



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

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report 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

June 30, 2013

OFFICERS

David W. Harris
Paul B. Roth, M.D.
Chris Vallejos

MEMBERS

Louis Abruzzo
Stephen J. Ciepiela
Jack L. Fortner
Robert G. Frank, Ph.D.
Maria Griego-Raby
David W. Harris
James H. Koch
Paul Krebs
Paul B. Roth, M.D.
Chris Vallejos



KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

Independent Auditors' Report

The Board of Directors
Lobo Development Corporation
and
Mr. Hector 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, 2013 and 2012, and the related notes to the financial statements, which collectively compose the Lobo Development's basic 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 U.S. generally accepted accounting principles; 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 opinions 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 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 opinions.

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, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 6 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 October 14, 2013 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.

KPMG LLP

Albuquerque, New Mexico
October 14, 2013

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

Management's Discussion and Analysis

June 30, 2013 and 2012

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, 2013 and 2012. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of Lobo Development's management.

Financial Highlights

Cash decreased in 2013 by \$646,978, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2013 of \$681,952. The decrease during fiscal year 2013 is primarily due to a decrease in the amount of funding from UNM. Cash increased in 2012 by \$256,832, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2012 of \$1,328,930. The increase during fiscal year 2012 is primarily due to an increase in project revenues. Interest earned during fiscal year 2013 decreased \$5,523 from \$10,291 to \$4,768 due to a decrease in earnings on cash being held by The University of New Mexico (UNM), Lobo Development's fiscal agent.

Lobo Development's net position decreased \$709,809 during the year, from \$1,161,263 in 2012 to \$451,454 in fiscal year 2013, primarily as a result of decreased funding from UNM. During fiscal year 2012, Lobo Development's net position increased \$590,399 during the year, from \$570,864 in 2011 to \$1,161,263 in fiscal year 2012, as a result of higher revenues in connection with the start-up of the central campus student housing project.

During the fiscal year, operating revenue decreased by \$766,848 and operating expenses increased by \$383,457, resulting in a decrease in net operating income of \$1,150,305. During fiscal year 2012, operating revenue increased by \$881,863 and operating expenses increased by \$778,518, resulting in an increase in net operating income of \$103,345.

Using This Annual Report

This annual report consists of a series of financial statements. The statements of net position, statements of revenues, expenses, and changes in net position, and statements of cash flows provide information about the activities of Lobo Development.

The statements of net position provide information about Lobo Development's overall financial status. The statements of revenues, expenses, and changes in net position provide 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.

LOBO DEVELOPMENT CORPORATION
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Management's Discussion and Analysis

June 30, 2013 and 2012

Financial Information

Lobo Development's condensed financial information as of and for the fiscal years ended June 30, 2013, 2012, and 2011 are provided in the following table:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 681,952	1,335,930	1,072,098
Noncurrent assets	27,504,795	—	—
Total assets	<u>\$ 28,186,747</u>	<u>1,335,930</u>	<u>1,072,098</u>
Current liabilities	\$ 614,138	174,667	501,234
Noncurrent liabilities	27,121,155	—	—
Net position	<u>451,454</u>	<u>1,161,263</u>	<u>570,864</u>
Total liabilities and net assets	<u>\$ 28,186,747</u>	<u>1,335,930</u>	<u>1,072,098</u>
Operating revenue	\$ 1,213,330	1,980,178	1,098,315
Operating expenses	<u>1,783,527</u>	<u>1,400,070</u>	<u>621,552</u>
Operating (loss) income	(570,197)	580,108	476,763
Nonoperating revenue	4,768	10,291	8,232
Nonoperating expenses	<u>144,380</u>	<u>—</u>	<u>—</u>
Change in net position	(709,809)	590,399	484,995
Net position, beginning of year	<u>1,161,263</u>	<u>570,864</u>	<u>85,869</u>
Net position, end of year	<u>\$ 451,454</u>	<u>1,161,263</u>	<u>570,864</u>

Statements of Net Position

Assets – As of June 30, 2013 and 2012, Lobo Development has cash in the amount of \$681,952 and \$1,328,930, respectively, of which \$679,765 and \$1,300,604, respectively, is held by UNM, and \$2,187 and \$28,326, respectively, is held in an operating bank account at a financial institution. Cash decreased primarily as a result of the decrease in funding from UNM.

Liabilities and Net Position – Lobo Development's net position at June 30, 2013 was allocated between unrestricted and net investment in capital assets. Lobo Development's net position at June 30, 2012 and 2011 was considered unrestricted.

