

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

Financial Statements

June 30, 2017 and 2016

(With Report of Independent Auditors Thereon)

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

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

Official Roster (unaudited)

June 30, 2017

OFFICERS

David W. Harris
Chris Vallejos

MEMBERS

Chaouki T. Abdallah, Ph.D.
Louis Abruzzo
Stephen J. Ciepiela
Maria Griego-Raby
David W. Harris
Marron Lee
Paul B. Roth, M.D.
Chris Vallejos

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Lobo Development Corporation
and
Mr. Timothy Keller, 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 the statements 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, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that

The Board of Directors
Lobo Development Corporation
and
Mr. Timothy Keller, New Mexico State Auditor

are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lobo Development Corporation as of June 30, 2017, and the changes in its net position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Year Financial Statements

The financial statements of Lobo Development Corporation as of June 30, 2016 and 2015 were audited by other auditors whose report dated November 11, 2016, expressed an unmodified opinion on those statements.

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 5 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

The Board of Directors
Lobo Development Corporation
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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 20, 2017 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 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 Lobo Development's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
September 20, 2017

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

Management's Discussion and Analysis

June 30, 2017 and 2016

(unaudited)

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, 2017, 2016 and 2015. 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 increased in 2017 by \$487,609, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2017 of \$3,541,662. The increase during fiscal year 2017 is primarily due to closeout of a new project, an increase in reimbursement revenue, and lower project expenses. Cash increased in 2016 by \$1,261,652, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2016 of \$3,054,053. The increase during fiscal year 2016 was primarily due to an increase in the lease payments allocated for Student Housing, lower loan payments made to UNM due to a revised loan agreement, and lower project and administrative expenses. Interest earned during fiscal year 2017 increased \$15,115 from \$29,815 to \$44,930, 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 \$1,922,488 during the year, from \$2,633,344 in 2016 to \$4,555,832 in fiscal year 2017, primarily as a result of the purchase of new newly constructed building. During fiscal year 2016, Lobo Development's net position increased \$884,837 during the year, from \$1,748,507 in 2015 to \$2,633,344 in fiscal year 2016, primarily as a result of an increase in the lease payments allocated for Student Housing, lower loan payments made to UNM due to a revised loan agreement, and lower project and administrative expenses.

During fiscal year 2017, operating revenue increased by \$22,975 and operating expenses decreased by \$145,324, resulting in an increase in net operating income of \$168,299. During fiscal year 2016, operating revenue decreased by \$1,168,395 and operating expenses decreased by \$372,048, resulting in a decrease in net operating income of \$796,347.

Overview of the Basic Financial Statements

The statements of net position of Lobo Development provides both long-term and short-term information about Lobo Development's overall financial position. The statements of revenues, expenses, and changes in net position provides information about the operating revenues and expenses and the nonoperating 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
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Management's Discussion and Analysis

June 30, 2017 and 2016

(unaudited)

Financial Information

Lobo Development's condensed financial information as of and for the fiscal years ended June 30, 2017, 2016, and 2015 are provided in the following table:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 3,544,558	3,057,149	1,877,264
Noncurrent assets	16,537,383	14,661,863	26,416,226
Total assets	<u>\$ 20,081,941</u>	<u>17,719,012</u>	<u>28,293,490</u>
Current liabilities	\$ 473,069	396,558	625,941
Noncurrent liabilities	15,053,040	14,689,110	25,919,042
Net position	<u>4,555,832</u>	<u>2,633,344</u>	<u>1,748,507</u>
Total liabilities and net assets	<u>\$ 20,081,941</u>	<u>17,719,012</u>	<u>28,293,490</u>
Operating revenue	\$ 2,737,126	2,714,151	3,882,546
Operating expenses	<u>905,075</u>	<u>1,050,399</u>	<u>1,422,447</u>
Operating income	1,832,051	1,663,752	2,460,099
Nonoperating revenue	929,273	186,361	20,916
Nonoperating expenses	<u>838,836</u>	<u>965,276</u>	<u>955,415</u>
Change in net position	1,922,488	884,837	1,525,600
Net position, beginning of year	<u>2,633,344</u>	<u>1,748,507</u>	<u>222,907</u>
Net position, end of year	<u>\$ 4,555,832</u>	<u>2,633,344</u>	<u>1,748,507</u>

Statements of Net Position

Assets – As of June 30, 2017 and 2016, Lobo Development has cash in the amount of \$3,541,662 and \$3,054,053, respectively, of which \$3,416,761 and \$3,001,805, respectively, is held by UNM, and \$124,901 and \$52,248, respectively, is held in an operating bank account at a financial institution. Cash increased primarily due to closeout of a new project, an increase in reimbursement revenue, and lower project expenses.

