



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

LOBO DEVELOPMENT CORPORATION
(A Blended Component Unit of the University of New Mexico)

June 30, 2020 and 2019



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Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Official Roster (unaudited)
June 30, 2020

OFFICERS

Teresa Costantinidis
Thomas Neale
Angela Hernandez

MEMBERS

Marron Lee
Stephen Ciepiela
Chris Vallejos
Louis Abruzzo
Teresa Costantinidis
Maria Griego-Raby
Eddie Nunez
Paul B. Roth, M.D.
Kim Sanchez Rael
Eric M. Siegel
Garnett Stokes, Ph.D.

Report of Independent Auditors

The Board of Directors
Lobo Development Corporation
and Mr. Brian Colón, Esq., New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of Lobo Development Corporation (Lobo Development), a component unit of the University of New Mexico, which comprise of the statements of net position as of June 30, 2020 and 2019, 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, which collectively comprise Lobo Development's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position Lobo Development Corporation as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2020 on our consideration of Lobo Development'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lobo Development's 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 Lobo Development's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico

September 22, 2020

Lobo Development Corporation

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2020

The following discussion and analysis provides an overview of the financial position and activities of Lobo Development Corporation (Lobo Development) as of and for the fiscal years ended June 30, 2020, 2019, and 2018. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of Lobo Development's management.

Financial Highlights

Cash decreased in 2020 by \$2,144,972, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2020 of \$3,373,745. The decrease during fiscal year 2020 is primarily due to a loan disbursement, decrease in interest income, and increased project expenses. Cash increased in 2019 by \$209,041, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2019 of \$5,518,717. The increase during fiscal year 2019 was primarily due to an increase in project revenue and lower project expenses. Interest earned during fiscal year 2020 decreased \$2,591 from \$85,014 to \$82,423, due to an increase in earnings on cash being held by The University of New Mexico (UNM), Lobo Development's fiscal agent.

Lobo Development's net position increased \$521,339 during the year, from \$6,589,305 in 2019 to \$7,110,644 in fiscal year 2020. During fiscal year 2019, Lobo Development's net position increased \$290,657 during the year, from \$6,298,648 in 2018 to \$6,589,305 in fiscal year 2019.

During fiscal year 2020, operating revenue increased by \$111,233 and operating expenses decreased by \$108,088, resulting in an increase in net operating income of \$219,321. During fiscal year 2019, operating revenue decreased by \$1,236,096 and operating expenses decreased by \$126,298, resulting in a decrease in net operating income of \$1,109,798.

Overview of the Basic Financial Statements

The statements of net position of Lobo Development provide both long-term and short-term information about Lobo Development's overall financial position. The statements of revenues, expenses, and changes in net position provide information about the operating revenues and expenses and the non-operating revenues and expenses of Lobo Development. The statements of cash flows provide information related to the cash inflows and outflows of Lobo Development. The notes to the basic financial statements provide more detailed information about amounts reported in the basic financial statements.

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2020

Financial Information

Lobo Development's condensed financial information as of and for the fiscal years ended June 30, 2020, 2019, and 2018 are provided in the following table:

	2020	2019	2018
Current assets	\$ 3,483,926	\$ 5,528,194	\$ 5,311,888
Net capital assets	16,877,113	15,941,759	16,067,894
Other noncurrent assets	883,331	-	-
Total assets	<u>\$ 21,244,370</u>	<u>\$ 21,469,953</u>	<u>\$ 21,379,782</u>
Current liabilities	\$ 528,258	\$ 775,514	\$ 498,063
Noncurrent liabilities	13,605,468	14,105,134	14,583,071
Total liabilities	<u>14,133,726</u>	<u>14,880,648</u>	<u>15,081,134</u>
Net investment in capital assets	2,772,967	1,356,108	1,014,854
Unrestricted	4,337,677	5,233,197	5,283,794
Total net position	<u>7,110,644</u>	<u>6,589,305</u>	<u>6,298,648</u>
Total liabilities and net position	<u>\$ 21,244,370</u>	<u>\$ 21,469,953</u>	<u>\$ 21,379,782</u>
Operating revenue	\$ 2,415,216	\$ 2,308,983	\$ 3,545,079
Operating expenses	756,657	864,745	991,043
Operating income	<u>1,658,559</u>	<u>1,444,238</u>	<u>2,554,036</u>
Nonoperating revenue	82,423	85,014	50,205
Nonoperating expenses	1,219,643	1,238,595	861,425
Change in net position	<u>521,339</u>	<u>290,657</u>	<u>1,742,816</u>
Net position, beginning of year	6,589,305	6,298,648	4,555,832
Net position, end of year	<u>\$ 7,110,644</u>	<u>\$ 6,589,305</u>	<u>\$ 6,298,648</u>

