



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

Financial Statements

June 30, 2014 and 2013

(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, 2014

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 Krebsfc
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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise 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, 2014 and 2013, 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 September 22, 2014 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
September 22, 2014

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

Management's Discussion and Analysis

June 30, 2014 and 2013

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, 2014, 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 2014 by \$86,867, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2014 of \$595,085. The decrease during fiscal year 2014 is primarily due to an increase in debt repayments partially offset by cash provided by operating activities. 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. Interest earned during fiscal year 2014 increased \$4,888 from \$4,768 to \$9,656 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 decreased \$228,547 during the year, from \$451,454 in 2013 to \$222,907 in fiscal year 2014, primarily as a result of distributions to UNM. During fiscal year 2013, 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 the fiscal year, operating revenue increased by \$1,547,854 and operating expenses increased by \$142,703, resulting in an increase in net operating income of \$1,405,151. During fiscal year 2013, 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.

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
(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2014 and 2013

Financial Information

Lobo Development's condensed financial information as of and for the fiscal years ended June 30, 2014, 2013, and 2012 are provided in the following table:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 595,085	681,952	1,335,930
Noncurrent assets	26,775,511	27,504,795	—
Total assets	<u>\$ 27,370,596</u>	<u>28,186,747</u>	<u>1,335,930</u>
Current liabilities	\$ 627,590	614,138	174,667
Noncurrent liabilities	26,520,099	27,121,155	—
Net position	<u>222,907</u>	<u>451,454</u>	<u>1,161,263</u>
Total liabilities and net assets	<u>\$ 27,370,596</u>	<u>28,186,747</u>	<u>1,335,930</u>
Operating revenue	\$ 2,761,184	1,213,330	1,980,178
Operating expenses	<u>1,926,230</u>	<u>1,783,527</u>	<u>1,400,070</u>
Operating income	834,954	(570,197)	580,108
Nonoperating revenue	9,656	4,768	10,291
Nonoperating expenses	<u>1,073,157</u>	<u>144,380</u>	<u>—</u>
Change in net position	(228,547)	(709,809)	590,399
Net position, beginning of year	<u>451,454</u>	<u>1,161,263</u>	<u>570,864</u>
Net position, end of year	<u>\$ 222,907</u>	<u>451,454</u>	<u>1,161,263</u>

Statements of Net Position

Assets – As of June 30, 2014 and 2013, Lobo Development has cash in the amount of \$595,085 and \$681,952, respectively, of which \$599,742 and \$679,765, respectively, is held by UNM, and (\$4,657) and \$2,187, respectively, is held in an operating bank account at a financial institution. Cash decreased primarily as a result of an increase in debt repayments partially offset by cash provided by operating activities.

Liabilities and Net Position – Lobo Development's net position at June 30, 2014 was allocated between unrestricted and net investment in capital assets. Lobo Development's net position at June 30, 2013 and 2012 was considered unrestricted.

Statements of Revenues, Expenses, and Changes in Net Position

Revenues – During the fiscal year ended June 30, 2014, Lobo Development generated operating revenue in the amount of \$2,761,184, which included lease payments from the three buildings purchased in year ended June 30, 2013. 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. Other income amounted to \$9,656 and \$4,768 during the fiscal years ended June 30, 2014 and 2013, respectively, and was the result of interest earned from UNM.

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

Management's Discussion and Analysis

June 30, 2014 and 2013

Expenses – Total operating expenses increased \$142,703 during the fiscal year ended June 30, 2014 due to an increase of \$531,964 in depreciation, which was offset by decreases in project and administrative expenses of \$365,256 and \$24,005, respectively. The change was primarily due to the increasing costs in connection with the south campus project. Total operating expenses increased \$383,457 during the fiscal year ended June 30, 2013 due to an increase of \$257,005 in administrative expenses. This change was primarily due to hiring full-time employees, an intern, and a management consultant.

