



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

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

June 30, 2018 and 2017

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Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Official Roster (unaudited)
June 30, 2018

OFFICERS

David W. Harris
Chris Vallejos

MEMBERS

Louis Abruzzo
Stephen J. Ciepiela
Robert M. Doughty, III
Maria Griego-Raby
David W. Harris
Marron Lee
Eddie Nunez
Paul B. Roth, M.D.
Garnett Stokes, Ph.D.
Chris Vallejos

Report of Independent Auditors

The Board of Directors
Lobo Development Corporation
and
Mr. Wayne A. Johnson, 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, 2018 and 2017, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 of Lobo Development Corporation as of June 30, 2018 and 2017, 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 13, 2018 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 13, 2018

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2018

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, 2018, 2017, and 2016. 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 2018 by \$1,768,014, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2018 of \$5,309,676. The increase during fiscal year 2018 is primarily due to an increase in project revenue, an increase in rental income, and an increase in reimbursement revenue. 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 was primarily due to the closeout of a new project, an increase in reimbursement revenue, and lower project expenses. Interest earned during fiscal year 2018 increased \$5,275 from \$44,930 to \$50,205, 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 \$1,742,816 during the year, from \$4,555,832 in 2017 to \$6,298,648 in fiscal year 2018. During fiscal year 2017, 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.

During fiscal year 2018, operating revenue increased by \$807,953 and operating expenses increased by \$85,968, resulting in an increase in net operating income of \$721,985. 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.

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
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2018

Financial Information

Lobo Development's condensed financial information as of and for the fiscal years ended June 30, 2018, 2017, and 2016 are provided in the following table:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current assets	\$ 5,311,888	\$ 3,544,558	\$ 3,057,149
Net capital assets	16,067,894	16,537,383	14,661,863
Total assets	<u>\$ 21,379,782</u>	<u>\$ 20,081,941</u>	<u>\$ 17,719,012</u>
Current liabilities	\$ 498,063	\$ 473,069	\$ 396,558
Noncurrent liabilities	14,583,071	15,053,040	14,689,110
Total liabilities	<u>15,081,134</u>	<u>15,526,109</u>	<u>15,085,668</u>
Net investment in capital assets	1,014,854	1,028,796	(398,319)
Unrestricted	5,283,794	3,527,036	3,031,663
Total net position	<u>6,298,648</u>	<u>4,555,832</u>	<u>2,633,344</u>
Total liabilities and net position	<u>\$ 21,379,782</u>	<u>\$ 20,081,941</u>	<u>\$ 17,719,012</u>
Operating revenue	\$ 3,545,079	\$ 2,737,126	\$ 2,714,151
Operating expenses	991,043	905,075	1,050,399
Operating income	<u>2,554,036</u>	<u>1,832,051</u>	<u>1,663,752</u>
Nonoperating revenue	50,205	929,273	186,361
Nonoperating expenses	861,425	838,836	965,276
Change in net position	<u>1,742,816</u>	<u>1,922,488</u>	<u>884,837</u>
Net position, beginning of year	<u>4,555,832</u>	<u>2,633,344</u>	<u>1,748,507</u>
Net position, end of year	<u>\$ 6,298,648</u>	<u>\$ 4,555,832</u>	<u>\$ 2,633,344</u>

Statements of Net Position

Assets – As of June 30, 2018 and 2017, Lobo Development has cash in the amount of \$5,309,676 and \$3,541,662, respectively, of which \$5,106,547 and \$3,416,761, respectively, is held by UNM, and \$203,129 and \$124,901, respectively, is held in an operating bank account at a financial institution. Cash increased primarily due to an increase in project revenue, an increase in rental revenue, and an increase in reimbursement revenue.

Liabilities and Net Position – Lobo Development's net position at June 30, 2018, 2017, and 2016 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, 2018

Statements of Revenues, Expenses, and Changes in Net Position

Revenues – During the fiscal year ended June 30, 2018, Lobo Development generated operating revenue in the amount of \$3,545,079, which included lease payments from three buildings, and two student housing buildings. During the fiscal year ended June 30, 2017, Lobo Development generated operating revenue in the amount of \$2,737,126. Other income amounted to \$50,205 and \$929,273 during the fiscal years ended June 30, 2018 and 2017, respectively. For 2018, other income was the result of interest earned from UNM. For 2017, other income was the result of a transfer in from UNM Athletics and interest earned from UNM.

Expenses – Total operating expenses increased \$85,968 during the fiscal year ended June 30, 2018 due to an increase in project expenses, building depreciation, and administrative expenses. Total operating expenses decreased \$145,324 during the fiscal year ended June 30, 2017.

