

**LOBO
DEVELOPMENT
CORPORATION
(A COMPONENT
UNIT OF THE
UNIVERSITY OF
NEW MEXICO)**

FINANCIAL STATEMENTS

JUNE 30, 2008

Moss Adams LLP
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Albuquerque, New Mexico
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LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
Official Roster
June 30, 2008

OFFICERS

David W. Harris
Paul B. Roth, M.D.
Steven R. Beffort

MEMBERS

Don L. Chalmers
John M. ("Mel") Eaves
David J. Schmidly
David W. Harris
Paul B. Roth, M.D.
Steven R. Beffort
Michael D. Daly
Timothy M. Helmick
Robert M. Murphy

Independent Auditors' Report

The Board of Directors
Lobo Development Corporation
and
Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic financial statements of Lobo Development Corporation, a component unit of The University of New Mexico incorporated during 2008, (Lobo Development) as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Lobo Development's management. 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 statement 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lobo Development as of June 30, 2008 and the changes in its financial position and its cash flows for the year during which it was incorporated in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2008, on our consideration of Lobo Development's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is

The Board of Directors
Lobo Development Corporation
and
Hector H. Balderas
New Mexico State Auditor

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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis starting on page 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Albuquerque, New Mexico
October 9, 2008

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

This discussion and analysis of Lobo Development Corporation (Lobo Development) and its financial performance provides an overview of Lobo Development's financial activities for the fiscal year ended June 30, 2008, the year in which it was incorporated. All accounting transactions for fiscal year 2008 are considered to be governmental activities for purposes of applying the Governmental Accounting Standards Board's accounting standards. This analysis covers one year. In future years, two years will be covered.

Financial Highlights

- Lobo Development's cash was being held in the Lobo Energy, Inc. fiscal agent's account at UNM until a UNM account was set up for Lobo Development in March 2008. During March, \$427,784 was transferred from Lobo Energy to Lobo Development. This amount was composed of \$385,000 startup cash and interest earned during 2008 in the amount of \$21,467 and during 2007 in the amount of \$21,317.
- Lobo Development's net assets on June 30, 2008 were \$427,220.
- During the year, operating revenue was 385,000 and operating expenses were \$1,799.

Using This Annual Report

This annual report consists of a series of financial statements. The Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Assets, and Statement of Cash Flows provide information about the activities of Lobo Development.

Overview of the Financial Statements

The Balance Sheet of Lobo Development provide information about Lobo Development's overall financial status. The Statement of Revenues, Expenses, and Changes in Net Assets provide information about the operating revenues and expenses and the non-operating revenues and expenses of Lobo Development. The Statement of Cash Flows provide information about the sources and uses of cash by Lobo Development.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008

Reporting on Lobo Development's Activities

Financial Information

Lobo Development's condensed financial information as of and for the year ended June 30, 2008 are provided in the following table:

| | |
|---|-------------------|
| Current assets | \$ 427,274 |
| Capital assets | - |
| Other assets | - |
| Total assets | <u>\$ 427,274</u> |
| Current liabilities | \$ 54 |
| Non-current liabilities | - |
| Net assets | <u>427,220</u> |
| Total liabilities and net assets | <u>\$ 427,274</u> |
| Operating revenue | \$ 385,000 |
| Operating expenses | <u>1,799</u> |
| Operating income | 383,201 |
| Interest income | <u>44,019</u> |
| Change in net assets | 427,220 |
| Net assets, beginning of year | <u>-</u> |
| Net assets, end of year | <u>\$ 427,220</u> |

Statement of Net Assets

Assets – All of the June 30, 2008 assets are in the form of cash in the amount of \$427,274 of which \$377,309 is held by Lobo Development's fiscal agent, The University of New Mexico (UNM), and \$49,965 is held in an operating bank account at Compass Bank.

Liabilities and Net Assets – A majority of the June 30, 2008 net assets are held as equity in the form of unrestricted net assets of \$427,220. The remainder is current liabilities of \$54.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2008

Statement of Revenues, Expenses, and Changes in Net Assets

Revenues – There were no operating revenues during 2008. Startup cash in the amount of \$385,000 was transferred to Lobo Development by UNM. Other income amounted to \$44,019 interest earned from UNM.

Expenses – Total operating expenses were \$1,799 during the year ended June 30, 2008. Expenses are comprised of administrative expenses.

UNM is the fiscal agent of Lobo Development. UNM holds the majority of Lobo Development's net assets 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. Lobo Development transfers funds to its checking account as needed.