Statements of Net Position

Assets – As of June 30, 2020 and 2019, Lobo Development has cash in the amount of \$3,373,745 and \$5,518,717, respectively, of which \$3,121,469 and \$5,284,158, respectively, is held by UNM, and \$252,276 and \$234,559, respectively, is held in an operating bank account at a financial institution. Cash increased primarily due to an increase in interest income and a decrease in project expenses.

Liabilities and Net Position – Lobo Development's net position at June 30, 2020, 2019, and 2018 was allocated between unrestricted and net investment in capital assets.

Lobo Development Corporation

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2020

Statements of Revenues, Expenses, and Changes in Net Position

Revenues – During the fiscal year ended June 30, 2020, Lobo Development generated operating revenue in the amount of \$2,415,216, which included lease payments from three buildings, and two student housing buildings. During the fiscal year ended June 30, 2019, Lobo Development generated operating revenue in the amount of \$2,308,983, which included lease payments from three buildings, and two student housing buildings. Other income amounted to \$82,423 and \$85,014 during the fiscal years ended June 30, 2020 and 2019, respectively. For 2020, other income was the result of interest earned from UNM. For 2019, other income was the result of interest earned from UNM.

Expenses – Total operating expenses decreased \$108,088 during the fiscal year ended June 30, 2020 due to a decrease in administrative and project expenses. Total operating expenses decreased \$126,298 during the fiscal year ended June 30, 2019 due to a decrease in project expenses.

UNM is the fiscal agent of Lobo Development. UNM holds the majority of Lobo Development's cash and invests the holdings in a commingled account with UNM's other investments. The pro rata interest earnings are credited to Lobo Development's account monthly and losses are charged at the end of the fiscal year. Lobo Development transfers funds to its checking account as needed.

Capital Assets and Debt Administration

Lobo Development's investment in capital assets as of June 30, 2020 amounts to \$2,772,967 (net of accumulated depreciation and debt incurred to finance). This investment in capital assets includes two buildings purchased during fiscal year 2013 and one building purchased in fiscal year 2017. Additional information concerning Lobo Development's capital assets may be found in note 4 in the notes to the financial statements.

At the end of the current fiscal year, Lobo Development had total debt outstanding of \$14,104,146. This debt was incurred during fiscal year 2013 for the purchase of the two buildings noted above and during fiscal year 2017 for the purchase of one building a noted above. Additional information concerning Lobo Development's long-term debt may be found in note 5 in the notes to the financial statements.

Factors Impacting Future Periods

Lobo Development is currently working on forming a Tax Incremental Development District (TIDD) with the City of Albuquerque to fund public infrastructure.

Lobo Development is currently involved in the commercial development of vacant UNM property and has been negotiating with developers. Once a firm commitment is received, work will begin on building the infrastructure to support the retail outlets on UNM property. It is not known when this expansion of business will transpire.

Anticipated revenue sources for 2020 include campus student housing ground rent, commercial development ground rent, and real estate income.

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2020

Contacting Lobo Development's Financial Management

This report is meant to describe the financial condition and position of Lobo Development.

