

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

Financial Statements

June 30, 2017 and 2016

(With Independent Auditors' Report Thereon)

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

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## Official Roster

June 30, 2017

### Officers

Michelle Coons  
Henry Nencik  
Laurie Moye  
Randy Velarde  
Rodney Harder

Chair  
UNM Foundation President and CEO  
Vice Chair/Chair Elect  
National Vice Chair  
Treasurer

### Members

Chaouki Abdallah  
Carolyn Abeita  
Carl Alongi  
Michelle Coons  
Gary Dushane  
Greg Foltz  
Geraldine Forbes-Isais  
Cheryl Fossum-Graham  
Gus Foster  
Bill Lang  
William Lang  
Marron Lee  
James Lewis  
Lameck Lukanga  
Laurie Moye

Ryan Mummert  
Henry Nencik  
Anthony Pachelli  
Sherry Parsons  
Kimberly Peña  
Don Power  
Dorothy Rainosek  
Nancy Ridenour  
Tommy Roberts  
Kurt Roth  
David Salazar  
Randy Velarde  
Linda Warning  
Judy Zanotti

## Independent Auditors' Report

The Board of Trustees  
University of New Mexico Foundation, Inc.  
and  
Mr. Timothy Keller  
New Mexico State Auditor:

### Report on the Financial Statements

We have audited the accompanying financial statements of the University of New Mexico Foundation, Inc. (the Foundation), a component unit of the University of New Mexico, as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 opinions 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of New Mexico Foundation, Inc. as of June 30, 2017, the respective changes in financial position, and cash flows thereof for the year then ended, in accordance with U.S. generally accepted accounting principles.

### ***Prior Period Financial Statements***

The financial statements as of and for the year ended June 30, 2016 were audited by other auditors whose report dated November 10, 2016, expressed an unmodified opinion on those statements.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5 through 8 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 audits 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 Foundation's basic financial statements. The statement of net position information by account group, statement of revenues, expenses, and changes in net position information by account group, and notes to supplementary information as of and for the year ended June 30, 2017 on pages 32 through 35 are presented for purposes of additional analysis, and are not a required part of the basic financial statements.

The statement of net position information by account group, statement of revenues, expenses, and changes in net position information by account group, and notes to supplementary information as of and for the year ended June 30, 2017 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 referred to above 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 September 14, 2017 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
September 14, 2017

**UNIVERSITY OF NEW MEXICO FOUNDATION, INC.**

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

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, which provides a broad narrative overview of its financial statements for the fiscal years ended June 30, 2017 and 2016 and the following, which comprise the basic financial statements:

1. Statements of net position, 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>2017</u>	<u>2016</u>
Current assets	\$ 7,636,641	8,771,717
Noncurrent assets	216,252,954	197,684,313
Total assets	<u>223,889,595</u>	<u>206,456,030</u>
Current liabilities	6,218,399	6,813,843
Noncurrent liabilities	6,536,199	5,667,383
Total liabilities	<u>12,754,598</u>	<u>12,481,226</u>
Net position:		
Unrestricted	2,661,909	2,306,713
Investment in capital assets	38,525	63,227
Restricted	208,434,563	191,604,864
Total net position	<u>\$ 211,134,997</u>	<u>193,974,804</u>

**UNIVERSITY OF NEW MEXICO FOUNDATION, INC.**

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

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

	<u>2017</u>	<u>2016</u>
Operating revenues:		
Donations and pledges, net	\$ 26,645,574	19,038,409
UNM contract service revenue	4,756,112	5,415,026
Development funding allocation – Consolidated Investment Fund	3,013,747	2,663,363
Nongift revenue	295,976	411,897
Total operating revenues	<u>34,711,409</u>	<u>27,528,695</u>
Operating expenses:		
Distributions to UNM	36,716,240	28,292,544
General and administrative	12,740,403	12,658,223
Total operating expenses	<u>49,456,643</u>	<u>40,950,767</u>
Operating loss	(14,745,234)	(13,422,072)
Investment income (loss), net	<u>22,238,899</u>	<u>(2,402,519)</u>
Income (loss) before changes in term and permanent endowments	7,493,665	(15,824,591)
Changes in term and permanent endowments	<u>9,666,528</u>	<u>11,837,524</u>
(Decrease) increase in net position	17,160,193	(3,987,067)
Net position, beginning of year	<u>193,974,804</u>	<u>197,961,871</u>
Net position, end of year	<u>\$ 211,134,997</u>	<u>193,974,804</u>

**Financial Analysis**

- At June 30, 2017, the Foundation's total assets were \$223.9 million, which represents an increase of 8.4% over June 30, 2016 total assets of \$206.5 million.
- The increase total assets during the year ended June 30, 2017 was primarily due strong investment performance of endowment fund, which returned 11.8% in the year ended June 30, 2017.
- The Foundation's endowment funds are pooled with endowment funds owned by the University in the Consolidated Investment Fund (CIF). The CIF is a unitized investment portfolio, a consolidated internal investment pool of the University. Approximately 91% of the Foundation's assets were held as endowments in the CIF as of June 30, 2017 and 2016.



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Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

- The fair value and ownership units of the CIF as of June 30, 2017 and 2016 are as follows:

	<b>Consolidated Investment Fund</b>	
	<b>2017</b>	<b>2016</b>
Fair value (in millions):		
Foundation	\$ 203.6	187.0
University of New Mexico	221.7	208.1
Total fair value of CIF	<u>\$ 425.3</u>	<u>395.1</u>
Units:		
Foundation	560,264	573,990
University of New Mexico	610,047	638,750
Total units of CIF	<u>1,170,311</u>	<u>1,212,740</u>

- Additions to endowment principal for the CIF, during the years ended June 30, 2017 and 2016 were \$10.1 million, \$22.7 million, respectively.
- CIF investment performance, net of fees, for the fiscal years ended June 30, 2017 and 2016 is shown below:

	<b>Consolidated Investment Fund</b>	
	<b>2017</b>	<b>2016</b>
Investment performance		
1-year	11.8 %	-1.3 %
3-year	3.5	5.0
5-year	7.6	5.4
10-year	4.4	5.1