Contacting Lobo Development's Financial Management

This report is meant to accurately 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 at 801 University Boulevard SE, Suite 207, Albuquerque, New Mexico 87106-4345.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of the University of New Mexico)
BALANCE SHEET
June 30, 2008

ASSETS

| | |
|-----------------------------------|--------------------------|
| Current Assets | |
| Cash on deposit with fiscal agent | \$ 377,309 |
| Cash on deposit with bank | 49,965 |
| Total current assets | <u>427,274</u> |
| Total assets | <u><u>\$ 427,274</u></u> |

LIABILITIES AND NET ASSETS

| | |
|---|--------------------------|
| Current Liabilities | |
| Accounts payable | \$ 54 |
| Total liabilities | 54 |
| Net Assets | |
| Unrestricted | <u>427,220</u> |
| Total liabilities and net assets | <u><u>\$ 427,274</u></u> |

See Notes to Financial Statements.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of the University of New Mexico)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year Ended June 30, 2008

| | |
|---------------------------------|----------------|
| Operating Revenue | |
| Contribution from affiliate | \$ 385,000 |
| | <hr/> |
| Total operating revenue | 385,000 |
| | <hr/> |
| Operating expenses | |
| Administrative expenses | 1,799 |
| Project expenses | - |
| | <hr/> |
| Total operating expenses | 1,799 |
| | <hr/> |
| Operating income | 383,201 |
| | <hr/> |
| Nonoperating revenue | |
| Interest revenue | 44,019 |
| | <hr/> |
| Change in net assets | 427,220 |
| | <hr/> |
| Net assets, beginning of year | - |
| | <hr/> |
| Net assets, end of year | \$ 427,220 |
| | <hr/> <hr/> |

See Notes to Financial Statements.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of the University of New Mexico)
STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

| | |
|--|--------------------------|
| Cash Flows From Operating Activities | |
| Receipts from customers | \$ 385,000 |
| Payments to other suppliers of goods or services | <u>(1,745)</u> |
| Net cash provided by operating activities | <u>383,255</u> |
| Cash Flows Provided by Investing Activities - | |
| Interest received on deposits with fiscal agent | <u>44,019</u> |
| Net increase in cash and cash equivalents | 427,274 |
| Cash and cash equivalents, beginning of year | <u>-</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 427,274</u></u> |
| Reconciliation of Operating Income to Net Cash Provided By Operating Activities | |
| Operating income | \$ 383,201 |
| Adjustments to reconcile operating income to net cash provided by operating activities | |
| Change in accounts payable and accrued expenses | <u>54</u> |
| Net cash provided by operating activities | <u><u>\$ 383,255</u></u> |

See Notes to Financial Statements.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES**

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

Lobo Development was incorporated in the State of New Mexico on October 4, 2007. It was organized under the State of New Mexico's University Research Park and Economic Development Act. At the end of 2008, Lobo Development is in the process of filing for exemption 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 was established to benefit the UNM Regents by relieving UNM of responsibilities for management and development of University-owned 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 UNM 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 University real estate.

Lobo Development provides services only to UNM.

Basis of Accounting. As a component unit of UNM, Lobo Development follows proprietary fund accounting as set forth in Statement No. 20 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Under the provisions of that standard, Lobo Development has elected to not apply Statements of Financial Accounting Standards issued by the Financial Accounting Standards Board after November 30, 1989.

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 energy and project management services. All other revenues and expenses are considered nonoperating.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

**NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES (CONTINUED)**

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

Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition. Lobo Development recognizes operating revenue as project-specific fees for services earned under the terms of the Memorandum of Agreement for each project.

NOTE 2. 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, 2008, Lobo Development had a balance in that pooled account of \$377,309. 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, 2008 both the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank was \$49,965. Of the bank balance, the entire amount (up to \$100,000) is insured by the Federal Deposit Insurance Corporation.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 3. RELATED-PARTY TRANSACTIONS

A Memorandum of Agreement between UNM and Lobo Development is in draft form and has not been approved by the Lobo Development Board of Directors or the UNM Board of Regents as of June 30, 2008. The Lobo Development Board of Directors has recommended that the agreement be general in nature. A project-specific Memorandum of Agreement between UNM and Lobo Development shall be executed in connection with each project assigned to Lobo Development by the University.

NOTE 4. CONTINGENCIES

Lobo Development, through UNM, participates in the State of New Mexico Risk Management Program (Risk Management) that provides general liability, auto liability, physical damage and workers' compensation insurance. 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.

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

The Board of Directors
Lobo Development Corporation
and
Hector H. Balderas
New Mexico State Auditor

We have audited the basic financial statements of Lobo Development Corporation (a component unit of the University of New Mexico) (Lobo Development) as of and for the year ended June 30, 2008, and have issued our report thereon dated October 9, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lobo Development's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lobo Development's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

The Board of Directors
Lobo Development Corporation
and
Hector H. Balderas
New Mexico State Auditor

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Lobo Development's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lobo Development's financial statements are free of material misstatement, we performed tests of its compliance with certain provision 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*.

This report is intended solely for the information and use of the board of directors, management, and the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
October 9, 2008

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2008

FINDINGS – FINANCIAL STATEMENTS AUDIT

CURRENT YEAR FINDINGS

None

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
EXIT CONFERENCE
June 30, 2008

We discussed the recommendations contained in this letter during the exit conference held October 8, 2008. The exit conference was attended by the following individuals:

Lobo Development Corporation

Don L. Chalmers, Chairman of the Board
Steven R. Beffort, Secretary/Treasurer

Moss Adams LLP

Larry Carmony, Partner

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