

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

FINANCIAL STATEMENTS

JUNE 30, 2010

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LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
Official Roster
June 30, 2010

OFFICERS

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

MEMBERS

Don L. Chalmers
James H. Koch
David J. Schmidly
David W. Harris
Paul B. Roth, M.D.
Steven R. Beffort
Michael D. Daly
Robert M. Murphy
Maria Griego-Raby

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 (Lobo Development), as of and for the years ended June 30, 2010 and 2009, 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 audits.

We conducted our audits 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 entity'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 audits provide 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, 2010 and 2009 and the changes in its financial position and its cash flows for the years then ended 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 12, 2010, 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 on pages 4 through 7 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.

Mess Adams LLP

Albuquerque, New Mexico
October 12, 2010

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010, 2009 and 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 years ended June 30, 2010, 2009 and 2008. All accounting transactions for fiscal years 2010, 2009 and 2008 are considered to be governmental activities for purposes of applying the Governmental Accounting Standards Board's accounting standards.

Financial Highlights

- The cash position decreased in 2010 by \$220,824, resulting in cash on deposit with fiscal agent and cash on hand at close of 2010 of \$187,791. The decrease during 2010 is primarily due to an increase in project expenses. During the prior year, the cash position decreased by \$18,659, resulting in cash on deposit with fiscal agent and cash on hand at the close of 2009 of \$408,615. The decrease during 2009 is primarily due to the fact that as of the beginning of March 2008 \$427,784 was being held by UNM in Lobo Energy's account and was classified as a restricted asset on Lobo Energy's balance sheet. The funds were being held for this Corporation. Lobo Development was incorporated during the fiscal year in 2008 and a UNM account was set up for the new corporation. The funds were transferred to Lobo Development's account from Lobo Energy's account during March 2008. The cash balance at June 30, 2008 was \$427,274.
- Interest earned during 2010 decreased \$4,931 from \$10,038 to \$5,107 due to a decrease in the amount of cash being held by UNM, the fiscal agent. Interest earned in 2008 amounted to \$44,019 due to the large amount of cash held by UNM, the fiscal agent. The cash held by fiscal agent decreased as monies were transferred to the Compass bank account to pay for increasing project costs.
- Lobo Development's net assets decreased \$290,924 as a result of the startup of the South Campus Student Housing Project from \$376,793 in 2009 to \$85,869 in 2010. During 2009, Lobo Development's net assets decreased \$50,427 from \$427,220 in 2008 to \$376,793 in 2009 because project expenses increased during the year.
- During the year, operating revenue increased by \$492,327 and operating expenses increased by \$727,893, resulting in an increase in net operating loss of \$235,566. During 2009 there was no operating revenue. During 2008 there was \$385,000 in operating revenue from contributions received from affiliate for startup. During 2009, operating expenses increased by \$58,666, from \$1,799 to \$60,465, respectively, resulting in a decrease in net operating income of \$443,666.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010, 2009 and 2008

Using This Annual Report

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

Overview of the Financial Statements

The Balance Sheets of Lobo Development provide information about Lobo Development's overall financial status. The Statements 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 Statements of Cash Flows provide information about the sources and uses of cash by Lobo Development.

Reporting on Lobo Development's Activities

Financial Information

Lobo Development's condensed financial information as of and for the years ended June 30, 2010, 2009 and 2008 are provided in the following table:

	2010	2009	2008
Current assets	\$ 680,118	408,615	427,274
Total assets	\$ 680,118	408,615	427,274
Current liabilities	\$ 594,249	31,822	54
Net assets	85,869	376,793	427,220
Total liabilities and net assets	\$ 680,118	408,615	427,274
Operating revenue	\$ 492,327	-	385,000
Operating expenses	788,358	60,465	1,799
Operating (loss) income	(296,031)	(60,465)	383,201
Nonoperating revenue	5,107	10,038	44,019
Change in net assets	(290,924)	(50,427)	427,220
Net assets, beginning of year	376,793	427,220	-
Net assets, end of year	\$ 85,869	376,793	427,220

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010, 2009 and 2008

Statement of Net Assets

Assets – A large portion of the June 30, 2010 and 2009 assets are in the form of cash in the amount of \$187,791 and \$408,615, respectively; of which \$181,137 and \$386,831, respectively, is held by Lobo Development's fiscal agent, The University of New Mexico (UNM), and \$6,654 and \$21,784, respectively, is held in an operating bank account at Compass Bank. Cash decreased primarily as a result of the increase in project expenses. A large portion of the June 30, 2008 assets were in the form of cash in the amount of \$427,274 of which \$377,309 was held by Lobo Development's fiscal agent and \$49,965 was held in an operating bank account at Compass Bank..