If you have questions about this report or need additional financial information, contact:

Lobo Development Corporation
801 University Boulevard SE, Suite 207
Albuquerque, New Mexico 87106-4345

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Statements of Net Position

ASSETS

	June 30,	
	2020	2019
CURRENT ASSETS		
Cash on deposit with fiscal agent	\$ 3,121,469	\$ 5,284,158
Cash on deposit with bank	252,276	234,559
Accounts receivable	18,750	6,250
Notes receivable, current	87,937	-
Prepaid insurance	3,494	3,227
Total current assets	<u>3,483,926</u>	<u>5,528,194</u>
CAPITAL ASSETS		
Buildings	18,310,085	18,310,085
Construction in progress	1,748,198	343,354
Less accumulated depreciation	<u>(3,181,170)</u>	<u>(2,711,680)</u>
Net capital assets	<u>16,877,113</u>	<u>15,941,759</u>
Note receivable, net of current	<u>883,331</u>	<u>-</u>
Total assets	<u><u>\$ 21,244,370</u></u>	<u><u>\$ 21,469,953</u></u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 22,819	\$ 8,830
Accrued expenses	6,761	17,024
Current portion of long-term debt	498,678	480,517
Due to UNM	-	269,143
Total current liabilities	<u>528,258</u>	<u>775,514</u>
NONCURRENT LIABILITIES		
Long-term debt, net of current	<u>13,605,468</u>	<u>14,105,134</u>
Total noncurrent liabilities	<u>13,605,468</u>	<u>14,105,134</u>
NET POSITION		
Net investment in capital assets	2,772,967	1,356,108
Unrestricted	<u>4,337,677</u>	<u>5,233,197</u>
Total net position	<u>7,110,644</u>	<u>6,589,305</u>
Total liabilities and net position	<u><u>\$ 21,244,370</u></u>	<u><u>\$ 21,469,953</u></u>

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended June 30,	
	2020	2019
OPERATING REVENUES		
Rental revenue	\$ 1,344,244	\$ 1,426,796
Project revenue	1,050,972	855,575
Reimbursement revenue, net	20,000	26,612
Total operating revenues	<u>2,415,216</u>	<u>2,308,983</u>
OPERATING EXPENSES		
Depreciation	469,490	469,489
Administrative expenses	287,167	394,990
Project expenses	-	266
Total operating expenses	<u>756,657</u>	<u>864,745</u>
Operating income	<u>1,658,559</u>	<u>1,444,238</u>
NONOPERATING REVENUES		
Interest income	82,423	85,014
Total nonoperating revenues	<u>82,423</u>	<u>85,014</u>
NONOPERATING EXPENSES		
Interest expense	444,643	456,595
Distributions to UNM	600,000	607,000
Distributions to UNM-Athletics	175,000	175,000
Total nonoperating expenses	<u>1,219,643</u>	<u>1,238,595</u>
Change in net position	521,339	290,657
NET POSITION, beginning of year	<u>6,589,305</u>	<u>6,298,648</u>
NET POSITION, end of year	<u>\$ 7,110,644</u>	<u>\$ 6,589,305</u>

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Statements of Cash Flows

	Years Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments received from fiscal agent	\$ 2,395,216	\$ 2,282,371
Payments received from contractors	7,500	20,362
Payments received from insurance company	-	269,143
Payments to suppliers of goods or services	(148,420)	(198,970)
Payments to UNM	(269,143)	-
Payments to employees for services	(135,288)	(199,541)
Net cash provided by operating activities	<u>1,849,865</u>	<u>2,173,365</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction of capital assets	(1,404,844)	(343,354)
Distributions to UNM	(600,000)	(607,000)
Distributions to UNM-Athletics	(175,000)	(175,000)
Debt repayment to fiscal agent principal	(481,505)	(467,389)
Debt repayment to fiscal agent interest	(444,643)	(456,595)
Net cash used in capital and related financing activities	<u>(3,105,992)</u>	<u>(2,049,338)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on deposits with fiscal agent	82,423	85,014
Note receivable issued to fiscal agent	(1,000,000)	-
Principal repayment from fiscal agent	28,732	-
Net cash (used in) provided by investing activities	<u>(888,845)</u>	<u>85,014</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,144,972)</u>	<u>209,041</u>
CASH AND CASH EQUIVALENTS, beginning of year	5,518,717	5,309,676
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,373,745</u>	<u>\$ 5,518,717</u>
Reconciliation of cash to the statement of net position		
Cash on deposit with fiscal agent	\$ 3,121,469	\$ 5,284,158
Cash on deposit with the bank	252,276	234,559
Cash on statement of cash flows	<u>\$ 3,373,745</u>	<u>\$ 5,518,717</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 1,658,559	\$ 1,444,238
Depreciation expense	469,490	469,489
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in accounts receivable	(12,500)	(6,250)
Change in prepaid insurance	(267)	(1,015)
Change in accounts payable	13,989	(3,768)
Change in accrued expenses	(10,263)	1,528
Change in due to UNM	(269,143)	269,143
Net cash provided by operating activities	<u>\$ 1,849,865</u>	<u>\$ 2,173,365</u>

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 1 – Description of Business

Lobo Development Corporation (Lobo Development), a blended component unit of The University of New Mexico (UNM), is owned, controlled, and was established by UNM's Board of Regents (UNM Regents).