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, 2014 amounts to (\$345,644) (net of accumulated depreciation). This investment in capital assets includes three 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 \$27,121,155. This debt was incurred during the prior fiscal year for the purchase of the three 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
(A Component Unit of the University of New Mexico)

Statements of Net Position

June 30, 2014 and 2013

Assets	2014	2013
Current assets:		
Cash on deposit with fiscal agent	\$ 599,742	679,765
Cash on deposit with bank	(4,657)	2,187
Total current assets	595,085	681,952
Noncurrent assets:		
Capital assets (less accumulated depreciation of \$886,606)	26,775,511	27,484,795
Other assets	—	20,000
Total noncurrent assets	26,775,511	27,504,795
Total assets	\$ 27,370,596	28,186,747
Liabilities and Net Position		
Current liabilities:		
Current portion of long term debt	601,056	583,314
Accounts payable	26,534	30,824
Total current liabilities	627,590	614,138
Noncurrent liabilities:		
Long term debt	26,520,099	27,121,155
Total noncurrent liabilities	26,520,099	27,121,155
Net position:		
Net investment in capital assets	(345,644)	(199,674)
Unrestricted	568,551	651,128
Total net position	222,907	451,454
Total liabilities and net position	\$ 27,370,596	28,186,747

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, 2014 and 2013

	2014	2013
Operating revenue:		
Project revenue	\$ 2,761,184	1,213,330
Total operating revenue	2,761,184	1,213,330
Operating expenses:		
Project expenses	731,703	1,096,959
Depreciation	709,285	177,321
Administrative expenses	485,242	509,247
Total operating expenses	1,926,230	1,783,527
Operating income	834,954	(570,197)
Nonoperating revenue:		
Interest income	9,656	4,768
Total nonoperating revenue	9,656	4,768
Nonoperating expenses:		
Interest expense	823,157	144,380
Distributions to UNM	250,000	—
Total nonoperating expenses	1,073,157	144,380
Nonoperating loss	(1,063,501)	(139,612)
Change in net position	(228,547)	(709,809)
Net position, beginning of year	451,454	1,161,263
Net position, end of year	\$ 222,907	451,454

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Payments to suppliers of goods or services	\$ (1,221,236)	(1,750,049)
Payments received from contractors	—	7,000
Payments received from fiscal agent	2,761,184	1,213,330
Net cash provided by (used in) operating activities	1,539,948	(529,719)
Cash flows from capital and related financing activities:		
Proceeds from loan from fiscal agent	—	27,800,000
Earnest money received (paid) for asset purchase	20,000	(20,000)
Purchase of property, plant, and equipment	—	(27,662,116)
Distributions to UNM	(250,000)	—
Debt repayment to fiscal agent-principal	(583,314)	(234,412)
Debt repayment to fiscal agent-interest	(823,157)	—
Net cash used in capital and related financing activities	(1,636,471)	(116,528)
Cash flows provided by (used in) investing activity:		
Interest paid on deposits with fiscal agent	9,656	(731)
Net cash provided by (used in) investing activities	9,656	(731)
Net increase (decrease) in cash and cash equivalents	(86,867)	(646,978)
Cash and cash equivalents, beginning of year	681,952	1,328,930
Cash and cash equivalents, end of year	\$ 595,085	681,952
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating Income	\$ 834,954	(570,197)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Change in accounts receivable	—	7,000
Change in accounts payable	(4,291)	(143,843)
Depreciation expense	709,285	177,321
Net cash provided by operating activities	\$ 1,539,948	(529,719)

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2014 and 2013

(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 the University of 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 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, 2014, \$250,000 was distributed back to UNM. For the year ended June 30, 2013, no amounts were distributed back to UNM.

During the year ended June 30, 2014, principal activities performed by Lobo Development focused on the South Campus Retail Project proposed by a developer under a Master Development Agreement (MDA) that was executed on December 20, 2012. Pursuant to the terms of the MDA, the developer submitted preliminary materials for review and approval by Lobo Development and UNM on November 21, 2013. The materials did not conform to the requirements of the MDA and the submittal was disapproved. Lobo Development staff worked extensively with the developer during the fiscal year to revise the materials and attempt to develop a financial structure that provided sufficient returns to the parties. After multiple iterations of the financial structure of the proposed project, it was determined that the proposed project was not feasible and the parties are in the process of terminating the MDA.