Statements of Revenues, Expenses, and Changes in Net Position

Revenues – During the fiscal year ended June 30, 2013, Lobo Development generated operating revenue in the amount of \$1,213,330, which included a campus student housing project that was completed during the year. During the fiscal year ended June 30, 2012, Lobo Development generated operating revenue in the amount of \$1,980,178, which included campus student housing projects that began during the year. Other income amounted to \$4,768 and \$10,291 during the fiscal years ended June 30, 2013 and 2012, respectively, and was the result of interest earned from UNM.

LOBO DEVELOPMENT CORPORATION
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Management's Discussion and Analysis

June 30, 2013 and 2012

Expenses – Total operating expenses increased \$383,457 during the fiscal year ended June 30, 2013 due to an increase of \$257,005 in administrative expenses. The change was primarily due to hiring full-time employees, an intern, and a management consultant. Total operating expenses increased \$778,518 during the fiscal year ended June 30, 2012 due to an increase of \$555,252 in project expenses and an increase of \$223,266 in administrative expenses. This change was primarily due to the increasing project costs in connection with the south campus infrastructure project.

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 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, 2013 amounts to \$27,484,795 (net of accumulated depreciation). This investment in capital assets includes 3 buildings purchased during fiscal year 2013. 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 \$27,704,469. This debt was incurred during the fiscal year for the purchase of the 3 buildings 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 several retailers. 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 2014 include campus student housing ground rent, commercial development ground rent, real estate income, and commercial development infrastructure income.

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
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Statements of Net Position

June 30, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash on deposit with fiscal agent	\$ 679,765	1,300,604
Cash on deposit with bank	2,187	28,326
Accounts receivable, net	—	7,000
Total current assets	681,952	1,335,930
Noncurrent assets:		
Capital assets		
(less accumulated depreciation of \$177,321)	27,484,795	—
Other assets	20,000	—
Total noncurrent assets	27,504,795	
Total assets	\$ 28,186,747	1,335,930
Liabilities and Net Position		
Current liabilities:		
Current portion of long term debt	\$ 583,314	—
Accounts payable	30,824	174,667
Total current liabilities	614,138	174,667
Noncurrent liabilities:		
Long term debt	27,121,155	—
Total noncurrent liabilities	27,121,155	—
Net Position:		
Net investment in capital assets	(199,674)	—
Unrestricted	651,128	1,161,263
Total net position	451,454	1,161,263
Total liabilities and net position	\$ 28,186,747	1,335,930

See accompanying notes to financial statements.

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, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenue:		
Project revenue	\$ 1,213,330	1,980,178
Total operating revenue	<u>1,213,330</u>	<u>1,980,178</u>
Operating expenses:		
Project expenses	1,096,959	1,147,828
Depreciation	177,321	—
Administrative expenses	509,247	252,242
Total operating expenses	<u>1,783,527</u>	<u>1,400,070</u>
Operating income (loss)	<u>(570,197)</u>	<u>580,108</u>
Nonoperating revenue:		
Interest income	4,768	10,291
Total nonoperating revenue	<u>4,768</u>	<u>10,291</u>
Nonoperating expenses		
Interest expense	144,380	—
Total nonoperating expenses	<u>144,380</u>	<u>—</u>
Nonoperating income (loss)	<u>(139,612)</u>	<u>10,291</u>
Change in net position	(709,809)	590,399
Net position, beginning of year	<u>1,161,263</u>	<u>570,864</u>
Net position, end of year	<u>\$ 451,454</u>	<u>1,161,263</u>

See accompanying notes to financial statements.

LOBO DEVELOPMENT CORPORATION
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Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Payments to suppliers of goods or services	\$ (1,750,049)	(1,426,637)
Payments received from contractors	7,000	38,500
Payments received from fiscal agent	1,213,330	1,934,678
Net cash provided by (used in) operating activities	<u>(529,719)</u>	<u>546,541</u>
Cash flows from noncapital financing activities:		
Payment to fiscal agent	—	(300,000)
Net cash used in noncapital financing activities	<u>—</u>	<u>(300,000)</u>
Cash flows from capital and related financing activities		
Proceeds of loan from fiscal agent	27,800,000	—
Earnest money paid for future asset purchase	(20,000)	—
Purchase of property, plant, and equipment	(27,662,116)	—
Debt repayment to fiscal agent	(234,412)	—
Net cash used in capital and related financing activities	<u>(116,528)</u>	<u>—</u>
Cash flows provided by (used in) investing activity:		
Interest paid on deposits with fiscal agent	(731)	10,291
Net cash provided by (used in) investing activity	<u>(731)</u>	<u>10,291</u>
Net increase (decrease) in cash and cash equivalents	(646,978)	256,832
Cash and cash equivalents, beginning of year	1,328,930	1,072,098
Cash and cash equivalents, end of year	<u>\$ 681,952</u>	<u>1,328,930</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating loss	\$ (570,197)	580,108
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Change in accounts receivable	7,000	(7,000)
Change in accounts payable	(143,843)	(26,567)
Depreciation expense	177,321	—
Net cash provided by (used in) operating activities	<u>\$ (529,719)</u>	<u>546,541</u>