- CIF investment performance by asset class for the fiscal years ended June 30, 2017 and 2016 is shown in the table below:

	<b>Consolidated Investment Fund</b>	
	<b>2017</b>	<b>2016</b>
Investment performance		
Domestic Equity	18.5 %	2.1 %
International Equity	20.3	-10.1
Fixed Income	3.0	3.0
Private Equity	12.8	1.6
Real Assets	8.4	-9.1
Marketable Alternatives	6.4	2.0
CIF Investment Performance	<u>11.8 %</u>	<u>-1.3 %</u>

**UNIVERSITY OF NEW MEXICO FOUNDATION, INC.**

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Management's Discussion and Analysis (Unaudited)

June 30, 2017 and 2016

- Investment income (loss), net of fees, was \$22.2 million and -\$2.4 million for the years ended June 30, 2017 and 2016, respectively.
- The approved spending distributions from the CIF to UNM were \$15.0 million and \$15.9 million during the fiscal years ended June 30, 2017 and 2016, respectively. Spending distributions from Foundation owned endowment are reported as part of Distributions to UNM and were \$7.0 million and \$7.5 million, respectively.
- Total operating revenue was \$34.7 million for the fiscal year ended June 30, 2017, an increase of \$7.2 million, or 26.2%, from the previous year total of \$27.5 million, primarily due to an increase in nonendowed gifts.
- Distributions to UNM are endowed spending distributions and nonendowed gifts which are transferred to UNM as received. These distributions were \$36.7 and \$28.3 for the years ended June 30, 2017 and 2016 respectively. The increase is primarily due to an increase in non-endowed gifts.
- The primary funding sources for the Foundation's operating costs in the year ended June 30, 2017 were UNM contract service revenue (39.8%), short-term investment income (4.0%), unrestricted gifts and other revenue (2.2%), and a development funding allocation (DFA) (54.0%) based on the market value of the CIF. The DFA rate was 1.85% in fiscal year 2017. The DFA rate was 1.6% for fiscal year 2016.

**Factors Impacting Future Periods**

- UNM has committed to a \$3.8 million contract service fee for the Foundation's services in fiscal year 2018. The fee charged to the CIF (DFA) will remain at 1.85% for fiscal year 2018. UNM has not made an operating budget commitment to fund the Foundation beyond fiscal year 2018.
- The approved CIF endowment spending distribution for fiscal year 2018 is \$15.5 million.

**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) 313-7600.

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

Statements of Net Position

June 30, 2017 and 2016

<b>Assets</b>	<b>2017</b>	<b>2016</b>
Current assets:		
Cash and cash equivalents – unrestricted	\$ 3,096,039	3,591,688
Cash and cash equivalents – restricted	2,678,110	3,893,462
Pledges receivable, net of allowance and discounts	1,237,927	984,757
Other current assets	624,565	301,810
Total current assets	7,636,641	8,771,717
Noncurrent assets, restricted:		
Investments held in the Consolidated Investment Fund	203,623,738	187,039,854
Investments held by the Foundation	5,632,839	5,243,154
Pledges receivable, net of allowance and discounts	1,101,829	828,237
Artwork	2,657,190	2,717,082
Real estate	2,381,189	1,612,433
Capital assets, net	38,525	63,227
Other noncurrent assets	817,644	180,326
Total noncurrent assets	216,252,954	197,684,313
Total assets	\$ 223,889,595	206,456,030
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 228,385	158,288
Accrued liabilities	1,681,116	1,676,152
Current portion of annuities payable	280,112	337,890
Advances from UNM	125,845	147,393
Due to the Consolidated Investment Fund	385,264	717,251
Due to UNM	3,517,677	3,776,869
Total current liabilities	6,218,399	6,813,843
Noncurrent liabilities:		
Annuities payable	1,881,966	2,089,450
Due to UNM	4,654,233	3,577,933
Total noncurrent liabilities	6,536,199	5,667,383
Total liabilities	12,754,598	12,481,226
Net position:		
Unrestricted	1,661,909	1,306,713
Unrestricted, designated	1,000,000	1,000,000
Investment in capital assets	38,525	63,227
Restricted, expendable	18,905,964	18,773,332
Restricted, nonexpendable	189,528,599	172,831,532
Total net position	211,134,997	193,974,804
Total liabilities and net position	\$ 223,889,595	206,456,030

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, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Operating revenues:		
Donations and pledges, net of allowance and discounts	\$ 26,645,574	19,038,409
UNM contract service revenue	4,756,112	5,415,026
Development funding allocation – Consolidated Investment Fund	3,013,747	2,663,363
Nongift revenue	295,976	411,897
Total operating revenues	34,711,409	27,528,695
Operating expenses:		
Distributions to UNM	36,716,240	28,292,544
General and administrative expenses	12,740,403	12,658,223
Total operating expenses	49,456,643	40,950,767
Operating loss	(14,745,234)	(13,422,072)
Nonoperating revenue:		
Investment income (loss), net	22,238,899	(2,402,519)
Income (loss) before changes in term and permanent endowments	7,493,665	(15,824,591)
Changes in term and permanent endowments:		
Donations	9,288,025	11,133,504
Institutional transfers to Consolidated Investment Fund	322,758	583,324
Nongift revenue	43,571	105,710
Adjustment of actuarial liability for annuities payable	284,952	323,190
Expenditure for payments to annuitants and beneficiaries	(272,778)	(308,204)
Total changes in term and permanent endowments	9,666,528	11,837,524
Increase (decrease) in net position	17,160,193	(3,987,067)
Net position, beginning of year	193,974,804	197,961,871
Net position, end of year	\$ 211,134,997	193,974,804

