven Petranovich
Doug Brown	Dorothy Rainosek
Michelle Coons	Nancy Ridenour
John Cordova	Kurt L. Roth
Jack Fortner	D.F. Swan
Edward Foster	Randy Velarde
Robert Frank	Anne Yegge
Gary Gordon	Orcilia Zuniga-Forbes
Peter Johnstone	



KPMG LLP
Two Park Square, Suite 700
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Albuquerque, NM 87110-8179

Independent Auditors' Report

The Board of Directors
University of New Mexico Foundation, Inc.
and
Mr. Hector H. Balderas
New Mexico State Auditor:

Report on the Financial Statements

We have audited the accompanying financial statements of University of New Mexico Foundation, Inc. (the Foundation), a component unit of the University of New Mexico, which comprise the balance sheet as of June 30, 2013 and 2012, 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 U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. 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 auditors' 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 auditors consider 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.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of New Mexico Foundation, Inc. as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the *management's discussion and analysis* on pages 5 through 9 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 opinions on the financial statements that collectively comprise the Foundations' basic financial statements. The financial analysis by account group, balance sheet by account group, statement of revenues, expenses, and changes in net position by account group, and notes to supplemental information as of and for the year ended 2013 on pages 32 – 35 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The financial analysis by account group, balance sheet by account group, statement of revenues, expenses, and changes in net position by account group, and notes to supplemental information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial analysis by account group, balance sheet by account group, statement of revenues, expenses, and changes in net position by account group, and notes to supplemental information are fairly stated in all material respects in relation to the basic financial statements as a whole.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2013 on our consideration of the Foundation'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 the Foundation's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
November 12, 2013

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

As a component unit of the University of New Mexico (UNM or the University), the University of New Mexico Foundation, Inc. (the Foundation) applies 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, 2013 and 2012 and the following, which comprise the basic financial statements:

1. Balance sheets, which present information on the Foundation's assets and liabilities and resulting net position.
2. Statements of revenues, expenses, and changes in net position, which provide information on the results of operations for the fiscal years.
3. Statements of cash flows, which present information on changes in cash balances and identify 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

Condensed Assets, Liabilities, and Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 7,813,748	7,224,300	6,112,133
Noncurrent assets	173,274,768	156,495,732	155,468,175
Total assets	<u>\$ 181,088,516</u>	<u>163,720,032</u>	<u>161,580,308</u>
Current liabilities	\$ 6,188,961	4,956,395	4,424,988
Noncurrent liabilities	4,901,603	5,992,192	5,308,008
Total liabilities	<u>11,090,564</u>	<u>10,948,587</u>	<u>9,732,996</u>
Net position:			
Unrestricted	2,109,091	1,988,201	2,224,495
Invested in capital assets	137,335	123,477	37,448
Restricted	167,751,526	150,659,767	149,585,369
Total net position	<u>169,997,952</u>	<u>152,771,445</u>	<u>151,847,312</u>
Total liabilities and net position	<u>\$ 181,088,516</u>	<u>163,720,032</u>	<u>161,580,308</u>

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating revenues:			
Donations and pledges, net	\$ 21,129,198	17,299,760	17,988,073
Direct support from the University of New Mexico	3,659,715	1,860,870	1,963,680
Development funding allocation – Consolidated Investment Fund	2,804,303	3,349,449	3,325,390
Nongift revenue	<u>731,996</u>	<u>894,259</u>	<u>691,138</u>
Total operating revenues	<u>28,325,212</u>	<u>23,404,338</u>	<u>23,968,281</u>
Operating expenses:			
Distributions to UNM	27,897,237	25,336,191	53,903,667
General and administrative	<u>10,128,821</u>	<u>9,280,165</u>	<u>9,517,512</u>
Total operating expenses	<u>38,026,058</u>	<u>34,616,356</u>	<u>63,421,179</u>
Operating loss	(9,700,846)	(11,212,018)	(39,452,898)
Investment income, net	<u>17,383,587</u>	<u>1,612,231</u>	<u>24,056,008</u>
Income (loss) before changes in term and permanent endowments	7,682,741	(9,599,787)	(15,396,890)
Changes in term and permanent endowments	<u>9,543,766</u>	<u>10,523,920</u>	<u>15,021,730</u>
Increase (decrease) in net position	17,226,507	924,133	(375,160)
Net position, beginning of year	<u>152,771,445</u>	<u>151,847,312</u>	<u>152,222,472</u>
Net position, end of year	<u>\$ 169,997,952</u>	<u>152,771,445</u>	<u>151,847,312</u>

Financial Analysis

- At June 30, 2013, the Foundation's total assets were \$181.1 million, which represents an increase of 10.6% over June 30, 2012 total assets of \$163.7 million. At June 30, 2012, the Foundation's total assets were \$163.7 million, which represents an increase of 1.3% over June 30, 2011 total assets of \$161.6 million.
- Net position increased to \$170.0 million at June 30, 2013, an increase of \$17.2 million, or 11.3%, over the net position of \$152.8 million at June 30, 2012. Net position increased to \$152.8 million at June 30, 2012, an increase of \$924 thousand, or 0.6%, over the net position of \$151.8 million at June 30, 2011.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

- The increases in total assets and net position during the years ended June 30, 2013 and 2012 were due to investment income and donations to endowment funds in excess of distributions from endowments.
- The market value of the Consolidated Investment Fund (CIF) at June 30, 2013 was \$358.4 million, an increase of \$28.9 million from the June 30, 2012 market value of \$329.5 million. Realized gains for the entire CIF were \$10.2 million and unrealized gains were \$21.6 million during the year ended June 30, 2013. The market value of the CIF at June 30, 2012 was \$329.5 million, a decrease of \$6.5 million from the June 30, 2011 market value of \$336.0 million. The fair value and ownership units of the CIF as of June 30, 2013, 2012, and 2011 are as follows:

Consolidated Investment Fund			
	2013	2012	2011
Fair value (in millions):			
Foundation	\$ 162.2	144.9	143.4
University of New Mexico	196.2	184.6	192.6
Total fair value of CIF	<u>\$ 358.4</u>	<u>329.5</u>	<u>336.0</u>
Units:			
Foundation	579,131	576,030	572,831
University of New Mexico	700,367	733,737	769,344
Total units of CIF	<u>1,279,498</u>	<u>1,309,767</u>	<u>1,342,175</u>

- Additions to endowment principal for the CIF, during the year ended June 30, 2013, were \$13.5 million; an increase of \$1.1 million from the prior year. Additions to endowment principal for the CIF, during the year ended June 30, 2012, were \$12.4 million; a decrease of \$7.5 million from the year ended June 30, 2011.
- CIF investment performance showed a net rate of return in the current year of 11.3% compared with the 1.1% and the 19.0% net rate of return earned during the fiscal years ended June 30, 2012 and 2011, respectively.
- During the year ended June 30, 2013, the CIF had a return of 11.3%, outperforming the CIF long-term policy index return of 10.6%. Domestic equities returned 19.2%, international equities returned 17.4%, fixed income returned 0.1%, real assets returned 9.8%, private equities returned 4.8%, and marketable alternatives returned 13.3%.
- During the year ended June 30, 2012, the CIF had a return of 1.1%, outperforming the CIF long-term policy index return of negative 0.7%. Domestic equities returned 3.2%, international equities returned negative 11.4%, fixed income returned 9.5%, real assets returned negative 3.4%, private equities returned 10.6%, and marketable alternatives returned 1.9%.
- Approximately 90% of the Foundation's assets are held as endowments in the CIF as of June 30, 2013, compared to 89% at June 30, 2012 and 2011.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