Lobo Development was incorporated in the State of New Mexico on October 4, 2007. It was organized under the amended State of New Mexico's University Research Park Act. The name of the Act has since been changed to the University Research Park and Economic Development Act.

Lobo Development was established to benefit the UNM Regents by relieving the University of New Mexico from the responsibilities to acquire, own, manage, and develop certain real estate in a commercially reasonable manner and to maximize the University's return from these assets; by contributing all of the corporation's net revenues to the University for the support of the teaching, research, and service mission of the University; and by creating learning opportunities for students in this development activity. The activities of the corporation shall include the acquisition, development, disposition, and rental of real estate for the benefit of the University.

Under the Memorandum of Agreement (MOA) between the UNM Regents and Lobo Development signed in the first quarter of fiscal year 2009, Lobo Development may plan, direct, and coordinate its business activities in accordance with a mutually agreed-upon development proposal and development agreement between Lobo Development and UNM. Lobo Development operations will be funded by an administrative fee assigned to approved projects. If Lobo Development revenues are more than sufficient to meet its anticipated financial obligations based on a mutually approved annual budget, it is the intent of the parties that excess revenue shall be distributed back to UNM. For the years ended June 30, 2020 and 2019, \$775,000 and \$782,000 was distributed back to UNM, respectively.

Primary activities performed by Lobo Development during the year ended June 30, 2020 focused on efforts to establish the UNM Sports and Entertainment District at South Campus, marketing of commercial sites along Gibson Boulevard, and the establishment of a Tax Increment Development District in partnership with the City of Albuquerque.

Lobo Development provides services only to UNM. Lobo Development does not have any component units.

Note 2 – Summary of Significant Accounting Policies and Practices

Basis of Accounting and Presentation

As a proprietary fund, Lobo Development's financial statements are reported using a flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred. Operating revenues and expenses are those incurred that relate directly to project management services. All other revenues and expenses are considered non-operating.

Lobo Development Corporation

(A Component Unit of the University of New Mexico)

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies and Practices (continued)

The accompanying financial statements include only the accounts of Lobo Development, which has no component units.

Net Position

For accounting and reporting purposes, Lobo Development reports its net position in the following categories as applicable:

- Net investment in capital assets – capital assets net of accumulated depreciation and debt incurred to finance the capital asset acquisition.
- Unrestricted – net position that is not subject to externally imposed constraints.

Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statements dates and the reported amounts of revenues and expenses during these reporting periods. Due to uncertainties inherent in the estimation process, actual results could differ from those estimates.

Cash and Cash Equivalents

Lobo Development considers all highly liquid investments with a maturity of three months or less when purchase to be cash equivalents. For purposes of the statement of cash flows, Lobo Development considers cash and cash equivalents to be cash deposits and amounts held by its fiscal agent.

Revenue Recognition

Lobo Development recognizes operating revenue for services earned under the terms of the MOA.

Lobo Development's revenue for the fiscal year ended 2020 originated from the following sources: (1) Student Housing project/ACC Component I, (2) Student Housing project/ACC Component II, (3) Reimbursement Revenue, (4) Rent from three occupancy leases. Lobo Development's revenue for the fiscal year ended 2019 originated from the following sources: (1) Student Housing project/ACC Component I, (2) Student Housing project/ACC Component II, (3) Reimbursement Revenue, (4) Rent from three occupancy leases. All revenue from these sources is originally paid to UNM and UNM determines which revenue streams are allocated to Lobo Development.

Income Taxes

Lobo Development is exempt from federal income tax on income related to its exempt purposes under Section 501(a) of the Internal Revenue Code (Code) as an organization described in Section 501(c)(3) of the Code.