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, 2018 amounts to \$1,014,854 (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 the notes to the financial statements.

At the end of the current fiscal year, Lobo Development had total debt outstanding of \$15,053,040. 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 2019 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, 2018

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,	
	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash on deposit with fiscal agent	\$ 5,106,547	\$ 3,416,761
Cash on deposit with bank	203,129	124,901
Prepaid insurance	2,212	2,896
Total current assets	<u>5,311,888</u>	<u>3,544,558</u>
CAPITAL ASSETS		
Buildings	18,310,085	18,310,085
Less accumulated depreciation	<u>(2,242,191)</u>	<u>(1,772,702)</u>
Net capital assets	<u>16,067,894</u>	<u>16,537,383</u>
Total assets	<u>\$ 21,379,782</u>	<u>\$ 20,081,941</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable	\$ 12,598	\$ 45
Accrued expenses	15,496	17,477
Current portion of long-term debt	<u>469,969</u>	<u>455,547</u>
Total current liabilities	<u>498,063</u>	<u>473,069</u>
NONCURRENT LIABILITIES		
Long-term debt	<u>14,583,071</u>	<u>15,053,040</u>
Total noncurrent liabilities	<u>14,583,071</u>	<u>15,053,040</u>
Net position:		
Net investment in capital assets	1,014,854	1,028,796
Unrestricted	<u>5,283,794</u>	<u>3,527,036</u>
Total net position	<u>6,298,648</u>	<u>4,555,832</u>
Total liabilities and net position	<u>\$ 21,379,782</u>	<u>\$ 20,081,941</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,	
	2018	2017
OPERATING REVENUES		
Rental revenue	\$ 1,423,284	\$ 1,376,300
Project revenue	2,094,490	1,340,420
Reimbursement revenue	27,305	20,406
Total operating revenues	<u>3,545,079</u>	<u>2,737,126</u>
OPERATING EXPENSES		
Project expenses	128,725	98,644
Depreciation	469,489	439,806
Administrative expenses	392,829	366,625
Total operating expenses	<u>991,043</u>	<u>905,075</u>
Operating income	2,554,036	1,832,051
NONOPERATING REVENUES		
Transfer in from UNM-Athletics	-	884,343
Interest income	50,205	44,930
Total nonoperating revenues	<u>50,205</u>	<u>929,273</u>
NONOPERATING EXPENSES		
Interest expense	464,925	463,836
Distributions to UNM	221,500	200,000
Distributions to UNM-Athletics	175,000	175,000
Total nonoperating expenses	<u>861,425</u>	<u>838,836</u>
Change in net position	1,742,816	1,922,488
NET POSITION, beginning of year	<u>4,555,832</u>	<u>2,633,344</u>
NET POSITION, end of year	<u>\$ 6,298,648</u>	<u>\$ 4,555,832</u>

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

	Years Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers of goods or services	\$ (309,626)	\$ (244,680)
Payments to employees for services	(200,672)	(228,353)
Payments received from contractors	27,305	213,329
Payments received from fiscal agent	3,517,774	2,523,797
Net cash provided by operating activities	<u>3,034,781</u>	<u>2,264,093</u>
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	(221,500)	(200,000)
Distributions to UNM-Athletics	(175,000)	(175,000)
Debt advance from fiscal agent principal	-	1,000,000
Debt repayment to fiscal agent principal	(455,547)	(551,595)
Debt repayment to fiscal agent interest	(464,925)	(463,836)
Net cash used in capital and related financing activities	<u>(1,316,972)</u>	<u>(1,821,414)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on deposits with fiscal agent	50,205	44,930
Net cash provided by investing activities	<u>50,205</u>	<u>44,930</u>
Net increase in cash and cash equivalents	1,768,014	487,609
CASH AND CASH EQUIVALENTS, beginning of year	3,541,662	3,054,053
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 5,309,676</u>	<u>\$ 3,541,662</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 2,554,036	\$ 1,832,051
Depreciation expense	469,489	439,806
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in prepaid insurance	684	200
Change in accounts payable	12,553	(4,037)
Change in accrued expenses	(1,981)	(3,927)
Net cash provided by operating activities	<u>\$ 3,034,781</u>	<u>\$ 2,264,093</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 year ended June 30, 2018, \$396,500 was distributed back to UNM. For the year ended June 30, 2017, \$375,000 was distributed back to UNM.

Primary activities performed by Lobo Development during the year ended June 30, 2018 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 2018 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, (5) Other funds related to the MOU.