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Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

- The approved spending distribution from the CIF to UNM departments was \$13.5 million during fiscal year 2013, a decrease of \$500 thousand from the approved distribution of \$14.0 million in the year ended June 30, 2012, primarily due to a decrease in trailing twenty-quarter average market value per unit of the CIF. Of this year's distribution, \$6.1 million was distributed from Foundation endowments and \$7.4 million was distributed from UNM endowments. The spending distribution for the year ended June 30, 2012 of \$14.0 million decreased by \$0.9 million from the fiscal year ended June 30, 2011, approved distribution of \$14.9 million, due to a decrease in the spending rate to 4.5% during the fiscal year ended June 30, 2012. The spending rate was reduced as a result of a reduction in the expected rate of return for the CIF asset allocation.
- Total liabilities at June 30, 2013 were \$11.1 million, an increase of \$200 thousand over June 30, 2012 total liabilities of \$10.9 million. The increase was primarily due to an increase in deferred revenue related to the data and records upgrade project. Total liabilities at June 30, 2012 were \$10.9 million, an increase of \$1.2 million over June 30, 2011 total liabilities of \$9.7 million. The increase was primarily due to an increase in amounts due to the CIF. Endowment gifts are received and transferred to the CIF in the month following the month of receipt.
- Total operating revenue was \$28.3 million for the fiscal year ended June 30, 2013, an increase of \$4.9 million, or 21%, from the previous year total of \$23.4 million, primarily due to an increase in nonendowed gifts. Total operating revenue was \$23.4 million for the fiscal year ended June 30, 2012, a decrease of \$600 thousand, or 2.4%, from the previous year total of \$24.0 million primarily due to a decrease in nonendowed gifts.
- Changes in term and permanent endowments totaled \$9.5 million during the year ended June 30, 2013; a decrease of \$1.0 million, or 9.0%, from the previous year total of \$10.5 million, primarily due to a decrease in donations to permanent endowments. Changes in term and permanent endowments during the year ended June 30, 2012 decreased \$4.5 million from the year 2011 total of \$15.0 million.
- Distributions to UNM in the form of endowed spending distributions and nonendowed expenditures were \$27.9 million for the year ended June 30, 2013, which increased from \$25.3 million for the year ended June 30, 2012, due to an increase of nonendowed gifts transferred to the UNM.
- Investment income, which includes interest, dividends, gains, or losses, net of fees, was \$17.4 million for the year ended June 30, 2013; an increase of \$15.8 million over the year ended June 30, 2012. The increase was the result of an increase in the rate of return for the CIF from 1.1% in the year ended June 30, 2012 to 11.3% in the year ended June 30, 2013. Investment income was \$1.6 million for the year ended June 30, 2012; a decrease of \$22.4 million over the year ended June 30, 2011.
- The primary funding sources for the Foundation's operating costs in the year ended June 30, 2012 were support from UNM (37.0%), short-term interest earned on unexpended nonendowed and endowed spending balances (5.1%), unrestricted gifts (1.4%), and a development fund allocation (56.5%) based on the market value of the CIF. The development funding allocation was 1.85% in the fiscal years ended June 30, 2013, 2012, and 2011.
- Direct support from UNM increased to \$3.7 million in the year ended June 30, 2013, a 95% increase from the \$1.9 million of direct support received in the year ended June 30, 2012. In 2012, direct support from UNM decreased 5.2% from the \$2.0 million of direct support received in the year ended June 30, 2011.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2013 and 2012

- General and administrative expenses for the operating account group totaled \$9.8 million, \$9.1 million, and \$9.5 million for the years ended June 30, 2013, 2012, and 2011, respectively. The Foundation's budgeted operating general and administrative expenses totaled \$9.9 million, \$9.4 million, and \$10.0 million for the years ended June 30, 2013, 2012, and 2011, respectively. Operating general and administrative expenses were 1.4% under-budget for the year ended June 30, 2013 and 2.8% under-budget for the year ended June 30, 2012.

Factors Impacting Future Periods

The continued uncertainty of the economy and its effect on donor contributions could have a significant impact on the Foundation.

UNM made a two-year operating budget commitment with regard to funding the Foundation in fiscal years 2013 and 2014. In fiscal year 2014, UNM will increase its support of the Foundation by approximately \$2.4 million in order to reduce the support from the fee charged to the CIF (development funding allocation) from 1.85% to 1.4%, a decrease of \$1.3 in revenue, and enable the Foundation to hire additional fundraising staff, a projected increase of \$1.1 million in payroll expenses. UNM has not made an operating budget commitment with regard to funding the Foundation beyond fiscal year 2014.

Contacting the Foundation's Financial Management

If you have questions about this report or need additional financial information, please contact the UNM Foundation's Chief Financial Officer, Rodney Harder, or the Foundation's Controller, Kenny Stansbury, at Two Woodward Center, 700 Lomas Boulevard NE, Suite 203, Albuquerque, New Mexico 87131 or (505) 277-4503.

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

Balance Sheets

June 30, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents – unrestricted	\$ 3,450,576	2,737,055
Cash and cash equivalents – restricted	3,618,286	3,787,845
Pledges receivable, net of allowance	638,310	435,187
Other current assets	106,576	264,213
Total current assets	<u>7,813,748</u>	<u>7,224,300</u>
Noncurrent assets, restricted:		
Investments held in Consolidated Investment Fund	162,220,160	144,930,931
Investments held by the University of New Mexico Foundation, Inc.	7,538,291	7,395,480
Pledges receivable, net of discounts	1,765,788	2,224,965
Real estate	1,605,194	1,812,879
Capital assets, net	137,335	123,477
Other noncurrent assets	8,000	8,000
Total noncurrent assets	<u>173,274,768</u>	<u>156,495,732</u>
Total assets	<u>\$ 181,088,516</u>	<u>163,720,032</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 152,099	130,089
Accrued payroll	819,035	769,731
Current portion of deferred annuities payable	386,043	364,033
Deferred revenue	477,987	90,169
Due to the Consolidated Investment Fund	1,583,718	1,384,256
Due to the University of New Mexico	2,770,079	2,218,117
Total current liabilities	<u>6,188,961</u>	<u>4,956,395</u>
Noncurrent liabilities:		
Deferred annuities payable	3,190,992	2,986,551
Due to the University of New Mexico	1,710,611	3,005,641
Total noncurrent liabilities	<u>4,901,603</u>	<u>5,992,192</u>
Total liabilities	<u>11,090,564</u>	<u>10,948,587</u>
Net position:		
Unrestricted	2,109,091	1,988,201
Invested in capital assets	137,335	123,477
Restricted, expendable	17,916,757	15,696,708
Restricted, nonexpendable	149,834,769	134,963,059
Total net position	<u>169,997,952</u>	<u>152,771,445</u>
Total liabilities and net position	<u>\$ 181,088,516</u>	<u>163,720,032</u>