See accompanying notes to financial statements.

LOBO DEVELOPMENT CORPORATION
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Notes to Financial Statements

June 30, 2013 and 2012

(1) Description of 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.

Lobo Development was established to benefit the UNM Regents by relieving UNM of responsibilities for management and development of UNM owned real estate in a commercially reasonable manner and to maximize UNM'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 UNM; and by creating learning opportunities for students in this development activity. The activities of the corporation include the acquisition, development, disposition, and rental of UNM 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 UNM. Lobo Development operations will be funded by an administrative fee assigned to approved projects. If Lobo Development revenues are more than sufficient to meet its anticipated financial obligations based on a mutually approved annual budget, it is the intent of the parties that excess revenue shall be distributed back to UNM. For the years ended June 30, 2013 and 2012, no revenue has been distributed back to UNM.

During the year ended June 30, 2013, 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 UNM 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 UNM. The project is divided into three components and a separate ground lease will be negotiated for each.

Component I consists of an apartment style student housing project located on UNM's South Campus. Component II includes new student housing located 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. Component I was completed and began housing students August 2011. Component II was completed and began housing students August 2012.

The second project Lobo Development has undertaken on behalf of UNM is for commercial development of various properties, both on and off the campus. As of June 30, 2013, contract negotiations were ongoing.

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Notes to Financial Statements

June 30, 2013 and 2012

In early 2013, the Regents approved the third project; Lobo Development assuming the obligations of Sandia Foundation, as tenant, under the ground leases from UNM, and as landlord to UNM under the occupancy leases, upon payment of all funds advanced or owed by Sandia Foundation related to the original building construction and financing. Funding for the transaction was via a loan from UNM to LDC from institutional reserves, comprising a promissory note and leasehold mortgage. Title to the land remains with the Regents, subject to the ground lease assigned to LDC. UNM programs occupying space within the buildings, which previously paid rent to Sandia Foundation, pay rent to LDC. LDC uses rent proceeds to make payments under the UNM loan. Upon full payment of the UNM loan, including any loan refinancings, the leases expire and the improvements will revert to UNM free and clear.

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

Effective July 1, 2010, Lobo Development adopted Governmental Accounting Standards Board Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements* (GASB 62), which supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting* (GASB 20). GASB 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The adoption of GASB 62 had no impact on Lobo Development's accounting policies, as Lobo Development had previously elected in accordance with GASB 20 to not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, and applicable FASB pronouncements issued on or before November 30, 1989 have now been incorporated into GASB pronouncements.

In fiscal year 2013 the Lobo Development adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), which establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Lobo Development's financial statements was the renaming of "Net Assets" to "Net Position," including changing the name of the financial statement from "Balance Sheet" to "Statement of Net Position."

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.

LOBO DEVELOPMENT CORPORATION
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Notes to Financial Statements

June 30, 2013 and 2012

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

(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

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) Accounts Receivable

All receivables are reported net of estimated uncollectible amounts. At June 30, 2013 and 2012, Lobo Development held \$0 and \$7,000 in accounts receivable, respectively.

(f) Revenue Recognition

Lobo Development recognizes operating revenue for services earned under the terms of the Memorandum of Agreement (MOA).

Lobo Development's revenue for fiscal year ending June 30, 2013 originated from the following sources: (1) Student Housing project/ACC Component II, (2) Income Real Estate/Mesa del Sol, and (3) Rent from three occupancy leases. Revenue for fiscal year ending June 30, 2012 originated from the following sources: (1) Student Housing projects/ACC, (2) Income Real Estate/Mesa del Sol, and (3) City of Albuquerque Fire Station Land Sale. All revenue from these sources is originally paid to UNM and UNM determines which revenue streams are allocated to Lobo Development as payment for services provided.

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Notes to Financial Statements

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(g) *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.

(h) *Capitalization Policy*

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.