Liabilities and Net Assets – A majority of the June 30, 2010, 2009 and 2008 net assets are held as equity in the form of unrestricted net assets of \$85,869, \$376,793 and \$427,220, respectively. The remaining balance is in form of current liabilities for 2010, 2009 and 2008.

Statement of Revenues, Expenses, and Changes in Net Assets

Revenues – During the year ended June 30, 2010, Lobo Development generated operating revenue in the amount of \$492,327 as result of the student housing project that began during the year. There were no operating revenues during the year ended June 30, 2009. Startup cash in the amount of \$385,000 was transferred to Lobo Development during the year ended June 30, 2008. Other income amounted to \$5,107, \$10,038 and \$44,019 and was the result of interest earned from UNM during the years ended June 30, 2010, 2009 and 2008, respectively.

Expenses – Total operating expenses increased \$727,893 during the year ended June 30, 2010 due to an increase of \$722,687 in project expenses and an increase of \$5,206 in operating expenses. This change was primarily due to the increasing project costs in connection with the student housing project. Total operating expenses increased \$58,666 during the year ended June 30, 2009 due to an increase of \$29,221 in project expenses and an increase of \$29,445 in operating 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.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
June 30, 2010, 2009 and 2008

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 SHEETS
June 30, 2010 and 2009

ASSETS	2010	2009
Current Assets		
Cash on deposit with fiscal agent	\$ 181,137	386,831
Cash on deposit with bank	6,654	21,784
Accounts receivable, net	492,327	-
Total current assets	<u>680,118</u>	<u>408,615</u>
Total assets	<u>\$ 680,118</u>	<u>408,615</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Payable to fiscal agent	\$ 280,784	-
Accounts payable	73,465	31,822
Advance payable to fiscal agent	240,000	-
Total current liabilities	<u>594,249</u>	<u>31,822</u>
Net Assets		
Unrestricted	<u>85,869</u>	<u>376,793</u>
Total liabilities and net assets	<u>\$ 680,118</u>	<u>408,615</u>

See Notes to Financial Statements.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of the University of New Mexico)
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Revenue		
Project revenue	\$ 492,327	-
	<hr/>	<hr/>
Total operating revenue	492,327	-
	<hr/>	<hr/>
Operating expenses		
Project expenses	751,908	29,221
Administrative expenses	36,450	31,244
	<hr/>	<hr/>
Total operating expenses	788,358	60,465
	<hr/>	<hr/>
Operating loss	(296,031)	(60,465)
	<hr/>	<hr/>
Nonoperating revenue		
Interest income	5,107	10,038
	<hr/>	<hr/>
Change in net assets	(290,924)	(50,427)
	<hr/>	<hr/>
Net assets, beginning of year	376,793	427,220
	<hr/>	<hr/>
Net assets, end of year	\$ 85,869	376,793
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Financial Statements.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of the University of New Mexico)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2010 and 2009

	2010	2009
Cash Flows From Operating Activities		
Payments to other suppliers of goods or services	\$ (465,931)	(28,697)
Net cash used by operating activities	<u>(465,931)</u>	<u>(28,697)</u>
Cash Flows From Noncapital Financing Activities		
Advance from fiscal agent	240,000	-
Net cash provided by noncapital financing activities	<u>240,000</u>	<u>-</u>
Cash Flows Provided by Investing Activities		
Interest received on deposits with fiscal agent	5,107	10,038
Net cash used by investign activities	<u>5,107</u>	<u>10,038</u>
Net decrease in cash and cash equivalent s	(220,824)	(18,659)
Cash and cash equivalents, beginning of year	408,615	427,274
Cash and cash equivalent s, end of year	<u>\$ 187,791</u>	<u>408,615</u>
Reconciliation of Operating Income to Net Cash Used (Provided)		
By Operating Activities		
Operating loss	\$ (296,031)	(60,465)
Adjustments to reconcile operating income to net cash used by operating activities		
Change in accounts receivable	(492,327)	-
Change in accounts payable	322,427	31,768
Net cash used by operating activities	<u>\$ (465,931)</u>	<u>(28,697)</u>