See accompanying 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 Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues:		
Donations and pledges, net of provision (recovery) for allowance and discounts of \$(93,249) and \$646,910 for the years ended June 30, 2013 and 2012, respectively	\$ 21,129,198	17,299,760
Direct support from the University of New Mexico	3,659,715	1,860,870
Development funding allocation – Consolidated Investment Fund	2,804,303	3,349,449
Nongift revenue	731,996	894,259
Total operating revenues	28,325,212	23,404,338
Operating expenses:		
Distributions to the University of New Mexico	27,897,237	25,336,191
General and administrative expenses	10,128,821	9,280,165
Total operating expenses	38,026,058	34,616,356
Operating loss	(9,700,846)	(11,212,018)
Nonoperating revenue:		
Investment income, net	17,383,587	1,612,231
Income (loss) before changes in term and permanent endowments	7,682,741	(9,599,787)
Changes in term and permanent endowments:		
Donations	9,018,956	9,800,497
Institutional transfers to Consolidated Investment Fund	874,341	1,689,931
Nongift revenue	36,163	55,734
Adjustment of actuarial liability for annuities payable	7,951	(588,542)
Expenditure for payments to annuitants and beneficiaries	(393,645)	(433,700)
Total changes in term and permanent endowments	9,543,766	10,523,920
Increase in net position	17,226,507	924,133
Net position, beginning of year	152,771,445	151,847,312
Net position, end of year	\$ 169,997,952	152,771,445

See accompanying 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, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from donors and other sources	\$ 20,688,042	15,187,453
Cash received from the University of New Mexico	4,205,170	1,942,585
Cash received from the Consolidated Investment Fund	2,804,303	3,349,449
Cash paid to employees	(7,560,909)	(6,036,605)
Cash paid to vendors	(2,469,492)	(3,285,525)
Distributions to the University of New Mexico	(28,640,305)	(25,750,471)
Net cash flows from operating activities	(10,973,191)	(14,593,114)
Cash flows from noncapital financing activities:		
Donations and pledges	6,700,522	6,935,012
Institutional transfers to Consolidated Investment Fund	874,341	1,689,931
Payments to annuitants and beneficiaries	(159,243)	(424,809)
Net cash flows from noncapital financing activities	7,415,620	8,200,134
Cash flows from capital and related financing activity:		
Purchases of capital assets	(40,964)	(93,873)
Net cash flows from capital and related financing activity	(40,964)	(93,873)
Cash flows from investing activities:		
Proceeds from sale of investments	15,574,394	17,578,311
Purchases of investments	(12,199,801)	(12,843,103)
Interest and dividends received	767,904	2,856,597
Net cash flows from investing activities	4,142,497	7,591,805
Net increase in cash and cash equivalents	543,962	1,104,952
Cash and cash equivalents, beginning of year	6,524,900	5,419,948
Cash and cash equivalents, end of year	\$ 7,068,862	6,524,900
Cash and cash equivalents, unrestricted	\$ 3,450,576	2,737,055
Cash and cash equivalents, restricted	3,618,286	3,787,845
Total	\$ 7,068,862	6,524,900

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

Statements of Cash Flows

Years ended June 30, 2013 and 2012

	2013	2012
Reconciliation of operating income to net cash from operating activities:		
Operating loss	\$ (9,700,846)	(11,212,018)
Adjustments to reconcile operating income to net cash flows from operating activities:		
Depreciation expense	27,106	7,844
Donations of investments	(1,429,206)	(3,015,243)
Changes in assets and liabilities:		
Due to the University of New Mexico	(743,068)	(414,280)
Other current assets	157,637	51,692
Pledges receivable	256,054	8,677
Accounts payable	22,010	(152,058)
Accrued payroll	49,304	50,557
Deferred revenue	387,818	81,715
Total adjustments	(1,272,345)	(3,381,096)
Net cash from operating activities	\$ (10,973,191)	(14,593,114)
Supplemental disclosures of noncash investing, noncapital, and financing activities:		
Change in fair value of investments	\$ 9,711,799	(4,248,993)
Donations of investments to permanent endowments	2,354,597	2,577,526
Donations of real estate to permanent endowments	—	589,975

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2013 and 2012

(1) Nature of Business

The University of New Mexico Foundation, Inc. (the Foundation) was organized on May 3, 1979, as a New Mexico not-for-profit corporation to solicit, receive, distribute, and manage private gifts and donations given for the benefit of the University of New Mexico (UNM or University). By managing funds, identifying and developing new sources of private support, encouraging the adoption of common goals, and nurturing cooperation toward meeting those goals, the Foundation allows UNM to focus more clearly on its mission to engage in comprehensive educational, research, and service programs.

In accordance with the amended Memorandum of Agreement (Memorandum) between the Foundation and the Regents of the University of New Mexico, dated September 25, 2012, UNM will continue to provide the Foundation sufficient administrative support to allow the Foundation to conduct its business and fulfill its responsibilities to the University. 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, including investment oversight responsibilities associated with UNM's ownership of Consolidated Investment Fund (CIF) endowments. The Foundation has no component units.

The Memorandum further stipulates that the expenditure of gift funds and income on gift funds for the benefit of any unit of the University or affiliated organization will be disbursed through the University's general ledger system, unless specifically approved by the University President or his/her designee, and that the Foundation will provide the University appropriate documentation regarding any donor-imposed gift restrictions to assist the University in following these donor directives. The University is responsible for monitoring all disbursements through the University's general ledger system from both nonendowed gift accounts and endowed spending accounts to ensure that any and all donor-imposed restrictions are maintained.

(2) Summary of Significant Accounting Policies

(a) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

As a component unit of UNM, the Foundation presents its financial statements in accordance with U.S. generally accepted accounting standards as established by the Governmental Accounting Standards Board (GASB).

As required by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, the Foundation is a component unit of UNM. The Foundation applies business-type activity accounting and the Foundation's basic financial statements are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred.

In fiscal year 2013, the Foundation adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), which establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual

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amount of the other elements). GASB No. 63 requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Foundation's financial statements was the renaming of "Net Assets" to "Net Position," including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position."

The significant accounting policies utilized by the Foundation in the preparation of the financial statements are described below.

(b) *Cash and Cash Equivalents*

Cash and cash equivalents include cash on deposit at financial institutions and do not include Foundation investments held by the CIF.

Restricted cash and cash equivalents are donor restricted to use for a particular UNM program or purpose.

(c) *Investments and Real Estate*

Investments and real estate are generally reported at fair value. Short-term investments are carried at cost, which approximates fair value. All real estate reflected in the accompanying balance sheets was contributed to the Foundation. When real estate is received, it is recorded at fair value at the date of the gift less an estimated reserve for selling costs. Periodic appraisals and market analyses are performed to determine the appropriateness of fair value.

The basis of determining the fair value of investments is the readily determinable sales price or current exchange rate of the investments based on prices or quotations from over-the-counter markets. In the case of pooled funds or mutual funds, the fair value is determined as the number of units held in the fund multiplied by the price per unit share as publicly quoted. As the CIF is not publically quoted, the value is based on the total estimated value of the underlying investments within the CIF. Within the CIF, the alternative investments are valued as reported by the general partners and fund managers. Management reviews and evaluates the valuation received from third parties and believes the carrying amount to be a reasonable estimate of fair value. As limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

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 restrictions limiting the Foundation's ability to use these investments.

Donated Investments – It is the Foundation's policy to liquidate donated investments as soon as possible following receipt.

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(d) Due to the Consolidated Investment Fund

Amounts due to the CIF represent funds transferred from the University to be invested in the endowment and held temporarily by the Foundation. The funds are transferred to the CIF on a monthly basis.