Liabilities and Net Position – Lobo Development's net position at June 30, 2017, 2016, and 2015 was allocated between unrestricted and net investment in capital assets.

Statements of Revenues, Expenses, and Changes in Net Position

Revenues – During the fiscal year ended June 30, 2017, Lobo Development generated operating revenue in the amount of \$2,737,126, which included lease payments from three buildings, and two student housing buildings. During the fiscal year ended June 30, 2016, Lobo Development generated operating revenue in the amount of \$2,714,151. Other income amounted to \$929,273 and \$186,361 during the fiscal years ended June 30, 2017 and 2016, respectively. For 2017, other income was the result of a transfer in from UNM Athletics and interest earned from UNM. For 2016, other income was the result of gain from the transfer of property to UNM.

LOBO DEVELOPMENT CORPORATION
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Management's Discussion and Analysis

June 30, 2017 and 2016

(unaudited)

Expenses – Total operating expenses decreased \$145,324 during the fiscal year ended June 30, 2017 due to a decrease in project expenses. Total operating expenses decreased \$372,048 during the fiscal year ended June 30, 2016.

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, 2017 amounts to \$1,028,796 (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 5 in notes to the financial statements.

At the end of the current fiscal year, Lobo Development had total debt outstanding of \$15,508,587. 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 6 in the notes to the financial statements.

Factors Impacting Future Periods

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 2018 include campus student housing ground rent, commercial development ground rent, and real estate income.

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
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Statements of Net Position

June 30, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash on deposit with fiscal agent	\$ 3,416,761	3,001,805
Cash on deposit with bank	124,901	52,248
Prepaid insurance	2,896	3,096
Total current assets	3,544,558	3,057,149
Capital assets:		
Buildings	18,310,085	15,994,759
Less accumulated depreciation	(1,772,702)	(1,332,896)
Net capital assets	16,537,383	14,661,863
Total assets	\$ 20,081,941	17,719,012
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 45	4,082
Accrued expenses	17,477	21,404
Current portion of long-term debt	455,547	371,072
Total current liabilities	473,069	396,558
Noncurrent liabilities:		
Long-term debt	15,053,040	14,689,110
Total noncurrent liabilities	15,053,040	14,689,110
Net position:		
Net investment in capital assets	1,028,796	(398,319)
Unrestricted	3,527,036	3,031,663
Total net position	\$ 4,555,832	2,633,344

See accompanying notes to financial statements.

LOBO DEVELOPMENT CORPORATION
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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Rental revenue	\$ 1,376,300	1,764,075
Project revenue	1,340,420	950,027
Reimbursement revenue	20,406	49
Total operating revenues	2,737,126	2,714,151
Operating expenses:		
Project expenses	98,644	136,590
Depreciation	439,806	559,703
Administrative expenses	366,625	354,106
Total operating expenses	905,075	1,050,399
Operating income	1,832,051	1,663,752
Nonoperating revenues:		
Transfer in from UNM-Athletics	884,343	—
Interest income	44,930	29,815
Gain on transfer of property	—	156,546
Total nonoperating revenues	929,273	186,361
Nonoperating expenses:		
Interest expense	463,836	585,276
Distributions to UNM	200,000	200,000
Distributions to UNM-Athletics	175,000	180,000
Total nonoperating expenses	838,836	965,276
Change in net position	1,922,488	884,837
Net position, beginning of year	2,633,344	1,748,507
Net position, end of year	\$ 4,555,832	2,633,344

See accompanying notes to financial statements.