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, 2017 and 2016

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Cash received from donors and other sources	\$ 18,200,929	18,445,221
Cash received from UNM	4,411,809	5,387,330
Cash received from the Consolidated Investment Fund	3,013,747	2,663,363
Cash paid to employees	(7,271,158)	(8,884,361)
Cash paid to vendors	(5,364,822)	(3,473,794)
Cash distributed to UNM	(29,599,132)	(71,314,469)
Net cash flows (used in) operating activities	(16,608,627)	(57,176,710)
Cash flows from noncapital financing activities:		
Donations and pledges	8,714,874	7,743,274
Institutional transfers to Consolidated Investment Fund	322,758	583,324
Payments to annuitants and beneficiaries	(253,088)	(207,295)
Net cash flows from noncapital financing activities	8,784,544	8,119,303
Cash flows from investing activities:		
Proceeds from sale of investments	16,087,462	29,011,674
Purchases of investments	(10,719,593)	(15,860,341)
Interest and dividends received	745,213	790,200
Net cash flows from investing activities	6,113,082	13,941,533
Net (decrease) in cash and cash equivalents	(1,711,001)	(35,115,874)
Cash and cash equivalents, beginning of year	7,485,150	42,601,024
Cash and cash equivalents, end of year	\$ 5,774,149	7,485,150
Cash and cash equivalents, unrestricted	\$ 3,096,039	3,591,688
Cash and cash equivalents, restricted	2,678,110	3,893,462
Total	\$ 5,774,149	7,485,150

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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (14,745,234)	(13,422,072)
Adjustments to reconcile operating loss to net cash flows from (to) operating activities:		
Depreciation expense	29,362	29,364
Donations of investments	(998,741)	(1,498,938)
Donations of artwork	(5,015,200)	(63,050)
Donation of real estate	(1,562,600)	(168,901)
Transfer of donated artwork and real estate to UNM	6,300,000	—
Changes in assets and liabilities:		
Due to UNM	817,108	(43,021,925)
Other current assets	(322,755)	(82,539)
Pledges receivable	(526,762)	725,804
Accounts payable	70,097	33,792
Accrued payroll	4,964	417,238
Advances from UNM	(21,548)	54,843
Other noncurrent assets	(637,318)	(180,326)
Total adjustments	<u>(1,863,393)</u>	<u>(43,754,638)</u>
Net cash from operating activities	<u>\$ (16,608,627)</u>	<u>(57,176,710)</u>
Supplemental disclosures of noncash investing, noncapital, and financing activities:		
Change in fair value of investments	\$ 21,755,161	(5,762,239)
Donations of investments to permanent endowments	563,122	3,495,940

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, 2017 and 2016

**(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, invest, 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, 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 the 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 honored.

**(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).

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.

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.

**UNIVERSITY OF NEW MEXICO FOUNDATION, INC.**  
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Notes to Financial Statements

June 30, 2017 and 2016

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

**(c) *Investments, Real Estate, and Artwork***

Investments, real estate, and artwork are reported at fair value. Money market investments are carried at amortized cost, which approximates fair value. All real estate and artwork reflected in the accompanying statements of net position were contributed to the Foundation. Donated real estate and artwork are 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. Where fair value is not readily determinable, the Foundations uses net asset value per share, units owned and other valuation factors to approximate fair value.

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.

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

**(d) *Other Assets***

Other assets include notes receivable, accounts receivable and prepaid assets.

**(e) *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.

**(f) *Due to UNM and Distributions to UNM***

The current amount due to UNM represents nonendowed, restricted assets held by the Foundation. The amount and timing of the transfers are defined in the Callable Funds Agreement, dated January 23, 2017.

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 in a subsequent fiscal year.



**UNIVERSITY OF NEW MEXICO FOUNDATION, INC.**  
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Notes to Financial Statements

June 30, 2017 and 2016

**(g) *Annuities Payable***

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.

**(h) *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 restrictions. The Board of Trustees designates a portion of this net position as nonexpendable reserves for annuities payable.

*Investment 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 term endowments 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.
- 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.

**(i) *Classification of Revenues and Expenses***

Operating loss reported in the financial statements includes revenues and expenses related to the continuing operations of the Foundation. Principal operating revenues include nonendowed donations and pledges, UNM contract service revenue, 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 gains.

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Changes in term and permanent endowments include donations to permanent endowments and annuities, actuarial adjustments to annuities payable, payments to annuitants, and institutional transfers to the CIF.

**(j) Revenue Recognition**

*Donations* – The Foundation recognizes revenue on donations when all applicable eligibility requirements are met. Donations to permanent endowments or term endowments, as defined in note 8, 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 collectability 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.

*UNM contract service revenue* – The University pays the Foundation for the services provided including investment management services and fundraising activities. The Foundation also facilitates funding of scholarships, faculty, and program support through distributions to UNM.

*Development funding allocation (DFA) – 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 DFA rate was 1.85% for fiscal year 2017 and 1.6% for fiscal year 2016. 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 and revenue is recognized when earned.

*Investment income (loss), net* – Investment loss, net 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.

**(k) Institutional Transfers to CIF**

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

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**(l) 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, 2016, the most recent filing date, the Foundation had a net operating loss carryforward of approximately \$3.5 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 \$1 million is not recognized on the accompanying statements of net position due to the uncertainty of future income that would be necessary to realize the benefit. The Foundation estimates that the change in the deferred tax asset for the year ended June 30, 2017 is immaterial.

**(m) Estimates**

Management uses estimates and assumptions in preparing the accompanying 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.

**(3) Cash and Cash Equivalents**

The Foundation had a carrying value of \$106,215 on deposit in pooled accounts with UNM at June 30, 2016 and nothing on deposit with UNM at June 30, 2017. The UNM deposit was held in demand and time accounts at local financial institutions and in a fixed income portfolio. 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.

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. That report may be obtained by contacting the Controller's office at 1 University of New Mexico, MSC01 1300, 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 \$5,774,150 and \$7,378,935 at June 30, 2017 and 2016, respectively.