(e) Due to the University of New Mexico and Distributions to UNM

The current amount due to UNM represents nonendowed, restricted cash held by the Foundation expected to be distributed to UNM within the next fiscal year.

The noncurrent amount due to UNM represents nonendowed assets held by the Foundation, primarily cash and pledges receivable, which are expected to be distributed to UNM after the next fiscal year. Generally, the noncurrent cash due to UNM is restricted by donors as to the time period in which they may be transferred to UNM.

(f) Deferred Annuities Payable

Deferred annuities payable represents the 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 Foundation uses annuity rates, including the discount and remainder factors, based on the American Council on Gift Annuities guidelines to establish the estimated liability. Significant factors of the estimate include the donor's age, amount of donation, and the discount rate, and are updated annually to adjust the liability.

(g) Net Position

To ensure observance of limitations and restrictions placed on the use of reserves available to the Foundation, net positions are classified as follows, based on the existence or absence of donor-imposed restrictions:

Unrestricted net position – resources that are not subject to donor imposed. The Board of Trustees designates a portion of this net position as nonexpendable reserves for annuities payable.

Invested in capital assets – represents the Foundation's total investment in capital assets, net of accumulated depreciation.

Restricted net position – resources that, because of donor-imposed restrictions, must be used for a specified purpose, generally UNM programs, or maintained for a specified time period.

- *Restricted, expendable* – resources that are contributions designed by donors for use by particular entities or programs or for specific purposes or functions of UNM. Resources include contributions with donor-imposed time restrictions for spending or transferring the funds to UNM. These funds also include quasi-endowments, of which the corpus can be invaded. Investment income on endowment investments are classified as restricted, expendable net position unless otherwise specified by the donor.

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- Restricted, nonexpendable – resources that are permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing income and appreciation that may be expended or added to the principal in accordance with the donor’s wishes.

When both restricted and unrestricted funds are available, the Foundation expends restricted funds first in accordance with donor-imposed restrictions. The expenditure of unrestricted funds requires approval by the Board of Trustees.

(h) Classification of Revenues and Expenses

Operating income reported in the financial statements includes revenues and expenses related to the primary, continuing operations of the Foundation. Principal operating revenues include nonendowed donations and pledges, direct support from the University, and the development funding allocation received from the CIF. Principal operating expenses include distributions to the University and general and administrative expenses.

Nonoperating revenues include investment income. Changes in term and permanent endowments include contributions to permanent endowments and annuities, actuarial adjustments to annuities payable, and payments to annuitants. Changes in term and permanent endowments also include institutional transfers to CIF.

(i) Revenue Recognition

Donations – The Foundation recognizes revenue on donations when all applicable eligibility requirements are met. Donations to true endowments or term endowments, as defined in note 6, are reported as changes to term and permanent endowments.

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. 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.

Nongift – Includes the dollar value of any benefit provided to a donor making a charitable contribution.

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. These contributions are reported as donations and pledges, net in the accompanying statements of revenues, expenses, and changes in net position.

Direct support from UNM – The University provides support to the Foundation to fund administrative and fundraising activities, while the Foundation provides the University with investment management services and fundraising activities, and facilitates funding of scholarships, faculty, and program support through the endowment spending distribution.

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Development funding allocation – Consolidated Investment Fund – A percentage of the market value of the CIF is allocated, annually, to the Foundation for general support of its operations. The allocation is used by the Foundation to cover the employment of its staff and other operating costs. The percentage was 1.85% for fiscal years 2013 and 2012. The allocation does not provide support for third-party investment consultant fees, custodial fees, and investment manager fees. These costs are assigned directly to the CIF.

Investment income – Investment income includes interest, dividends, unrealized gains or losses, and realized gains or losses. Investment interest and dividends are recognized when earned. Changes in the estimated fair value of investments are reported as unrealized gains and losses. Realized gains and losses are recognized as the difference between the sales proceeds and amortized costs when realized (sold), calculated independently of the unrealized loss.

(j) Institutional Transfers to CIF

Institutional transfers to CIF represent transfers of nonendowed and endowed spending funds from the University to the CIF.

(k) 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) of the IRC. Furthermore, as a publicly supported organization it is classified as a public charity and not a private foundation under IRC Section 509(a)(1). The Foundation had no material unrelated business income; therefore, no provision for income taxes is included in the financial statements.

As of June 30, 2013, the Foundation has a net operating loss carryforward of approximately \$2.6 million, as a result of cumulative losses from underlying partnership investments within the CIF. The deferred tax asset associated with this loss carryforward of approximately \$910,000 is not recognized on the accompanying balance sheets due to the uncertainty of future income that would be necessary to realize the benefit.

(l) 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.

(m) Reclassification

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

(3) Cash and Cash Equivalents

The Foundation has a carrying value of \$337,587 and \$8,154 on deposit in pooled accounts with UNM at June 30, 2013 and 2012, respectively. The UNM deposits are held in demand and time accounts at local

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financial institutions and in a U.S. Treasury note portfolio managed by Smith Barney Citigroup. 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.

Risk disclosure information relating to the cash and cash equivalents held at UNM 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, New Mexico 87131.

The Foundation also holds cash outside of the University. These cash balances, including deposits in transit, had a carrying value of \$6,731,275 and \$6,516,746 at June 30, 2013 and 2012, respectively.

The Foundation's operating accounts (Operating and Development) at Wells Fargo had deposits totaling \$4,538,493 and \$4,030,675 at June 30, 2013 and 2012, respectively. These amounts are invested in overnight sweep accounts and are collateralized at 102% of the invested balance. At June 30, 2013 and 2012, these funds were collateralized by government backed securities held in the Foundation's name. Below is a summary of the collateralized accounts:

	<u>2013</u>	<u>2012</u>
Wells Fargo operating account balance	\$ 2,123,904	1,279,638
Wells Fargo development account balance	2,414,589	2,751,037
	<u>\$ 4,538,493</u>	<u>4,030,675</u>
FDIC insurance	\$ 250,000	865,364
Collateralization:		
<u>CUSIP</u>	<u>Maturity Date</u>	<u>Type of Security</u>
31418VX98	7/1/2040	FN-30
3138W32F9	3/1/2043	FN-30
31292K5Q6	11/1/2040	FHG-3
3138AALE9	4/1/2031	FN-30
	Total collateralization	\$
	<u>3,837,737</u>	<u>3,228,618</u>
Uninsured and under collateralized balance	\$ 450,756	—

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A detail of the cash accounts at June 30, 2013 is included below:

<u>Name of depository</u>	<u>Account name</u>	<u>Account type</u>	<u>Bank balance</u>	<u>Reconciling items</u>	<u>Reconciled balance</u>
University of New Mexico	Operating	Cash	\$ 337,587	—	337,587
Wells Fargo	Operating	Cash	2,123,904	(53,329)	2,070,575
Wells Fargo	Development	Cash	2,414,589	268,453	2,683,042
Southwest Securities	Charitable Trust Fund	Money Market	25,138	—	25,138
Bank of America	Scholarship Trust	Money Market	17,098	(1)	17,097
Bank of America	Scholarship Fund	Money Market	69,591	(3)	69,588
Wells Fargo	Charitable Trust Fund	Money Market	68,518	—	68,518
Morgan Stanley Smith Barney	UNM Foundation Inc.	Money Market	338,213	—	338,213
UBS Financial Services	Endowed Chair	Money Market	89,812	—	89,812
UBS Financial Services	Endowed Professorship	Money Market	73,753	—	73,753
Vanguard Investments	Operating	Money Market	1,295,539	—	1,295,539
			<u>\$ 6,853,742</u>	<u>215,120</u>	<u>7,068,862</u>