Lobo Development staff also completed feasibility studies on multiple sites that have been identified for commercial use in the UNM Consolidated Master Plan. Additional efforts focused on the feasibility of a University-affiliated hotel and conference center.

Lobo Development provides services only to UNM. Lobo Development does not have any component units.

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

Notes to Financial Statements

June 30, 2014 and 2013

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Accounting

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.

(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) 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, 2014 originated from the following sources: (1) Student Housing project/ACC Component I, (2) Student Housing project/ACC Component II, and (3) Rent from three occupancy leases. Revenue for fiscal year ending June 30, 2013 originated from the following sources: (1) Student Housing projects/ACC, (2) 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.

LOBO DEVELOPMENT CORPORATION
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Notes to Financial Statements

June 30, 2014 and 2013

(f) Income Taxes

Lobo Development is exempt from federal income tax on income related to its exempt purposes under Section 501(a) of the Internal Revenue Code (Code) as an organization described in Section 501(c)(3) of the Code.

(g) 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, 2014 and 2013, Lobo Development had a balance in that pooled account of \$599,742 and \$679,765, 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, 2014, the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank were \$77,648 and (\$4,657), respectively. 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. 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, 2014 and 2013

(5) Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	<u>Balance at June 30, 2013</u>	<u>Additions/ completions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2014</u>
Buildings	\$ 27,662,116	—	—	27,662,116
Accumulated depreciation	<u>(177,321)</u>	<u>(709,284)</u>	<u>—</u>	<u>(886,605)</u>
Total capital assets	<u>\$ 27,484,795</u>	<u>(709,284)</u>	<u>—</u>	<u>26,775,511</u>

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

	<u>Balance at June 30, 2012</u>	<u>Additions/ completions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2013</u>
Buildings	\$ —	27,662,116	—	27,662,116
Accumulated depreciation	<u>—</u>	<u>(177,321)</u>	<u>—</u>	<u>(177,321)</u>
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 following is a summary of debt transactions, including current portion, for the year ended June 30, 2014:

	<u>Balance at June 30, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at June 30, 2014</u>	<u>Due within one year</u>
Note payable to UNM	\$ 27,704,469	<u>—</u>	<u>(583,314)</u>	<u>27,121,155</u>	<u>601,056</u>
Total long-term debt	<u>\$ 27,704,469</u>	<u>—</u>	<u>(583,314)</u>	<u>27,121,155</u>	<u>601,056</u>

LOBO DEVELOPMENT CORPORATION
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Notes to Financial Statements

June 30, 2014 and 2013

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

	<u>Balance at June 30, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance at June 30, 2013</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, 2014, minimum future payments under this promissory note are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
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>\$ 27,121,155</u>	<u>4,546,885</u>	<u>31,668,040</u>

(7) Contingencies

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. Worker's compensation insurance and property insurance are provided by private companies at Lobo Development's expense. The Risk Management program liability insurance coverage includes most employee liability claims; those claims falling outside this state program are in limited amounts and are covered by UNM from its operating budget. UNM's exposure is limited to \$1,000 per any first party incurred property loss, with the exception of theft, which has a \$5,000 deductible.

(8) 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. 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. Lobo Development's contribution to the plan for the years ended June 30, 2014 and 2013 was \$13,083 and 12,143, respectively.

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

Notes to Financial Statements

June 30, 2014 and 2013

(9) Subsequent Events

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is September 22, 2014.



KPMG LLP
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**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, 2014, 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 22, 2014.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lobo Development's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lobo Development's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
September 22, 2014

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

Schedule of Findings and Response

Year ended June 30, 2014

Prior Year Findings

2013–01 Journal Entry Approval Process

Current year status – resolved

Current Year Findings

None.

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

Exit Conference

Year ended June 30, 2014

An exit conference was conducted on September 22, 2014. 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

KPMG LLP

John T. Kennedy	Partner
Mike Hoskins	Manager (via telephone)