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies and Practices (continued)

Capital Assets

Capital assets are recorded at original cost, or fair value if donated. Per Section 12-6-10 NMSA 1978, Lobo Development follows UNM's capitalization policy for moveable equipment includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 39 years for buildings.

Cash

Lobo Development's cash balances include cash on deposit with fiscal agent and an operating account. Lobo Development has no statutory policy requirements related to cash deposits. UNM serves as the fiscal agent for Lobo Development through which Lobo Development participates in a pooled bank account maintained by UNM. At June 30, 2020 and 2019, Lobo Development had a balance in that pooled account of \$3,121,469 and \$5,284,158, respectively. As fiscal agent, UNM requires the financial institution holding these pooled funds to maintain minimum collateral amounts. Interest is allocated monthly to Lobo Development's account based on its balance in the pooled bank account at the end of the preceding month.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. At June 30, 2020, the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank were \$252,680 and \$252,276, respectively. At June 30, 2019, the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank were \$245,566 and \$234,599, respectively. The Federal Deposit Insurance Corporation (FDIC) will insure balances up to \$250,000. The majority of the book balance was insured by the FDIC for 2020, the entire book balance was insured for 2019.

Note 3 – Related-Party Transactions

Effective August 12, 2008, UNM and Lobo Development entered into a MOA containing the expectations and performance obligations that UNM is seeking from Lobo Development.

Pursuant to the MOA, UNM provides to Lobo Development, at no cost to Lobo Development, facilities support and general business office and associated workspace. Under the agreement, UNM holds cash earned by Lobo Development, at no cost to Lobo Development. UNM transferred \$1,050,972 and \$855,575 to Lobo Development for the years ended June 30, 2020 and 2019, respectively. This amount is included in project revenue.

The MOA may be terminated by UNM, effective upon written notice to Lobo Development. Upon termination, all property of Lobo Development shall be transferred to UNM or other successor organization designated by resolution of the UNM Regents.

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 3 – Related-Party Transactions (continued)

On April 1, 2013, Lobo Development executed a Promissory Note with UNM to finance a capital assets purchase made in fiscal year 2013. The Note was originally executed for \$27,800,000 at 3.0% interest per annum with a maturity date of May 1, 2020. A Loan Revision Agreement was executed on January 1, 2016 to reduce the principal balance to \$15,211,543 with no change in interest rate or maturity date. In August 2019, the loan expiration was extended to May 1, 2027 (see Note 5).

On December 21, 2016, Lobo Development executed a Promissory Note with the University of New Mexico Foundation, Inc. (UNM Foundation) to provide funds to finalize the purchase of a building. The Note was originally executed for \$1,000,000 at 3.75% interest per annum, with a maturity date of December 21, 2026 (see Note 5).

On April 1, 2016, Lobo Development entered into an MOA with Innovate ABQ, Inc. (Innovate), a component unit of the University of New Mexico, wherein Lobo Development provides bookkeeping and operations management services to Innovate. Net revenue received under this MOA was \$20,000 and \$26,612 for the fiscal years ended June 30, 2020 and 2019, respectively.

On May 29, 2015, Lobo Development entered into an MOA with the University of New Mexico Athletics Department (Athletics), wherein Lobo Development will allocate annually to Athletics half of the “Lobo Village” ground lease income received from UNM. For the fiscal year ended June 30, 2020, Lobo Development distributed \$175,000 of “Lobo Village” ground lease income to Athletics. For the fiscal year ended June 30, 2019, Lobo Development distributed \$175,000 of “Lobo Village” ground lease income to Athletics.

Lobo Development receives rental revenue from UNM and Athletics under three occupancy lease agreements. For the fiscal year ended June 30, 2020, rental revenue received from UNM was \$1,235,899 and rental revenue received from Athletics was \$108,345, for total rental revenue of \$1,344,244. For the fiscal year ended June 30, 2019, rental revenue received from UNM was \$1,320,614 and rental revenue received from Athletics was \$106,182, for total rental revenue of \$1,426,796. Future rents due are as follows:

	<u>1312 Basehart</u>	<u>933 Bradbury</u>	<u>Baseball Clubhouse</u>
Fiscal year ending June 30:			
2021	\$ 396,458	\$ 822,499	\$ 106,997
2022	396,458	822,499	106,997
2023	396,458	822,499	106,997
2024	396,458	822,499	106,997
2025	396,458	822,499	106,997
2026 - 2030	1,883,177	3,906,868	160,496
	<u>\$ 3,865,467</u>	<u>\$ 8,019,363</u>	<u>\$ 695,481</u>

Lobo Development did not purchase goods and services from companies that board members are employed by during the fiscal years ended June 30, 2020 and 2019.