A detail of the cash accounts at June 30, 2012 is included below:

<u>Name of depository</u>	<u>Account name</u>	<u>Account type</u>	<u>Bank balance</u>	<u>Reconciling items</u>	<u>Reconciled balance</u>
University of New Mexico	Operating	Cash	\$ 8,154	—	8,154
Wells Fargo	Operating	Cash	1,279,638	(45,041)	1,234,597
Wells Fargo	Development	Cash	2,751,037	492,474	3,243,511
Southwest Securities	Charitable Trust Fund	Money Market	12,406	—	12,406
Bank of America	Scholarship Trust	Money Market	31,492	(7)	31,485
Bank of America	Scholarship Fund	Money Market	11,225	(1)	11,224
Wells Fargo	Charitable Trust Fund	Money Market	55,075	—	55,075
UBS Financial Services	Endowed Chair	Money Market	123,637	—	123,637
UBS Financial Services	Endowed Professorship	Money Market	9,622	—	9,622
Vanguard Investments	Operating	Money Market	1,795,189	—	1,795,189
			<u>\$ 6,077,475</u>	<u>447,425</u>	<u>6,524,900</u>

(4) Investments

Investments reported by the Foundation represent investments contributed to the Foundation that are held outside of the CIF and the Foundation's share of the CIF. Foundation endowment funds are pooled with endowment funds owned by the University in the CIF. The CIF is a unitized investment portfolio, a consolidated internal investment pool of the University.

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Consolidated Investment Fund – 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, 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, New Mexico Statutes Annotated (NMSA) 1978.

At June 30, 2013 and 2012, the Foundation held approximately 95% of its investments in the CIF. Under the terms of an agreement with the UNM Board of Regents, the Foundation provides management oversight for the entire CIF. The Foundation Investment Committee works with an institutional investment consultant to structure the portfolio and hire independent investment managers. The investment managers are then responsible for specific asset categories and management styles.

Investments in the CIF are diversified with the intention of minimizing the risk of large investment losses. Consequently, the one-year target portfolio allocations are 20% domestic equity, 20% international equities, 18% fixed income, 2% cash, 5% liquid real assets, 5% illiquid real assets, 10% private equity, and 20% marketable alternative investments.

The long-term target portfolio allocations are 27.5% domestic equity, 27.5% international equities, 18% fixed income, 2% cash, 5% liquid real assets, and 20% marketable alternative investments.

The fair value and ownership units of the CIF as of June 30 are as follows:

	Consolidated Investment Fund			
	<u>2013</u>	<u>Percentage</u>	<u>2012</u>	<u>Percentage</u>
Fair value (in millions):				
Foundation	\$ 162.2	45%	\$ 144.9	44%
University of New Mexico	<u>196.2</u>	55	<u>184.6</u>	56
Total fair value of CIF	<u>\$ 358.4</u>		<u>\$ 329.5</u>	
Units:				
Foundation	579,131	45%	576,030	44%
University of New Mexico	<u>700,367</u>	55	<u>733,737</u>	56
Total units of CIF	<u>1,279,498</u>		<u>1,309,767</u>	

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The investments held in the CIF, by type, comprise the following at June 30:

	<u>2013</u>	<u>Percentage</u>	<u>2012</u>	<u>Percentage</u>
Money market	\$ 820,767	—%	1,687,791	—%
Exchange traded funds	5,978,687	4	6,599,814	5
Mutual funds, equity	67,486,577	42	56,751,248	39
Mutual funds, fixed	26,479,361	16	27,748,533	19
Illiquid real assets	10,925,881	7	9,401,020	6
Private equity	18,645,071	11	17,911,862	12
Marketable alternatives	<u>31,883,816</u>	20	<u>24,830,663</u>	17
Total investments held in CIF	<u>\$ 162,220,160</u>		<u>144,930,931</u>	

At June 30, 2013 and 2012, the Foundation had commitments for future contributions to private equity investments totaling \$10,099,332 and \$14,105,665, respectively.

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Investments Held by the Foundation – A detail of the investment accounts at June 30 is as follows:

<u>Depository/account name</u>	<u>Account type</u>	<u>2013</u>	<u>2012</u>
Bank of America:			
Scholarship Fund	Mutual funds, fixed	\$ 143,495	12,226
Scholarship Fund	Mutual funds, equity	464,064	—
Scholarship Trust	Mutual funds, fixed	241,524	697,459
Scholarship Trust	Mutual funds, equity	682,055	554,426
Scholarship Trust	Real estate	64,623	—
Scholarship Trust	Domestic corporate bonds	—	360,354
	Other	123,020	—
Wells Fargo:			
Charitable Trust Fund	U.S. Agency bonds	—	57,594
Charitable Trust Fund	Domestic corporate bonds	—	181,192
Charitable Trust Fund	Mutual funds, fixed	339,628	301,418
Charitable Trust Fund	Mutual funds, equity	1,031,344	849,145
Charitable Trust Fund	Real estate	226,710	212,557
Charitable Trust Fund	Other	230,768	147,197
UBS Financial Services:			
Endowed Chair	Municipal bonds	3,078,702	3,106,306
	Certificates of deposit	29,955	—
Endowed Professorship	Municipal bonds	348,259	438,095
	Certificates of deposit	19,968	—
SWS Financial Services:			
Charitable Trust Fund	Mutual funds, fixed	223,155	221,275
Charitable Trust Fund	Mutual funds, equity	102,170	106,250
Charitable Trust Fund	Domestic corporate stock	188,851	149,986
		<u>\$ 7,538,291</u>	<u>7,395,480</u>

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, 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 custodial credit risk.

At June 30, 2013, the Foundation did not have a policy to limit its exposure to custodial credit risk; however, as of June 30, 2013 and 2012, the investments that were subject to custodial credit risk were 2.1% and 2.6% of total investments at June 30, 2013 and 2012, respectively.

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The investments held in the CIF are not subject to custodial credit risk. A summary of the investments held by the Foundation and the exposure to custodial credit risk at June 30 is as follows:

	2013	2012
Custodial credit risk:		
U.S. government agency securities	\$ —	26,592
Municipal bonds	3,426,961	3,544,400
Domestic corporate bonds	—	181,192
Domestic corporate stock	188,851	149,986
Total securities held by custodians	\$ 3,615,812	3,902,170
Investments not subject to custodial credit risk:		
Certificates of deposit	\$ 49,923	—
Mutual funds	3,227,435	3,102,554
Real estate	291,333	212,557
Other	353,788	178,199
Total investments held by the Foundation	7,538,291	7,395,480
Investments held in CIF – not subject to custodial credit risk	162,220,160	144,930,931
Total investments	\$ 169,758,451	152,326,411

Concentration of Credit Risk – 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 represent 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.

At June 30, 2013, the Foundation did not have a policy to limit its exposure to concentrated credit risk; however, as of June 30, 2013 and 2012, the Foundation did not have any investments in one issuer that represented more than 5% of total investments.

Interest Rate Risk – 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.