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. 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, 2018 and 2017, Lobo Development had a balance in that pooled account of \$5,106,547 and \$3,416,761, 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, 2018, the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank were \$206,718 and \$203,129, respectively. 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. The entire book balance is insured by the Federal Deposit Insurance Corporation.

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 provides cash and investment management activities for Lobo Development, at no cost to Lobo Development. Lobo Development received \$2,094,490 and \$1,147,497 from UNM to fund operations for the years ended June 30, 2018 and 2017, 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 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 to \$8,555. This was due to a \$141,940 payment made on March 31, 2017, reducing the principal from \$979,292 to \$837,351. 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. Revenue received under this MOA was \$27,116 and \$20,406 for the fiscal years ended June 30, 2018 and 2017, 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; 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, 2018, 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, 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.

Lobo Development receives rental revenue from UNM and Athletics under three occupancy lease agreements. For the fiscal year ended June 30, 2018, rental revenue received from UNM was \$1,320,614 and rental revenue received from Athletics was \$102,670, for total rental revenue of \$1,423,284. 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. Future rents due are as follows:

	<u>1312 Basehart</u>	<u>933 Bradbury</u>	<u>Baseball Clubhouse</u>
Fiscal year ending June 30:			
2019	\$ 396,458	924,156	102,670
2020	330,382	770,130	102,670
2021	-	-	102,670
2022	-	-	102,670
2023	-	-	102,670
2024 - 2026	-	-	256,675

Lobo Development did not purchase goods and services from companies that board members are employed by during the fiscal years ended June 30, 2018 and 2017.

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

Note 4 – Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Balance at June 30, 2017</u>	<u>Additions/ Completions</u>	<u>Retirements/ Disposals</u>	<u>Balance at June 30, 2018</u>
Buildings	\$ 18,310,085	\$ -	\$ -	\$ 18,310,085
Accumulated depreciation	(1,772,702)	(469,489)	-	(2,242,191)
Net capital assets	<u>\$ 16,537,383</u>	<u>\$ (469,489)</u>	<u>\$ -</u>	<u>\$ 16,067,894</u>

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)
Net capital assets	<u>\$ 14,661,863</u>	<u>\$ 1,875,520</u>	<u>\$ -</u>	<u>\$ 16,537,383</u>

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 matures May 1, 2020.

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 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. 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.

Lobo Development Corporation
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Notes to Financial Statements

Note 5 – Long-Term Debt (continued)

Notes payable activity consists of the following:

	Year Ended June 30, 2018				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Note payable to UNM	\$ 14,689,110	\$ -	\$ (382,359)	\$ 14,306,751	\$ 393,988
Note payable to UNM Foundation	819,477	-	(73,188)	746,289	75,981
	<u>\$ 15,508,587</u>	<u>\$ -</u>	<u>\$ (455,547)</u>	<u>\$ 15,053,040</u>	<u>\$ 469,969</u>

	Year Ended June 30, 2017				
	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Note payable to UNM	\$ 15,060,182	\$ -	\$ (371,072)	\$ 14,689,110	\$ 382,358
Note payable to UNM Foundation	-	1,000,000	(180,523)	819,477	73,189
	<u>\$ 15,060,182</u>	<u>\$ 1,000,000</u>	<u>\$ (551,595)</u>	<u>\$ 15,508,587</u>	<u>\$ 455,547</u>

Minimum future payments under the promissory notes as of June 30, 2018 are as follows:

Fiscal year ending June 30:	Principal	Interest	Total
2019	\$ 469,969	\$ 450,502	\$ 920,471
2020	13,991,642	401,762	14,393,404
2021	81,889	20,781	102,670
2022	85,013	17,656	102,669
2023	88,257	14,413	102,670
2024 - 2027	336,270	23,075	359,345
	<u>\$ 15,053,040</u>	<u>\$ 928,189</u>	<u>\$ 15,981,229</u>

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.

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Notes to Financial Statements

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, 2018 and 2017 were \$14,318 and \$10,692, respectively, which consisted of \$7,159 and \$5,312 contributed by employees and \$7,159 and \$5,380 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 13, 2018.

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. Wayne A. Johnson, 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, 2018, 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 13, 2018.

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 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. 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 entity'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 13, 2018

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
June 30, 2018

No matters were reported.

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings
June 30, 2018

No matters were reported.

Lobo Development Corporation
(A Component Unit of the University of New Mexico)
Exit Conference
June 30, 2018

An exit conference was held on September 13, 2018. During this meeting, the contents of this report were discussed with the following individuals:

Lobo Development Corporation

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

Moss Adams LLP

Lisa Todd	Partner
Corrine Zajac-Clarkson	Senior Manager
Lauren Kistin	Manager

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