See Notes to Financial Statements.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

**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 under the State of New Mexico's University Research Park and Economic Development Act. Towards the end of fiscal year 2009, Lobo Development filed 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. Tax exemption status was granted by the Internal Revenue Service effective October 4, 2007.

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.

Under the Memorandum of Agreement 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 the University. 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 the University.

During the year ended June 30, 2010, Lobo Development proceeded to work on three projects assigned to the Corporation by UNM.

The first project was negotiated on behalf of UNM with American Campus Communities (ACC) for the construction and operation of a new student housing development on the University campus. In the Master Agreement effective November 1, 2009, ACC assumes all of the costs associated with the designing, development, management and operating of student housing projects on campus as determined by each Ground Lease. At the termination of the lease, the improvements would revert to the University. The project is divided into three components and a separate ground lease will be negotiated for each.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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

Component I consists of an apartment-style student housing project located on UNM's South Campus. Component II includes new student housing to be constructed on UNM's main campus. Component III is for additional student housing to be built as set forth in UNM's Strategic Housing Plan which is currently being developed. Ground was broken on Component I on June 17, 2010.

The second project Lobo Development has undertaken on behalf of UNM is to begin negotiations with Hunt Development for commercial development of various properties; both on and off the campus. As of June 30, 2010 contract negotiations were ongoing.

A third project entails construction of the first building on the University's Rio Rancho Campus. Lobo Development Corporation signed a Memorandum of Understanding (MOU) with the City of Rio Rancho, the UNM Board of Regents and the Sandia Foundation to develop UNM property in Rio Rancho. The MOU was effective June 17, 2009 and provides the following:

- The Sandia Foundation obtained a loan to construct the building.
- Lobo Development will arrange financing in the approximate amount of \$13,200,000 and will acquire the completed building from the Sandia Foundation.
- The City of Rio Rancho will provide the University with annual payments of \$1,513,000 for a period of 5 years upon substantial completion of the building to assist in initial infrastructure and building costs.

As of June 30, 2010, a purchase agreement was being negotiated.

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

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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

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 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.

Cash and 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.

Accounts Receivable. All receivables are reported net of estimated uncollectible amounts. At June 30, 2010, Management considered receivables to be 100% collectible.

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.

Net Assets. Net assets are classified as unrestricted. Unrestricted net assets represent liquid assets available for use.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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, 2010 and 2009, Lobo Development had a balance in that pooled account of \$181,137 and \$386,831. 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, 2010 and 2009 both the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank was \$6,654 and \$21,784. Of the bank balance, the entire amount (up to \$250,000) is insured by the Federal Deposit Insurance Corporation.

NOTE 3. RELATED-PARTY TRANSACTIONS

Effective August 12, 2008, UNM and Lobo Development entered into a Memorandum of Agreement (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.

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 the University or other successor organization designated by resolution of the UNM Board of Regents.

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.

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
NOTES TO FINANCIAL STATEMENTS
June 30, 2010 and 2009

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, 2010, and have issued our report thereon dated October 12, 2010. 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 *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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

Mess Adams LLP

Albuquerque, New Mexico
October 12, 2010

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2010 and 2009

FINDINGS – FINANCIAL STATEMENTS AUDIT

PRIOR YEAR FINDINGS

None

CURRENT YEAR FINDINGS

None

LOBO DEVELOPMENT CORPORATION
(A Component Unit of The University of New Mexico)
EXIT CONFERENCE
June 30, 2010 and 2009

We discussed the recommendations contained in this letter during the exit conference held October 12, 2010. The exit conference was attended by the following individuals:

Lobo Development Corporation

Steven R. Beffort, Secretary/Treasurer
Kim D. Murphy, Associate Vice President
Jewel M. Glavey

Moss Adams LLP

Jason Galloway, Manager