The Foundation Investment Committee manages credit risk and interest rate risk with the assistance of third-party investment advisors.

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A summary of the investments and the respective maturities at June 30, 2013 and 2012 and the exposure to interest rate risk is as follows:

		2013 Investment maturities				
		Fair value	Less than one year	1 – 5 years	6 – 10 years	More than 10 years
At interest rate risk:						
Municipal bonds	\$	3,426,961	75,969	635,868	888,762	1,826,362
Not subject to interest rate risk:						
Certificates of deposit		49,923				
Domestic corporate stock		188,851				
Mutual funds		3,227,435				
Real estate		291,333				
Other		353,788				
Investments held in CIF		162,220,160				
Total investments	\$	169,758,451				

		2012 Investment maturities				
		Fair value	Less than one year	1 – 5 years	6 – 10 years	More than 10 years
At interest rate risk:						
U.S. agency bonds	\$	26,592	—	26,592	—	—
Municipal bonds		3,544,400	30,083	345,133	932,512	2,236,672
Domestic corporate bonds		181,192	101,287	79,905	—	—
		3,752,184	131,370	451,630	932,512	2,236,672
Not subject to interest rate risk:						
Domestic corporate stock		149,986				
Mutual funds		3,102,554				
Real estate		212,557				
Other		178,199				
Investments held in CIF		144,930,931				
Total investments	\$	152,326,411				

Credit Risk – 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.

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A summary of the Foundation's investments at June 30, 2013 and 2012 that are subject to credit risk is as follows:

June 30, 2013					
Credit rating (Moody's)	U.S. agency	Municipal	Domestic corporate	Total	Percentage of bond portfolio
Aaa	\$ —	698,374	—	698,374	20.4%
Aa1	—	437,760	—	437,760	12.8%
Aa2	—	1,467,550	—	1,467,550	42.9%
Aa3	—	527,801	—	527,801	15.4%
A2	—	86,063	—	86,063	2.5%
A3	—	25,327	—	25,327	0.7%
Baa1	—	11,638	—	11,638	0.3%
Not rated	—	172,448	—	172,448	5.0%
Total	\$ —	3,426,961	—	3,426,961	100.0%

June 30, 2012					
Credit rating (Moody's)	U.S. agency	Municipal	Domestic corporate	Total	Percentage of bond portfolio
Aaa	\$ 26,592	743,077	—	769,669	20.5%
Aa1	—	427,187	53,658	480,845	12.8
Aa2	—	1,469,082	—	1,469,082	39.2
Aa3	—	618,446	—	618,446	16.5
A1	—	160,960	26,247	187,207	5.0
A3	—	25,830	50,987	76,817	2.0
Baa2	—	11,998	50,300	62,298	1.7
Not rated	—	87,820	—	87,820	2.3
Total	\$ 26,592	3,544,400	181,192	3,752,184	100.0%

Foreign Currency Risk – None of the investments are subject to foreign currency risk.

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Real Estate

The Foundation also has investments in real estate. The real estate activity for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Real estate, values as of date of original receipt:		
Beginning balance	\$ 2,612,501	2,419,526
New donations received	—	589,975
Sales	<u>(309,975)</u>	<u>(397,000)</u>
Balance at June 30	<u>2,302,526</u>	<u>2,612,501</u>
Fair value adjustments:		
Prior year balance	(799,622)	(673,701)
Change in fair value	<u>102,290</u>	<u>(125,921)</u>
Fair value adjustment, net	<u>(697,332)</u>	<u>(799,622)</u>
Real estate, at fair value as of June 30	<u>\$ 1,605,194</u>	<u>1,812,879</u>

All Investments – Investment Income

During the years ended June 30, 2013 and 2012, the Foundation recognized realized and unrealized gains (losses) on investments held as outlined below:

	<u>CIF</u>	<u>Foundation</u>	<u>Real estate</u>	<u>Short-term investments</u>	<u>Total</u>
2013:					
Realized gains (losses)	\$ 4,579,167	94,738	(19,183)	—	4,654,722
Unrealized gains	9,595,021	14,488	102,290	—	9,711,799
Other investment income	<u>2,251,855</u>	<u>261,562</u>	<u>—</u>	<u>503,649</u>	<u>3,017,066</u>
Total investment income	<u>\$ 16,426,043</u>	<u>370,788</u>	<u>83,107</u>	<u>503,649</u>	<u>17,383,587</u>
2012:					
Realized gains (losses)	\$ 2,986,664	88,882	(272,021)	—	2,803,525
Unrealized (losses) gains	(4,179,508)	56,436	(125,921)	—	(4,248,993)
Other investment income	<u>2,007,793</u>	<u>274,283</u>	<u>—</u>	<u>775,623</u>	<u>3,057,699</u>
Total investment income (loss)	<u>\$ 814,949</u>	<u>419,601</u>	<u>(397,942)</u>	<u>775,623</u>	<u>1,612,231</u>

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

Notes to Financial Statements

June 30, 2013 and 2012

(5) Pledges Receivable

Pledges receivable consisted of the following at June 30, 2013 and 2012:

	2013	2012
Amounts receivable in less than one year	\$ 839,037	1,005,869
Amounts receivable in more than one year	1,943,305	2,343,276
Total pledges receivable	2,782,342	3,349,145
Discounts to net present value	(79,902)	(118,311)
Allowance for doubtful pledges	(298,342)	(570,682)
Pledges receivable, net	\$ 2,404,098	2,660,152
Amounts receivable in less than one year, net	\$ 638,310	435,187

Noncurrent pledges receivable are discounted at the Internal Revenue Service discount rate 1.2% and 1.4% for the years ended June 30, 2013 and 2012, respectively. All pledges are for nonendowed gifts.

(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 at any time.

Quasi-endowments. Quasi-endowment funds are subject to donor restrictions in gift instruments permitting the donation only be used for a specified purpose, generally for UNM programs. These funds are also internally designated by the Board of Trustees for similar purposes as true endowment funds; however, any portion of the principal of quasi-endowment funds may be expended at the discretion of the Board of Trustees at any time.

At June 30, 2013 and 2012, endowments comprised the following:

	2013	2012
True endowment	\$ 149,371,005	134,486,553
Term endowment	461,046	438,147
Quasi-endowment (designated as endowment by the Board of Trustees)	17,455,707	15,258,561
	\$ 167,287,758	150,183,261

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

Notes to Financial Statements

June 30, 2013 and 2012

If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the interest, dividends, and 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 aims to distribute on an annual basis a percentage of the average market value of the CIF, at the calendar year-end, of the previous 20 quarters. The spending distribution shall not exceed 6% nor be less than 4% of the average market value. The endowment spending policy allows for the spending distribution regardless of whether the fair market value of an individual account exceeds its historic gift value, unless otherwise precluded by the donor or by law. This practice is consistent with the Uniform Prudent Management of Institutional Funds Act.

(7) Other Noncurrent Assets

Other noncurrent assets consisted of an art collection with a recorded balance of \$8,000 as of June 30, 2013 and 2012.