LOBO DEVELOPMENT CORPORATION
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Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Payments to suppliers of goods or services	\$ (244,680)	(293,749)
Payments to employees for services	(228,353)	(199,442)
Payments received from contractors	213,329	49
Payments received from fiscal agent	2,523,797	2,748,965
Net cash provided by operating activities	2,264,093	2,255,823
Cash flows from capital and related financing activities:		
Purchase of capital assets	(2,315,326)	—
Transfer in from UNM-Athletics	884,343	—
Distributions to UNM	(200,000)	(200,000)
Distributions to UNM-Athletics	(175,000)	(180,000)
Debt advance from fiscal agent principal	1,000,000	—
Debt repayment to fiscal agent principal	(551,595)	(458,710)
Debt repayment to fiscal agent interest	(463,836)	(585,276)
Net cash used in capital and related financing activities	(1,821,414)	(1,423,986)
Cash flows from investing activities:		
Interest received on deposits with fiscal agent	44,930	29,815
Cash received on note receivable	—	400,000
Net cash provided by investing activities	44,930	429,815
Net increase in cash and cash equivalents	487,609	1,261,652
Cash and cash equivalents, beginning of year	3,054,053	1,792,401
Cash and cash equivalents, end of year	\$ 3,541,662	3,054,053
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,832,051	1,663,752
Depreciation expense	439,806	559,703
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in accounts receivable	—	34,863
Change in prepaid insurance	200	(3,096)
Change in accounts payable	(4,037)	601
Change in accrued expenses	(3,927)	—
Net cash provided by operating activities	\$ 2,264,093	2,255,823
Supplemental information:		
Sale of building to UNM	\$ —	10,844,660
Revision of debt with UNM	—	11,001,206
In-Kind contribution for Lobo Baseball clubhouse	192,923	—

See accompanying notes to financial statements.

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(A Component Unit of the University of New Mexico)

Notes to the Financial Statements

June 30, 2017 and 2016

(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 year ended June 30, 2017, \$375,000 was distributed back to UNM. For the year ended June 30, 2016, \$380,000 was distributed back to UNM.

Primary activities performed by Lobo Development during the year ended June 30, 2017 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.

(2) Summary of Significant Accounting Policies and Practices

(a) 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 nonoperating.

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

LOBO DEVELOPMENT CORPORATION
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Notes to the Financial Statements

June 30, 2017 and 2016

(b) Net Position

For accounting and reporting purposes, Lobo Development reports its net position in the following net asset 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.

(c) 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.

(d) 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.

(e) 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 2017 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, and (5) Other funds related to the MOA. Revenue for the fiscal year ended 2016 originated from the following sources: (1) Student Housing project/ACC Component I, (2) Student Housing project/ACC Component II, (3) Real Estate/Mesa del Sol, (4) Rent from three occupancy leases, and (5) Gain from transfer of property. All revenue from these sources is originally paid to UNM and UNM determines which revenue streams are allocated to Lobo Development.

(f) 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
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Notes to the Financial Statements

June 30, 2017 and 2016

(g) 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.

(h) Reclassifications

Certain 2016 amounts have been reclassified in order to be consistent with the 2017 presentation.

(3) 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, 2017 and 2016, Lobo Development had a balance in that pooled account of \$3,416,761 and \$3,001,805, 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, 2017, the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank were \$132,338 and \$124,901, respectively. At June 30, 2016, the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank were \$61,084 and \$52,248, respectively. Of the bank balance, the entire amount is insured by the Federal Deposit Insurance Corporation.

(4) 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 provides cash and investment management activities for Lobo Development, at no cost to Lobo Development. Lobo Development received \$1,147,497 and \$950,027 from UNM to fund operations for the years ended June 30, 2017 and 2016, 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.

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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. A First Amendment to Promissory Note was issued March 31, 2017 to reduce the monthly payments from \$10,006.12 to \$8,555.82. This was due to a \$141,940.69 payment made on March 31, 2017. Therefore, the principal was reduced from \$979,292.06 to \$837,351.37. Principal and interest payments are due monthly on the twenty-first day of each month. The interest rate and maturity date remain the same as the original Note.

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. For the fiscal year ended June 30, 2017, revenue received under this MOA was \$20,406.

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; all of the “Wendy’s on Avenida Cesar Chavez” ground lease income received from UNM after initial development expenses have been reimbursed, and; all of the “Stadium West Parking Lot Project” ground lease income received from UNM after initial development expenses have been reimbursed. For the fiscal year ended June 30, 2017, Lobo Development distributed \$175,000 of “Lobo Village” ground lease income to Athletics; no ground lease income was received from UNM for the other two properties. For the fiscal year ended June 30, 2016, Lobo Development distributed \$180,000 of “Lobo Village” ground lease income to Athletics; no ground lease income was received from UNM for the other two properties.

Lobo Development receives rental revenue from UNM and Athletics under three occupancy lease agreements. For the fiscal year ended June 30, 2017, rental revenue received from UNM was \$1,320,614 and rental revenue received from Athletics was \$55,686, for total rental revenue of \$1,376,300. For the fiscal year ended June 30, 2016, rental revenue received from UNM was \$1,764,076 and no rental revenue was received from Athletics, for total rental revenue of \$1,764,076. Future rents due are as follows:

	<u>1312 Basehart</u>	<u>933 Bradbury</u>	<u>Baseball Clubhouse</u>
Fiscal year ending June 30:			
2018	\$ 396,458	924,156	102,670
2019	396,458	924,156	102,670
2020	330,382	770,130	102,670
2021	-	-	102,670
2022	-	-	102,670

Lobo Development did not purchase goods and services from companies that board members are employed by during the fiscal years ended June 30, 2017 and 2016.