The Foundation's operating accounts (Operating and Development) had deposits totaling \$4,661,451 and \$6,196,816 at June 30, 2017 and 2016, respectively. These amounts are invested in overnight sweep accounts and are collateralized at 95% and 96% of the invested balance for June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, these funds were collateralized by government-backed securities held in the Foundation's name. The Foundation also held deposits at a credit union totaling \$56,690 and \$78,515 at

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June 30, 2017 and 2016, respectively. Below is a summary of the Federal Deposit Insurance Corporation (FDIC) insured, National Credit Union Administration (NCUA) insured, and collateralized accounts:

	<b>2017</b>	<b>2016</b>
Operating account		
balance	\$ 711,681	4,116,953
Gift account balance	3,949,770	2,079,863
Credit union balance	56,690	78,515
	\$ 4,718,141	6,275,331
FDIC insurance	\$ 250,000	250,000
NCUA insurance	56,690	78,515
Collateralization:		
<b>CUSIP</b>	<b>Maturity</b>	<b>Type of Security</b>
<u>3132QPN26</u>	<u>5/1/2045</u>	<u>FN-30</u>
3128MJWB2	5/1/2045	FN-30
3128MJTQ3	11/1/2043	FN-30
36179NTD0	11/1/2043	FN-30
	Total collateralization	\$
	4,481,605	6,008,812

There were no uninsured and under collateralized balances at June 30, 2017 and 2016.

A detail of the cash accounts at June 30, 2017 is included below:

Name of depository	Account name	Account type	Bank balance	Reconciling items	Reconciled balance
University of New Mexico	Operating – UNM	Cash	\$ —	—	—
Wells Fargo	Operating	Cash	711,681	(123,517)	588,164
Wells Fargo	Development	Cash	3,949,770	564,257	4,514,027
NUSENDA	General Fund	Cash	56,690	—	56,690
Fidelity	Restricted Fund	Money Market	129,900	—	129,900
Hilltop Securities	Charitable Trust Fund	Money Market	16,300	—	16,300
Morgan Stanley	Security donation	Money Market	48,581	—	48,581
Wells Fargo	Irrevocable Trust Fund	Money Market	65,189	—	65,189
UBS Financial Services	Endowed Chair	Money Market	308,329	—	308,329
UBS Financial Services	Endowed Professorship	Money Market	46,969	—	46,969
			\$ 5,333,409	440,740	5,774,149

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A detail of the cash accounts at June 30, 2016 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 – UNM	Cash	\$ 106,215	—	106,215
Wells Fargo	Operating	Cash	4,116,953	(50,559)	4,066,394
Wells Fargo	Development	Cash	2,079,863	199,608	2,279,471
NUSENDA	General Fund	Cash	78,515	—	78,515
Fidelity	Restricted Fund	Money Market	138,556	—	138,556
Southwest Securities	Charitable Trust Fund	Money Market	27,672	—	27,672
Morgan Stanley	Security donation	Money Market	7	—	7
Wells Fargo	Irrevocable Trust Fund	Money Market	80,782	—	80,782
UBS Financial Services	Endowed Chair	Money Market	506,093	—	506,093
UBS Financial Services	Endowed Professorship	Money Market	201,445	—	201,445
			<u>\$ 7,336,101</u>	<u>149,049</u>	<u>7,485,150</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.

*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, 2017 and 2016, the Foundation held approximately 91% 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 investment losses. Consequently, the target portfolio allocations are 21.5% domestic equity, 21.5% international equity, 13% fixed income, 1% cash, 8% real assets, 15% private investments, and 20% marketable alternative investments.

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

	<b>Consolidated Investment Fund</b>			
	<b>2017</b>	<b>Percentage</b>	<b>2016</b>	<b>Percentage</b>
Fair value (in millions):				
Foundation	\$ 203.6	48%	\$ 187.0	47%
University of New Mexico	221.7	52%	208.1	53%
Total fair value	\$ 425.3		\$ 395.1	
Units:				
Foundation	560,264	48%	573,990	47%
University of New Mexico	610,047	52%	638,750	53%
Total units	1,170,311		1,212,740	

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

<b>Depository/account name</b>	<b>Account type</b>	<b>2017</b>	<b>2016</b>
<i>Wells Fargo:</i>			
Charitable Trust Fund	Mutual funds, fixed	\$ 387,551	373,735
Charitable Trust Fund	Mutual funds, equity	903,480	934,598
Charitable Trust Fund	Real estate funds	179,604	195,912
Charitable Trust Fund	Other funds	338,720	201,311
<i>UBS Financial services:</i>			
Endowed Chair	Municipal bonds	2,797,583	2,691,231
Endowed Chair	Other funds	27,072	24,702
Endowed Professorship	Municipal bonds	376,136	232,625
<i>SWS Financial services:</i>			
Charitable Trust Fund	Mutual funds, fixed	13,642	12,080
Charitable Trust Fund	Mutual funds, equity	237,388	257,658
Charitable Trust Fund	Domestic corporate stock	228,967	188,670
<i>Fidelity</i>			
Operating Fund	Mutual funds, equity	142,696	130,632
		\$ 5,632,839	5,243,154

*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, 2017, the Foundation did not have a policy to limit its exposure to custodial credit risk; however, as of June 30, 2017 and 2016, the investments that were subject to custodial credit risk were 1.6% of total investments at June 30, 2017 and 2016.

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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:

	<b>2017</b>	<b>2016</b>
Custodial credit risk:		
Municipal bonds	\$ 3,173,718	2,923,856
Domestic corporate stock	228,967	188,670
Total securities held by custodians	3,402,685	3,112,526
Investments not subject to custodial credit risk:		
Mutual funds	1,684,757	1,708,703
Real estate	179,604	195,912
Other	365,793	226,013
Total investments held by the Foundation	5,632,839	5,243,154
Investments held in CIF – not subject to custodial credit risk	203,623,738	187,039,854
Total investments	\$ 209,256,577	192,283,008

*Concentration of Credit Risk* – Concentration of credit 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, 2017, the Foundation did not have a policy to limit its exposure to concentrated credit risk; however, as of June 30, 2017 and 2016, 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, 2017 and 2016 and the exposure to interest rate risk is as follows:

		<b>2017 Investment maturities</b>				
		<b>Fair value</b>	<b>Less than one year</b>	<b>1–5 years</b>	<b>6–10 years</b>	<b>More than 10 years</b>
At interest rate risk:						
Municipal bonds	\$	3,173,718	127,309	1,029,627	1,402,095	614,688
		3,173,718	<u>127,309</u>	<u>1,029,627</u>	<u>1,402,095</u>	<u>614,688</u>
Not subject to interest rate risk:						
Domestic corporate stock		228,967				
Mutual funds		1,684,757				
Real estate		179,604				
Other		365,793				
Investments held in CIF		203,623,738				
Total investments	\$	<u>209,256,577</u>				

		<b>2016 Investment maturities</b>				
		<b>Fair value</b>	<b>Less than one year</b>	<b>1–5 years</b>	<b>6–10 years</b>	<b>More than 10 years</b>
At interest rate risk:						
Municipal bonds	\$	2,923,856	392,340	959,224	1,181,040	391,252
		2,923,856	<u>392,340</u>	<u>959,224</u>	<u>1,181,040</u>	<u>391,252</u>
Not subject to interest rate risk:						
Domestic corporate stock		188,670				
Mutual funds		1,708,703				
Real estate		195,912				
Other		226,013				
Investments held in CIF		187,039,854				
Total investments	\$	<u>192,283,008</u>				

*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, 2017 and 2016 that are subject to credit risk is as follows:

Credit rating (Moody's)	June 30, 2017		June 30, 2016	
	Municipal	Percentage of bond portfolio	Municipal	Percentage of bond portfolio
Aaa	\$ 695,283	21.9%	\$ 651,091	22.3%
Aa1	207,970	6.6	148,347	5.1
Aa2	1,176,299	37.1	986,539	33.7
Aa3	326,926	10.3	607,509	20.8
A1	20,057	0.6	10,356	0.4
A2	30,985	1.0	32,101	1.1
A3	61,588	1.9	63,702	2.2
Not rated	654,610	20.6	424,211	14.4
Total	\$ 3,173,718	100%	\$ 2,923,856	100%

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

**All Investments – Investment Income (Loss)**

During the years ended June 30, 2017 and 2016, the Foundation recognized investment income (losses) as outlined below:

	CIF	Foundation	Real estate	Short-term investments	Total
2017:					
Realized (losses) gains	\$ (555,290)	124,635	18,216	—	(412,439)
Unrealized gains (losses)	21,768,355	58,606	(71,800)	—	21,755,161
Other investment income	256,171	165,054	—	474,952	896,177
Total investment (loss) income	\$ 21,469,236	348,295	(53,584)	474,952	22,238,899
2016:					
Realized gains	\$ 1,097,029	159,017	18,145	128,244	1,402,435
Unrealized (losses)	(5,289,742)	(384,179)	(55,737)	(32,581)	(5,762,239)
Other investment income	1,191,579	305,704	—	460,002	1,957,285
Total investment (loss) income	\$ (3,001,134)	80,542	(37,592)	555,665	(2,402,519)

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*Fair Value Measurement* – The Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- *Level 1* inputs are quoted prices (unadjusted) for identical assets in active markets, accessible at the measurement date. Level 1 inputs include exchange markets, dealer markets, brokered markets, and principal-to-principal markets.
- *Level 2* inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active.
- *Level 3* inputs are unobservable inputs for an asset.

Investments that do not have a readily determinable fair value are recorded using net asset value (NAV). NAV is generally provided by the investment managers but the Foundation considers the reasonableness of the NAV, based on market information, to arrive at the fair value estimates for each investment.

The Foundation has the following recurring fair value measurements as of June 30, 2017:

	<u>Fair value measurement using</u>			
	<u>Fair value</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments held by the Foundation:				
Domestic corporate stock	\$ 228,967	228,967	—	—
Mutual funds, fixed	401,191	401,191	—	—
Mutual funds, equity	1,283,566	1,283,566	—	—
Municipal bonds	3,173,718	—	3,173,718	—
Real estate mutual funds	179,604	179,604	—	—
Other funds	365,793	365,793	—	—
	<u>5,632,839</u>	<u>2,459,121</u>	<u>3,173,718</u>	<u>—</u>
Total investments held by the Foundation	<u>\$ 5,632,839</u>	<u>2,459,121</u>	<u>3,173,718</u>	<u>—</u>
Investments held in the CIF by fair value measure:				
Exchange-traded funds	\$ 4,061,414	4,061,414	—	—
Mutual funds, fixed	20,737,011	20,737,011	—	—
	<u>24,798,425</u>	<u>24,798,425</u>	<u>—</u>	<u>—</u>
Total investments held by the CIF by fair value level	<u>\$ 24,798,425</u>	<u>24,798,425</u>	<u>—</u>	<u>—</u>

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Investments measured at the NAV as of June 30, 2017:

	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Marketable alternatives				
Multistrategy hedge funds	\$ 9,920,327	—	Quarterly –annually	45-60 days
Event driven hedge funds	4,926,190	—	Quarterly	65 days
Equity hedge funds	7,795,795	—	Monthly	30 days
Distressed/restructuring hedge funds	9,767,327	—	Monthly –biennially	30-90 days
Global macro hedge funds	4,996,706	—	Monthly –annually	3-60 days
Systematic diversified risk hedge funds	1,137,103	—	Monthly	2 days
Private equity funds	18,752,583	19,855,945		
Illiquid real asset funds	4,732,983	836,278		
Real estate funds	5,080,003	319,559		
Mutual funds, fixed	17,171,010	—	Daily-Monthly	1 to 30 days
Mutual funds, equity	93,654,358	—	Daily	1 to 2 days
Total investments in the CIF measured at the NAV	177,934,385	21,011,782		
Money market funds held in the CIF, measured at amortized cost	890,928			
Total investments held in the CIF	<u>\$ 203,623,738</u>			

The Foundation has the following recurring fair value measurements as of June 30, 2016:

	<u>Fair value measurement using</u>			
	<u>Fair value</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments held by the Foundation:				
Domestic corporate stock	\$ 188,670	188,670	—	—
Mutual funds, fixed	385,815	385,815	—	—
Mutual funds, equity	1,322,888	1,322,888	—	—
Municipal bonds	2,923,856	—	2,923,856	—
Real estate mutual funds	195,912	195,912	—	—
Other funds	226,013	226,013	—	—
Total investments held by the Foundation	<u>\$ 5,243,154</u>	<u>2,319,298</u>	<u>2,923,856</u>	<u>—</u>

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	<b>Fair value</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Investments held in the CIF:				
Exchange-traded funds	\$ 5,428,821	5,428,821	—	—
Mutual funds, fixed	20,048,606	20,048,606	—	—
Total investments held by the CIF by fair value level	\$ 25,477,427	25,477,427	—	—
Investments measured at the NAV as of June 30, 2016:				
	<b>Fair value</b>	<b>Unfunded commitments</b>	<b>Redemption frequency (if currently eligible)</b>	<b>Redemption notice period</b>
Marketable alternatives				
Multistrategy hedge funds	\$ 8,825,963	—	Quarterly –annually	45-60 days
Event driven hedge funds	4,474,256	—	Quarterly	65 days
Equity hedge funds	6,891,266	—	Monthly	30 days
Distressed/restructuring hedge funds	9,070,353	—	Monthly –annually	30-90 days
Global macro hedge funds	6,846,486	—	Monthly –annually	3-90 days
Systematic deversified risk hedge funds	1,165,870	—	Monthly	2 days
Private equity funds	21,018,683	12,026,060		
Illiquid real asset funds	2,184,676	1,075,977		
Real estate funds	5,885,479	328,351		
Mutual funds, fixed	14,157,970	—	Daily –monthly	5 to 60 days
Mutual funds, equity	76,547,027	—	Daily	1 to 2 days
Total investments in the CIF measured at the NAV	157,068,029	13,430,388		
Money market funds held in the CIF, measured at amortized cost	4,494,398			
Total investments held in the CIF	\$ 187,039,854			

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**(5) Pledges Receivable**

Pledges receivable consisted of the following at June 30, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Amounts receivable in less than one year	\$ 1,237,927	984,757
Amounts receivable in more than one year	1,481,555	1,184,764
Total pledges receivable	2,719,482	2,169,521
Discounts to net present value	(103,475)	(61,948)
Allowance for doubtful pledges	(276,251)	(294,579)
Pledges receivable, net	\$ 2,339,756	1,812,994

Noncurrent pledges receivable are discounted at the Internal Revenue Service discount rate 2.4% and 1.8% for the years ended June 30, 2017 and 2016, respectively. All pledges are for nonendowed gifts.

**(6) Artwork**

Artwork activity for the years ended June 30, 2017 and 2016 is as follows:

	<b>2017</b>	<b>2016</b>
Artwork:		
Beginning balance	\$ 7,708,435	7,691,385
New donations received	5,015,200	63,050
Sales	(164,881)	(46,000)
Transfers to UNM	(5,000,000)	—
Balance at June 30	7,558,754	7,708,435
Reserve for selling costs	(4,901,564)	(4,991,353)
Artwork, at fair value as of June 30	\$ 2,657,190	2,717,082

The Foundation sells contributed artwork with the net proceeds benefiting UNM. The Foundation expects the sales to be completed over many years, given the desire to preserve the market value of the artwork.

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

Notes to Financial Statements

June 30, 2017 and 2016

**(7) Real Estate**

The Foundation also has investments in real estate. The real estate activity for the years ended June 30, 2017 and 2016 is as follows:

	<b>2017</b>	<b>2016</b>
Real estate, values as of date of original receipt:		
Beginning balance	\$ 2,298,557	2,405,517
New donations received	1,688,000	168,901
Purchases	700,000	—
Sales	(318,660)	(275,861)
Transfers to UNM	(1,300,000)	—
Balance at June 30	3,067,897	2,298,557
Fair value adjustment, at June 30 net	(686,708)	(686,124)
Real estate, at fair value as of June 30	\$ 2,381,189	1,612,433

**(8) Endowments**

*Permanent Endowments.* Permanent 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. Any portion of the principal of quasi-endowment funds may be expended for the donor-specified purpose at any time.

At June 30, 2017 and 2016, endowments comprised the following:

	<b>2017</b>	<b>2016</b>
Permanent endowment	\$ 188,860,927	172,348,560
Term endowment	436,321	412,023
Quasi-endowment (designated as endowment by the Board of Trustees)	18,469,643	18,361,309
	\$ 207,766,891	191,121,892

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.

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

Notes to Financial Statements

June 30, 2017 and 2016

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.

**(9) Composition of Net Position**

Net position consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Permanent endowments, nonexpendable	\$ 188,860,927	172,348,560
Annuity gifts, nonexpendable	667,672	482,972
Total nonexpendable	<u>189,528,599</u>	<u>172,831,532</u>
Term endowments, expendable after specified time	436,321	412,023
Quasi-endowments, expendable for specified purpose	18,469,643	18,361,309
Total restricted	<u>208,434,563</u>	<u>191,604,864</u>
Designated reserve for annuities payable	1,000,000	1,000,000
Other unrestricted	1,661,909	1,306,713
Total unrestricted	<u>2,661,909</u>	<u>2,306,713</u>
Investment in capital assets	38,525	63,227
Total net position	<u>\$ 211,134,997</u>	<u>193,974,804</u>

**(10) Annuities Payable**

During the years ended June 30, 2017 and 2016, the Foundation had the following annuities payable activity:

	<u>2017</u>	<u>2016</u>
Balance due at beginning of year	\$ 2,427,339	2,649,621
Net reductions to annuities payable	(45,261)	(118,567)
Net change in actuarial liability	(220,000)	(103,714)
	<u>2,162,078</u>	<u>2,427,340</u>
Less amount due in one year	(280,112)	(337,890)
	<u>\$ 1,881,966</u>	<u>2,089,450</u>

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

Notes to Financial Statements

June 30, 2017 and 2016

**(11) Operating Expenses**

Operating expenses consisted of the following for the year ended June 30, 2017:

	<u>Operating accounts</u>	<u>General accounts</u>	<u>Endowment accounts</u>	<u>Life income accounts</u>	<u>Total</u>
Staff salaries	\$ 7,251,526	24,598	—	—	7,276,124
Fringe benefits	1,444,582	1,676	—	—	1,446,258
Professional services	629,173	270,183	899	698	900,953
Donor relations	290,177	476,815	505	—	767,497
Payroll taxes	452,305	1,526	—	—	453,831
General and administrative	260,430	48,010	27,376	7,208	343,024
Office lease, building	270,360	28,356	(105)	14,167	312,778
Travel	235,633	33,411	—	485	269,529
Computer equipment and software	256,952	—	—	—	256,952
Insurance	88,135	59,227	—	—	147,362
Printing, fund-raising, and promotional material	118,735	2,644	—	—	121,379
Dues and subscriptions	95,514	250	—	—	95,764
Furniture, office equipment, and property	1,850	68,914	785	16,591	88,140
Audit fees	82,120	—	—	—	82,120
Professional development	55,280	125	—	—	55,405
Postage and mailing	46,123	881	—	102	47,106
Depreciation	24,701	—	—	4,661	29,362
Meeting expense	27,182	—	—	—	27,182
Property taxes	—	(2,731)	13,496	8,872	19,637
	<u>\$ 11,630,778</u>	<u>1,013,885</u>	<u>42,956</u>	<u>52,784</u>	<u>12,740,403</u>



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

Notes to Financial Statements

June 30, 2017 and 2016

Operating expenses consisted of the following for the year ended June 30, 2016:

	<u>Operating accounts</u>	<u>General accounts</u>	<u>Endowment accounts</u>	<u>Life income accounts</u>	<u>Total</u>
Staff salaries	\$ 7,471,279	20,601	—	—	7,491,880
Fringe benefits	1,383,449	1,631	—	—	1,385,080
Donor relations	316,655	470,134	1,250	—	788,039
Professional services	349,217	197,545	2,996	681	550,439
Payroll taxes	446,870	1,439	—	—	448,309
General and administrative	245,069	141,819	46,728	4,196	437,812
Travel	259,317	104,080	818	843	365,058
Office lease, building	292,298	30,089	10,387	—	332,774
Computer equipment and software	238,450	1,533	—	—	239,983
Insurance	45,227	71,794	1,121	714	118,856
Dues and subscriptions	111,817	17	—	—	111,834
Printing, fund-raising, and promotional material	82,333	2,371	—	—	84,704
Postage and mailing	67,343	294	41	30	67,708
Audit fees	65,724	—	—	—	65,724
Professional development	62,839	—	—	—	62,839
Meeting expense	31,849	—	—	—	31,849
Depreciation	24,703	—	—	4,661	29,364
Furniture, office equipment, and property	3,712	4,101	—	21,345	29,158
Property taxes	—	757	8,373	7,683	16,813
	<u>\$ 11,498,151</u>	<u>1,048,205</u>	<u>71,714</u>	<u>40,153</u>	<u>12,658,223</u>

The Foundation leases space in an office building from UNM, under a three-year lease term expiring in fiscal year 2019. Lease expense in fiscal years 2017 and 2016 was \$270,360 and \$305,039, respectively. The expected lease payment for fiscal years 2018 and 2019 is \$270,360 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, 2017 and 2016.

**(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) 5% of eligible gross salary for all employees and (b) up to an additional 4% match for employees who contribute to the plan. The Foundation's contributions to the plan for the years ended June 30, 2017 and 2016 were \$674,552 and \$564,867, respectively.

**SUPPLEMENTARY INFORMATION**

## **UNIVERSITY OF NEW MEXICO FOUNDATION, INC.**

(A Component Unit of the University of New Mexico)

Financial Analysis by Account Group (Unaudited)

June 30, 2017

### **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 increased from \$2.4 million at June 30, 2016 to \$2.7 million at June 30, 2017. The increase was primarily the result of higher DFA revenue for the year ended June 30, 2017.

### **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 \$13.5 million for the year ended June 30, 2016 to \$24.4 million for the year ended June 30, 2017, an increase of \$11 million. The increase was primarily due to an increase in nonendowed gifts in the general account group for the year ended June 30, 2017.

### **Endowment and Quasi-Endowment Account Group**

Permanent 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 designated by the donor. The principal of quasi-endowment funds may be expended for the donor-specified purpose of the endowment at any time.

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.

The net position of the endowment account group increased from \$191.1 million at June 30, 2016 to \$207 million at June 30, 2017, an increase of \$16.6 million, or 8%. The increase is primarily due an investment gain of 11.8% for the fiscal year ended June 30, 2017.