(8) Composition of Net Position

Net position consisted of the following at June 30:

	2013	2012
True endowments, nonexpendable	\$ 149,371,005	134,486,553
Annuity gifts, nonexpendable	463,764	476,506
Total nonexpendable	149,834,769	134,963,059
Term endowments, expendable after specified time	461,046	438,147
Quasi-endowments, expendable for specified purpose	17,455,711	15,258,561
Total restricted	167,751,526	150,659,767
Designated reserve for annuities payable	1,000,000	1,000,000
Other unrestricted	1,109,091	988,201
Total unrestricted	2,109,091	1,988,201
Invested in capital assets	137,335	123,477
Total net position	\$ 169,997,952	152,771,445

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

Notes to Financial Statements

June 30, 2013 and 2012

(9) Deferred Annuities Payable

During the years ended June 30, 2013 and 2012, the Foundation had the following deferred annuities payable activity:

	2013	2012
Balance due at beginning of year	\$ 3,350,584	2,753,151
Additions to deferred annuities payable	234,403	8,890
Net change in actuarial liability	(7,952)	588,543
Balance due at end of year	\$ 3,577,035	3,350,584
Amount due in one year	\$ 386,043	364,033

(10) Wills and Bequests

The Foundation has been newly named as a beneficiary in wills and bequests totaling \$17,364,982 and \$9,520,682 during the fiscal years ended June 30, 2013 and 2012, respectively.

(11) Operating Expenses

Operating expenses consisted of the following for the year ended June 30, 2013:

	Operating accounts	General accounts	Endowment accounts	Life income accounts	Total
Staff salaries	\$ 6,336,596	—	—	—	6,336,596
Fringe benefits	939,597	—	—	—	939,597
Professional services	486,595	155,560	3,825	749	646,729
Payroll taxes	334,020	—	—	—	334,020
Computer equipment and software	304,665	—	—	—	304,665
General and administrative	219,294	17,812	48,388	7,197	292,691
Office lease, building	276,089	—	—	—	276,089
Donor relations	220,004	2,748	—	—	222,752
Travel	124,802	1,985	—	239	127,026
Printing, fund-raising, and promotional material	118,942	—	—	—	118,942
Insurance	52,606	55,866	1,989	—	110,461
Dues and subscriptions	76,096	—	—	—	76,096
Audit fees	73,457	—	—	—	73,457
Postage and mailing	71,740	—	32	—	71,772
Furniture, office equipment, and property	12,339	5,751	26,472	22,429	66,991
Professional development	59,071	—	—	—	59,071
Depreciation	27,106	—	—	—	27,106
Meeting expense	24,945	—	—	—	24,945
Property taxes	—	672	10,876	8,267	19,815
	\$ 9,757,964	240,394	91,582	38,881	10,128,821

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

Notes to Financial Statements

June 30, 2013 and 2012

Operating expenses consisted of the following for the year ended June 30, 2012:

	<u>Operating accounts</u>	<u>General accounts</u>	<u>Endowment accounts</u>	<u>Life income accounts</u>	<u>Total</u>
Staff salaries	\$ 6,087,162	—	—	—	6,087,162
Fringe benefits	892,584	—	—	—	892,584
Payroll taxes	398,515	—	—	—	398,515
Office lease, building	301,155	7,925	—	—	309,080
Professional services	276,683	—	3,362	8,081	288,126
Computer equipment and software	241,828	—	—	—	241,828
General and administrative	182,768	—	45,068	8,258	236,094
Donor relations	143,785	—	—	—	143,785
Travel	113,895	—	—	—	113,895
Printing, fund-raising, and promotional material	100,860	—	—	—	100,860
Insurance	38,427	59,142	—	—	97,569
Dues and subscriptions	90,674	—	—	—	90,674
Audit fees	71,792	—	—	—	71,792
Postage and mailing	58,181	—	—	—	58,181
Professional development	56,109	—	—	—	56,109
Furniture, office equipment, and property	11,939	—	5,866	22,220	40,025
Meeting expense	28,908	—	—	—	28,908
Property taxes	2,942	616	10,361	3,215	17,134
Depreciation	7,844	—	—	—	7,844
	<u>\$ 9,106,051</u>	<u>67,683</u>	<u>64,657</u>	<u>41,774</u>	<u>9,280,165</u>

The Foundation leases space in an office building from UNM, under a three-year lease term expiring in fiscal year 2016. Lease expense in fiscal years 2013 and 2012 was \$276,089 and \$301,155, respectively. The minimum lease payment for fiscal years 2014, 2015, and 2016 is \$299,610 per year.

(12) Contingencies

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 years ended June 30, 2013 and 2012.

(13) Pension Plan

Beginning in fiscal year 2009, the Foundation created a defined-contribution 403(b) retirement plan. The plan is available to all full-time employees, beginning with the first day of service. The Foundation administers the plan and contributes the sum of (a) 4% of gross salary for employees who do not contribute to the plan and (b) up to an additional 4% match for employees who do contribute to the plan. The Foundation's contributions to the plan for the years ended June 30, 2013 and 2012 are \$377,744 and \$356,654, respectively.

SUPPLEMENTAL INFORMATION

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

Financial Analysis by Account Groups

June 30, 2013

Operating Account Group

The operating account group is used to account for the operating revenues and expenses of the Foundation.

The net position of the operating account group increase from \$2.1 million at June 30, 2012 to \$2.2 million at June 30, 2013. The increase was primarily the result of lower budgeted use of operating expenses for the year ended June 30, 2013. Investment income in the operating account group totaled \$505 thousand for the year ended June 30, 2013 compared to \$924 thousand for the year ended June 30, 2012. The decrease was primarily due to lower budgeted short-term interest earned on nonendowed and endowed spending balances held at the University.

General Account Group

The general account group is used to account for current or nonendowed gifts that are expendable by UNM for purposes designated by the donor. Interest earned on nonendowed gifts is transferred to the operating account group. As new gifts are received and all applicable eligibility requirements are met, the Foundation recognizes an asset and revenue and also accrues a payable to the University until the gift funds are transferred to UNM.

Distributions from the general account group to the University increased from \$17.1 million for the year ended June 30, 2012 to \$18.0 million for the year ended June 30, 2013, an increase of \$877 thousand. The increase was primarily due to higher gifts received in the general account group for the year ended June 30, 2013.

Endowment Account Group

The endowment account group 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 the spending distribution be allocated for spending, subject to the restrictions imposed by the donor in the gift instrument. The spending distribution shall not exceed 6% nor be less than 4% of the average market value. The endowment spending policy allows for the spending distribution regardless of whether the fair market value of an individual account exceeds its historic gift value, unless otherwise precluded by the donor or by law. This practice is consistent with the Uniform Prudent Management of Institutional Funds Act.

The net position of the endowment account group increased from \$150.2 million at June 30, 2012 to \$167.3 million at June 30, 2013, an increase of \$17.1 million, or 11%. The majority of this increase is due to gifts and net investment income in the CIF.

Life Income Account Group

The life income account group 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 during their lifetime. 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 account group assets is invested with endowment account group assets in the CIF and as a result, exhibits similar return characteristics.