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 3 – Related-Party Transactions (continued)

During fiscal year 2020, Lobo Development entered into a Research Park Corporation Funds Transfer Agreement with UNM. The agreement is for Lobo Development to transfer \$1,000,000 to UNM for the purpose of funding improvements to the UNM Advanced Materials Laboratory. The note receivable is to be repaid over a period of 10 years at an interest rate of 3% per annum. For the fiscal year ended June 30, 2020, \$971,268 was outstanding as receivable, with future payments as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ended June 30:			
2021	\$ 87,937	\$ 27,935	\$ 115,872
2022	90,612	25,261	115,873
2023	93,368	22,505	115,873
2024	96,208	19,665	115,873
2025	99,134	16,739	115,873
2026-2030	504,009	36,732	540,741
	<u>\$ 971,268</u>	<u>\$ 148,837</u>	<u>\$ 1,120,105</u>

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2020 was as follows:

	<u>Balance at June 30, 2019</u>	<u>Additions/ Completions</u>	<u>Retirements/ Disposals</u>	<u>Balance at June 30, 2020</u>
Capital assets				
Non depreciable				
Construction in progress	\$ 343,354	\$ 1,404,844	\$ -	\$ 1,748,198
Depreciable				
Buildings	18,310,085	-	-	18,310,085
Accumulated depreciation	(2,711,680)	(469,490)	-	(3,181,170)
Net capital assets	<u>\$ 15,941,759</u>	<u>\$ 935,354</u>	<u>\$ -</u>	<u>\$ 16,877,113</u>

Capital asset activity for the year ended June 30, 2019 was as follows:

	<u>Balance at June 30, 2018</u>	<u>Additions/ Completions</u>	<u>Retirements/ Disposals</u>	<u>Balance at June 30, 2019</u>
Capital assets				
Non depreciable				
Construction in progress	\$ -	\$ 343,354	\$ -	\$ 343,354
Depreciable				
Buildings	18,310,085	-	-	18,310,085
Accumulated depreciation	(2,242,191)	(469,489)	-	(2,711,680)
Net capital assets	<u>\$ 16,067,894</u>	<u>\$ (126,135)</u>	<u>\$ -</u>	<u>\$ 15,941,759</u>

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 5 – Long-Term Debt

A promissory note payable to UNM was issued to finance the capital assets purchase made in fiscal year 2013. A Loan Revision Agreement was issued January 1, 2016 to reduce the principal due to a transfer of one of the three buildings. Principal and interest payments are due monthly on the first day of each month. This note bears interest at 3% and as of year-end and is set to mature on May 1, 2027.

A promissory note payable to the University of New Mexico Foundation, Inc. was issued to finance a capital asset purchased on December 21, 2016. A First Amendment to the Promissory Note was issued March 31, 2017 to reduce the monthly payments from \$10,006 to \$8,555. This was due to a \$141,941 payment made on March 31, 2017 to reduce the principal from \$979,292 to \$837,351 at that time.

Principal and interest payments are due monthly on the twenty-first day of each month. The note has a variable interest rate; therefore, effective January 21, 2019, the annual interest rate increased from 3.75% to 5.50%. This note matures December 21, 2026.

Notes payable activity consists of the following:

	Year Ended June 30, 2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Note payable to UNM	\$ 13,912,764	\$ -	\$ (405,971)	\$ 13,506,793	\$ 418,320
Note payable to UNM Foundation	672,887	-	(75,534)	597,353	80,358
	<u>\$ 14,585,651</u>	<u>\$ -</u>	<u>\$ (481,505)</u>	<u>\$ 14,104,146</u>	<u>\$ 498,678</u>