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(A Component Unit of the University of New Mexico)

Notes to the Financial Statements

June 30, 2017 and 2016

(5) Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balance at June 30, 2016</u>	<u>Additions/ completions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2017</u>
Buildings	\$ 15,994,759	2,315,326	—	18,310,085
Accumulated depreciation	(1,332,896)	(439,806)	—	(1,772,702)
Total capital assets	<u>\$ 14,661,863</u>	<u>1,875,520</u>	<u>—</u>	<u>16,537,383</u>

Capital asset activity for the year ended June 30, 2016 was as follows:

	<u>Balance at June 30, 2015</u>	<u>Additions/ completions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2016</u>
Buildings	\$ 27,662,117	—	(11,667,358)	15,994,759
Accumulated depreciation	(1,595,891)	(559,703)	822,698	(1,332,896)
Total capital assets	<u>\$ 26,066,226</u>	<u>(559,703)</u>	<u>(10,844,660)</u>	<u>14,661,863</u>

(6) 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 matures May 1, 2020. The following is a summary of debt transactions, including current portion:

	<u>Balance at July 1</u>	<u>Sale/Transfer</u>	<u>Payments</u>	<u>Balance at June 30</u>	<u>Due within one year</u>
Note payable to UNM, FY 2016	\$ 26,520,098	(11,001,206)	(458,710)	15,060,182	371,072
Note payable to UNM, FY 2017	15,060,182	—	(371,072)	14,689,110	382,358

At June 30, 2017, minimum future payments under this promissory note are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
2018	\$ 382,358	435,444	817,802
2019	394,104	423,815	817,919
2020	13,912,648	344,310	14,256,958
	<u>\$ 14,689,110</u>	<u>1,203,569</u>	<u>15,892,679</u>

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June 30, 2017 and 2016

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 Promissory Note was issued March 31, 2017 to reduce the monthly payments from \$10,006.12 to \$8,555.82. This was due to a \$141,940.69 payment made on March 31, 2017 to reduce the principal from \$979,292.06 to \$837,351.37. Principal and interest payments are due monthly on the twenty-first day of each month. This note bears interest at 3.75% and matures December 21, 2026. The following is a summary of debt transactions, including current portion:

	<u>Balance at July 1</u>	<u>New Loan</u>	<u>Payments</u>	<u>Balance at June 30</u>	<u>Due within one year</u>
Note payable to UNM Foundation, FY 2016 \$	—	—	—	—	—
Note payable to UNM Foundation, FY 2017	—	1,000,000	(180,521)	819,479	73,189

At June 30, 2017, minimum future payments under this promissory note are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
2018	\$ 73,189	29,481	102,670
2019	76,235	26,689	102,924
2020	79,290	23,790	103,080
2021	82,461	20,743	103,204
2022	85,755	17,593	103,348
Thereafter (2023-2027)	422,549	36,727	459,276
	<u>\$ 819,479</u>	<u>155,023</u>	<u>974,502</u>

(7) 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.

(8) 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 director's 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

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(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, 2017 and 2016 were \$10,692 and \$10,586, respectively, which consisted of \$5,312 and \$5,280 contributed by employees and \$5,380 and \$5,306 contributed by Lobo Development, respectively.

(9) Subsequent Events

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is September 20, 2017.



**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. 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 Lobo Development Corporation (Lobo Development), a component of the University of New Mexico, which comprise the statement of net position as of June 30, 2017, 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 20, 2017.

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 opinion 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 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.

The Board of Directors
Lobo Development Corporation
and
Mr. Timothy Keller, New Mexico State Auditor

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

Compliance and Other Matters

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

Mess Adams LLP

Albuquerque, New Mexico
September 20, 2017

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Exit Conference

Year ended June 30, 2017

An exit conference was held on September 20, 2017. During this meeting, the contents of this report were discussed with the following individuals:

Lobo Development Corporation

Chris Vallejos	Secretary/Treasurer
Thomas Neale	Director
Keelie L. Garcia	Administrative Operations Manager

Moss Adams LLP

Lisa Todd	Partner
Sheila Herrera	Senior Manager

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