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

Balance Sheet by Account Group

June 30, 2013

Assets	Operating account group	General account group	Endowment and quasi- endowment account group	Life income account group	Combined total
Current assets:					
Cash and cash equivalents – unrestricted	\$ 3,450,576	—	—	—	3,450,576
Cash and cash equivalents – restricted	—	2,050,354	1,911,437	(343,505)	3,618,286
Pledges receivable – restricted	—	638,310	—	—	638,310
Other current assets	80,111	—	27,873	(1,408)	106,576
Total current assets	<u>3,530,687</u>	<u>2,688,664</u>	<u>1,939,310</u>	<u>(344,913)</u>	<u>7,813,748</u>
Noncurrent assets:					
Investments held in Consolidated Investment Fund – restricted	—	—	159,629,204	2,590,956	162,220,160
Investments held by the University of the New Mexico Foundation, Inc.	—	1	7,024,114	514,176	7,538,291
Pledges receivable – restricted	—	1,765,788	—	—	1,765,788
Real estate – restricted	—	45,550	282,176	1,277,468	1,605,194
Capital assets, net	137,335	—	—	—	137,335
Other noncurrent assets – restricted	—	—	8,000	—	8,000
Total noncurrent assets	<u>137,335</u>	<u>1,811,339</u>	<u>166,943,494</u>	<u>4,382,600</u>	<u>173,274,768</u>
Total assets	<u>\$ 3,668,022</u>	<u>4,500,003</u>	<u>168,882,804</u>	<u>4,037,687</u>	<u>181,088,516</u>
Liabilities and Net Position					
Current liabilities:					
Accounts payable	\$ 124,574	19,313	5,187	3,025	152,099
Accrued payroll	819,035	—	—	—	819,035
Deferred annuities payable	—	—	—	386,043	386,043
Deferred revenue	477,987	—	—	—	477,987
Due to (from) the Consolidated Investment Fund	—	—	1,589,855	(6,137)	1,583,718
Due to the University of New Mexico	—	2,770,079	—	—	2,770,079
Total current liabilities	<u>1,421,596</u>	<u>2,789,392</u>	<u>1,595,042</u>	<u>382,931</u>	<u>6,188,961</u>
Noncurrent liabilities:					
Deferred annuities payable	—	—	—	3,190,992	3,190,992
Due to the University of New Mexico, deferred	—	1,710,611	—	—	1,710,611
Total noncurrent liabilities	<u>—</u>	<u>1,710,611</u>	<u>—</u>	<u>3,190,992</u>	<u>4,901,603</u>
Total liabilities	<u>1,421,596</u>	<u>4,500,003</u>	<u>1,595,042</u>	<u>3,573,923</u>	<u>11,090,564</u>
Net position:					
Unrestricted	1,109,091	—	—	—	1,109,091
Designated reserve for annuities payable	1,000,000	—	—	—	1,000,000
Invested in capital assets	137,335	—	—	—	137,335
Restricted	—	—	167,287,762	463,764	167,751,526
Total net position	<u>2,246,426</u>	<u>—</u>	<u>167,287,762</u>	<u>463,764</u>	<u>169,997,952</u>
Total liabilities and net position	<u>\$ 3,668,022</u>	<u>4,500,003</u>	<u>168,882,804</u>	<u>4,037,687</u>	<u>181,088,516</u>

See accompanying notes to supplemental information.

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

Statement of Revenues, Expenses and Changes in Net Position by Account Group

Year ended June 30, 2013

	Operating account group	General account group	Endowment and quasi- endowment account group	Life income account group	Combined total
Operating revenues:					
Donations and pledges, net	\$ 138,304	17,623,193	3,367,701	—	21,129,198
Direct support from the University of New Mexico	3,659,715	—	—	—	3,659,715
Development funding allocation – Consolidated Investment Fund	2,804,303	—	—	—	2,804,303
Nongift revenue	3,909	651,847	344	75,896	731,996
Total operating revenues	<u>6,606,231</u>	<u>18,275,040</u>	<u>3,368,045</u>	<u>75,896</u>	<u>28,325,212</u>
Operating expenses:					
Distributions to the University of New Mexico	—	18,026,215	9,704,846	166,176	27,897,237
General and administrative expenses	9,757,964	240,394	91,582	38,881	10,128,821
Total operating expenses	<u>9,757,964</u>	<u>18,266,609</u>	<u>9,796,428</u>	<u>205,057</u>	<u>38,026,058</u>
Operating (loss) income	<u>(3,151,733)</u>	<u>8,431</u>	<u>(6,428,383)</u>	<u>(129,161)</u>	<u>(9,700,846)</u>
Investment income:	504,697	(8,431)	16,551,189	336,132	17,383,587
Net income before changes in term and permanent endowments	<u>(2,647,036)</u>	<u>—</u>	<u>10,122,806</u>	<u>206,971</u>	<u>7,682,741</u>
Changes in term and permanent endowments:					
Donations	—	—	8,807,040	211,916	9,018,956
Institutional transfers to CIF	—	—	874,341	—	874,341
Nongift revenue	—	—	36,163	—	36,163
Adjustment of actuarial liability for annuities payable	—	—	—	7,951	7,951
Expenditure for payments to annuitants and beneficiaries	—	—	—	(393,645)	(393,645)
Total changes in term and permanent endowments	<u>—</u>	<u>—</u>	<u>9,717,544</u>	<u>(173,778)</u>	<u>9,543,766</u>
Transfers:					
Transfers to (from):					
Development funding allocation – Consolidated Investment Fund	2,770,492	—	(2,724,557)	(45,935)	—
Other transfers	11,292	—	(11,292)	—	—
Total transfers	<u>2,781,784</u>	<u>—</u>	<u>(2,735,849)</u>	<u>(45,935)</u>	<u>—</u>
Increase (decrease) in net assets	134,748	—	17,104,501	(12,742)	17,226,507
Net position, beginning of year	2,111,678	—	150,183,261	476,506	152,771,445
Net position, end of year	<u>\$ 2,246,426</u>	<u>—</u>	<u>167,287,762</u>	<u>463,764</u>	<u>169,997,952</u>

See accompanying notes to supplemental information.

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

Notes to Supplemental Information

June 30, 2013

(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 position are reported internally in four self-balancing funds as follows:

Operating Account Group. Funds of the Foundation consisting of unrestricted resources and interest and dividends transferred from the general account group as further discussed below.

General Account Group. Expendable funds for conveyance to UNM for scholarships, academic and administrative departments, building projects, and other university-related activities. Currently, the interest and dividends earned on assets in this fund are transferred to the operating account group and retained by the Foundation to provide a portion of the operating budget revenue. Cash held in this fund is restricted for the purpose of distributions to UNM.

Endowment Account Group. 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 Account Group. Account groups 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 is recognized. Annually, any net residual income or loss is credited/charged to the liability account, "Deferred Annuities." This payable is adjusted annually, through the account group 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.

(2) Transfers

Transfers among these account groups are the result of gifts whose restrictions have been satisfied, donors' requests to amend their initial gift restrictions, actions of the Board of Trustees, or payment of the Development Funding Allocation.



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Albuquerque, NM 87110-8179

**Independent Auditors' 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***

The Board of Directors
University of New Mexico Foundation, Inc.
and
Mr. Hector H. Balderas
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 the University of New Mexico Foundation, Inc. (the Foundation), which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation'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 the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 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.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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 Foundation'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 Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
November 12, 2013

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

Schedule of Findings and Responses

June 30, 2013

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, 2013

An exit conference was conducted on September 11, 2013, in which the contents of this report were discussed with the following:

For the University of New Mexico Foundation, Inc.

Audit Committee Members:

Kimberly Peña, Committee Chair
Larry Abraham, Board Member
Nancy Ridenour, Board Member
Anne Yegge, Board Member

Foundation Management:

Rodney Harder, Chief Financial Officer
Kenny Stansbury, Controller

For KPMG LLP

Cynthia Reinhart, Partner
Nicholas Williams, Senior Associate