### **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)

Statement of Net Position Information by Account Group

June 30, 2017

<b>Assets</b>	<b>Operating account group</b>	<b>General account group</b>	<b>Endowment and quasi- endowment account group</b>	<b>Life income account group</b>	<b>Combined total</b>
Current assets:					
Cash and cash equivalents – unrestricted	\$ 3,096,039	—	—	—	3,096,039
Cash and cash equivalents – restricted	—	2,316,980	804,432	(443,302)	2,678,110
Pledges receivable	—	1,237,927	—	—	1,237,927
Other current assets	580,565	43,625	375	—	624,565
Total current assets	<u>3,676,604</u>	<u>3,598,532</u>	<u>804,807</u>	<u>(443,302)</u>	<u>7,636,641</u>
Noncurrent assets:					
Investments held in the Consolidated Investment Fund	—	—	201,779,581	1,844,157	203,623,738
Investments held by the Foundation	142,696	1	5,010,146	479,996	5,632,839
Pledges receivable	—	1,101,829	—	—	1,101,829
Artwork	—	2,639,670	17,520	—	2,657,190
Real estate	—	912,733	516,793	951,663	2,381,189
Capital assets, net	38,525	—	—	—	38,525
Other noncurrent assets	794,331	—	23,313	—	817,644
Total noncurrent assets	<u>975,552</u>	<u>4,654,233</u>	<u>207,347,353</u>	<u>3,275,816</u>	<u>216,252,954</u>
Total assets	<u>\$ 4,652,156</u>	<u>8,252,765</u>	<u>208,152,160</u>	<u>2,832,514</u>	<u>223,889,595</u>
	<b>Liabilities and Net Position</b>				
Current liabilities:					
Accounts payable	\$ 148,582	77,034	5	2,764	228,385
Accrued liabilities	1,677,295	3,821	—	—	1,681,116
Annuities payable	—	—	—	280,112	280,112
Advances from UNM	125,845	—	—	—	125,845
Due to (from) the Consolidated Investment Fund	—	—	385,264	—	385,264
Due to UNM	—	3,517,677	—	—	3,517,677
Total current liabilities	<u>1,951,722</u>	<u>3,598,532</u>	<u>385,269</u>	<u>282,876</u>	<u>6,218,399</u>
Noncurrent liabilities:					
Annuities payable	—	—	—	1,881,966	1,881,966
Due to UNM	—	4,654,233	—	—	4,654,233
Total noncurrent liabilities	<u>—</u>	<u>4,654,233</u>	<u>—</u>	<u>1,881,966</u>	<u>6,536,199</u>
Total liabilities	<u>1,951,722</u>	<u>8,252,765</u>	<u>385,269</u>	<u>2,164,842</u>	<u>12,754,598</u>
Net position:					
Unrestricted	1,661,909	—	—	—	1,661,909
Designated reserve for annuities payable	1,000,000	—	—	—	1,000,000
Invested in capital assets	38,525	—	—	—	38,525
Restricted	—	—	207,766,891	667,672	208,434,563
Total net position	<u>2,700,434</u>	<u>—</u>	<u>207,766,891</u>	<u>667,672</u>	<u>211,134,997</u>
Total liabilities and net position	<u>\$ 4,652,156</u>	<u>8,252,765</u>	<u>208,152,160</u>	<u>2,832,514</u>	<u>223,889,595</u>

See accompanying notes to supplementary 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 Information by Account Group

Year ended June 30, 2017

	<u>Operating account group</u>	<u>General account group</u>	<u>Endowment and quasi- endowment account group</u>	<u>Life income account group</u>	<u>Combined total</u>
Operating revenues:					
Donations and pledges, net	\$ 266,081	25,244,181	1,135,312	—	26,645,574
UNM contract service revenue	4,756,112	—	—	—	4,756,112
Development funding allocation – UNM	3,013,747	—	—	—	3,013,747
Nongift revenue	6,074	221,537	3,535	64,830	295,976
Total operating revenues	<u>8,042,014</u>	<u>25,465,718</u>	<u>1,138,847</u>	<u>64,830</u>	<u>34,711,409</u>
Operating expenses:					
Distributions to UNM	—	24,448,808	12,267,432	—	36,716,240
General and administrative expenses	11,630,778	1,013,885	42,956	52,784	12,740,403
Total operating expenses	<u>11,630,778</u>	<u>25,462,693</u>	<u>12,310,388</u>	<u>52,784</u>	<u>49,456,643</u>
Operating (loss) income	<u>(3,588,764)</u>	<u>3,025</u>	<u>(11,171,541)</u>	<u>12,046</u>	<u>(14,745,234)</u>
Investment income (loss)	474,952	69,249	21,422,839	271,859	22,238,899
Income (loss) before changes in term and permanent endowments	<u>(3,113,812)</u>	<u>72,274</u>	<u>10,251,298</u>	<u>283,905</u>	<u>7,493,665</u>
Changes in term and permanent endowments:					
Donations	—	—	9,277,816	10,209	9,288,025
Institutional transfers to the Consolidated Investment Fund	—	—	322,758	—	322,758
Nongift revenue	—	—	43,571	—	43,571
Adjustment of actuarial liability for annuities payable	—	—	—	284,952	284,952
Expenditure for payments to annuitants and beneficiaries	—	—	—	(272,778)	(272,778)
Total changes in term and permanent endowments	<u>—</u>	<u>—</u>	<u>9,644,145</u>	<u>22,383</u>	<u>9,666,528</u>
Transfers:					
Development funding allocation – Foundation	3,445,535	—	(3,412,153)	(33,382)	—
Other transfers	(1,229)	(72,274)	161,709	(88,206)	—
Total transfers	<u>3,444,306</u>	<u>(72,274)</u>	<u>(3,250,444)</u>	<u>(121,588)</u>	<u>—</u>
Increase in net position	330,494	—	16,644,999	184,700	17,160,193
Net position, beginning of year	2,369,940	—	191,121,892	482,972	193,974,804
Net position, end of year	\$ <u>2,700,434</u>	<u>—</u>	<u>207,766,891</u>	<u>667,672</u>	<u>211,134,997</u>

See accompanying notes to supplementary information.

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

Notes to Supplementary Information

June 30, 2017

**(1) Measurement Focus and Financial Information**

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 and Quasi-Endowment Account Group.* Permanent 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 designated by the donor. The principal of quasi-endowment funds may be expended for the donor specified purpose of the endowment at any time.

*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, "annuities payable." 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.

**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 Trustees  
University of New Mexico Foundation, Inc.  
and  
Mr. Timothy Keller  
New Mexico State Auditor:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the University of New Mexico Foundation, Inc. (the Foundation), which comprise the statement of net position as of June 30, 2017, 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 September 14, 2017.

**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 audits 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 audits, 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 audits 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.

*Mess Adams LLP*

Albuquerque, New Mexico  
September 14, 2017



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

Schedule of Findings and Responses

June 30, 2017

**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, 2017

An exit conference was conducted on September 11, 2017, in which the contents of this report were discussed with the following:

**For the Foundation**

Audit Committee Members:

Gary Dushane, Committee Chair

Laurie Moye, Board Chair

Foundation Management:

Henry Nemcik, Chief Executive Officer

Rodney Harder, Chief Financial Officer

Kenny Stansbury, Controller

Raquel LeCesne, Director of Trustee Relations and Development

**For Moss Adams LLP**

Lisa Todd, Partner

Corrine Zajac-Clarkson, Senior Manager