	Year Ended June 30, 2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Note payable to UNM	\$ 14,306,751	\$ -	\$ (393,987)	\$ 13,912,764	\$ 405,971
Note payable to UNM Foundation	746,289	-	(73,402)	672,887	74,546
	<u>\$ 15,053,040</u>	<u>\$ -</u>	<u>\$ (467,389)</u>	<u>\$ 14,585,651</u>	<u>\$ 480,517</u>

Minimum future payments under the promissory notes as of June 30, 2020 are as follows:

	Principal	Interest	Total
Fiscal year ending June 30:			
2021	\$ 498,678	\$ 430,426	\$ 929,104
2022	514,236	413,260	927,496
2023	532,039	364,272	896,311
2024	550,506	376,990	927,496
2025	569,663	346,219	915,882
2026 - 2028	11,439,024	604,118	12,043,142
	<u>\$ 14,104,146</u>	<u>\$ 2,535,285</u>	<u>\$ 16,639,431</u>

Lobo Development Corporation
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Notes to Financial Statements

Note 6 – Risk Management

Lobo Development, through UNM, participates in the State of New Mexico Risk Management Program (Risk Management) that provides general liability at Lobo Development's expense. Workers' compensation insurance and property insurance are provided by private companies at Lobo Development's expense. The Risk Management program liability insurance coverage includes most employee liability claims; those claims falling outside this state program are in limited amounts and are covered by UNM from its operating budget. UNM's exposure is limited to \$1,000 per any first party incurred property loss, with the exception of theft, which has a \$5,000 deductible.

Note 7 – Defined-Contribution Plan

Lobo Development entered into a 403(b) defined-contribution plan effective January 1, 2013. As a defined-contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan may be amended by a board of directors' resolution. The plan is available to all employees of Lobo Development, beginning the first day of the plan year quarter coincident with or next following the date the employee first performs their first day of service and are considered to be immediately vested. The plan allows for variable employee contributions up to the Internal Revenue Service maximum allowed amount. Principal Financial Group administers the plan, and Lobo Development contributes the sum of (a) a 6% match for employees that contribute to the plan and (b) a discretionary contribution as determined by Lobo Development for employees who do not contribute to the plan. Contributions to the plan for the fiscal years ended June 30, 2020 and 2019 were \$9,654 and \$13,972, respectively, which consisted of \$4,827 and \$6,986 contributed by employees and \$4,827 and \$6,986 contributed by Lobo Development, respectively.

Note 8 – Subsequent Events

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is September 22, 2020.

Note 9 – Uncertainties

During the fiscal year, an outbreak of a novel coronavirus (COVID-19) occurred in the United States of America, along with various other countries globally. On March 11, 2020, the World Health Organization assessed the novel coronavirus outbreak and characterized it as a pandemic. Subsequent to the declaration of a pandemic, a variety of federal, state, and local governments have taken actions in response to the pandemic, which have ranged by jurisdiction, but are resulting in a variety of negative economic consequences, the scope of which are not currently known or quantifiable. The duration and intensity of the impact of the coronavirus and resulting impact to the organization is unknown.

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors
Lobo Development Corporation
and Mr. Brian Colón, Esq., New Mexico State Auditor

We have audited, 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, the financial statements of Lobo Development Corporation (Lobo Development), a component of the University of New Mexico, which comprise of the statement of net position as of June 30, 2020, and the related statement 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 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lobo Development'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lobo Development's internal control. Accordingly, we do not express an opinion on the effectiveness of Lobo Development's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lobo Development'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 did not disclose 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 Lobo Development's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
September 22, 2020

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Summary of Auditor's Results (As Required by 2.2.2.10 NMAC L(1) f)
June 30, 2020

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Compliance and other matters noted? Yes No

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
June 30, 2020

Current Year Findings

No matters were reported.

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings
June 30, 2020

2019-001 Financial Close and Reporting – Material Weakness
Current Status: Resolved

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Exit Conference
June 30, 2020

An exit conference was held on September 22, 2020. During this meeting, the contents of this report were discussed with the following individuals:

Lobo Development Corporation

Angela Hernandez	Secretary/Treasurer
Keelie Garcia	Administrative Operations Manager

Moss Adams LLP

Lisa Todd	Partner
Corrine Zajac-Clarkson	Senior Manager

Lobo Development Corporation is responsible for the contents of the financial statements.
Moss Adams LLP assisted with the preparation of the financial statements.