(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, 2013 and 2012, Lobo Development had a balance in that pooled account of \$679,765 and \$1,300,604, 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, 2013, the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank were \$60,839 and \$2,187, respectively. At June 30, 2012, the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank were \$82,027 and \$28,326, 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.

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 Board of Regents.

LOBO DEVELOPMENT CORPORATION
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Notes to Financial Statements

June 30, 2013 and 2012

(5) Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Balance at July 1, 2012</u>	<u>Additions/ completions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2012</u>
Buildings	\$ —	27,662,116	—	27,662,116
Accumulated depreciation	—	(177,321)	—	(177,321)
Total capital assets	<u>\$ —</u>	<u>27,484,795</u>	<u>—</u>	<u>27,484,795</u>

(6) Long-Term Debt

A promissory note payable to UNM was issued to finance the capital assets purchase made in fiscal year 2013. 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 outstanding principal balance at year-end is \$27,704,469, of which \$583,314 is due within 1 year.

The following is a summary of debt transactions, including current portion, for the year ended June 30, 2013:

	<u>Balance at July 1, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at June 30, 2012</u>	<u>Due within one year</u>
Note payable to UNM	\$ —	27,800,000	95,531	27,704,469	583,314
Total long-term debt	<u>\$ —</u>	<u>27,800,000</u>	<u>95,531</u>	<u>27,704,469</u>	<u>583,314</u>

At June 30, 2013, minimum future payments under this promissory note are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
2014	\$ 583,314	823,157	1,406,471
2015	601,056	805,415	1,406,471
2016	619,338	787,133	1,406,471
2017	638,176	768,295	1,406,471
2018	657,587	748,884	1,406,471
2019	677,588	728,883	1,406,471
2020	23,927,410	708,275	24,635,685
	<u>\$ 27,704,469</u>	<u>5,370,042</u>	<u>33,074,511</u>

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Notes to Financial Statements

June 30, 2013 and 2012

(7) 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.

(8) Retirement Plan

Beginning in fiscal year 2013, Lobo Development created contribution 403(b) plan. 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. Lobo Development administers the plan and 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. Lobo Development's contribution to the plan for the year ended June 30, 2013 was \$12,143.

(9) Subsequent Events

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is October 14, 2013.



KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

**Independent Auditors' 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
Mr. Hector Balderas, 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, a component of the University of New Mexico (Lobo Development), which comprise the statement of net position as of June 30, 2013, 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 October 14, 2013.

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.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2013-01.

Lobo Development's Response to Finding

Lobo Development's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Lobo Development's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

KPMG LLP

Albuquerque, New Mexico
October 14, 2013

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

Schedule of Findings and Responses

Year ended June 30, 2013

Other Findings, as required by New Mexico State Statute, Section 12-6-5, NMSA 1978

2013-01. Journal Entry Approval Process – Lobo Development Corporation

Type of finding: Other matter

Condition

We noted that Lobo Development did not have an operating procedure in place for approval of manual journal entry transactions for a portion of the fiscal year. Journal Entries were prepared and entered into the system by the same person without an independent review and approval.

Criteria

Appropriate segregation of duties would include an independent review and approval of all manual journal entries.

Effect

There is increased risk that erroneous manual journal entries could be made and not be detected or corrected.

Cause

Operating procedures are not in place for review and approval of manual journal entries.

Recommendation

Lobo Development Corporation should develop an operating procedure for review and approval of manual journal entry transactions by an individual in the organization, independent from the preparer of the journal entry. These reviews should be at a level or precision to detect and correct material misstatements in the financial statements and should take place in a timely manner. In addition, Lobo Development should ensure all required approvals have been obtained and evidence of approvals is maintained in the files.

Lobo Development Corporation Response

The following operating procedure has been agreed to between the bookkeeper and the Secretary/Treasurer of the corporation. The Secretary/Treasurer will review and approve each manual journal entry prior to entry by the bookkeeper. In addition, the Secretary/Treasurer will review journal entry reports each month to ensure accurate manual entries. All manual journal entries and approvals will be maintained in the appropriate "Journal Entries" file for each fiscal year.

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

Exit Conference

Year ended June 30, 2013

An exit conference was conducted on October 8, 2013. During this meeting, the contents of this report were discussed with the following individuals:

Lobo Development Corporation

Chris Vallejos	Secretary/Treasurer
Amy Coburn	Director of Design & Development
Keelie L. Garcia	Administrative Operations Manager

KPMG LLP

John T. Kennedy	Partner
Brett Thompson	Senior Manager