



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

Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page
Official Roster	1
Independent Auditors' Report	2
Management's Discussion and Analysis (unaudited)	4
Financial Statements:	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
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 <i>Government Auditing Standards</i>	16
Supplementary Information	
Schedule of Findings and Responses	18
Exit Conference	19

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

Official Roster

June 30, 2015

OFFICERS

David W. Harris

Paul Krebs

Chris Vallejos

MEMBERS

Louis Abruzzo

Stephen J. Ciepiela

Robert M. Doughty III

Robert G. Frank, Ph.D.

Maria Griego-Raby

David W. Harris

James H. Koch

Paul Krebs

Marron Lee

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. Timothy Keller, New Mexico State Auditor:

Report on the Financial Statements

We have audited the accompanying basic financial statements of Lobo Development Corporation (Lobo Development), a component unit of the University of New Mexico, which comprise the statements of net position as of June 30, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Lobo Development's 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 respective financial position of Lobo Development Corporation as of June 30, 2015 and 2014, and the changes in its net position and its cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that 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 November 11, 2015 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
November 11, 2015

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

Management's Discussion and Analysis

June 30, 2015 and 2014

(unaudited)

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, 2015, 2014 and 2013. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of Lobo Development's management.

Financial Highlights

Cash increased in 2015 by \$1,197,316, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2015 of \$1,792,401. The increase during fiscal year 2015 is primarily due to a \$549,338 reimbursement for projects costs expended in fiscal year 2014 and fiscal year 2015, downsizing staff, and an increase in the lease payment allocated for Student Housing-South Campus. 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. Interest earned during fiscal year 2015 increased \$11,260 from \$9,656 to \$20,916 due to an increase in earnings on cash being held by The University of New Mexico (UNM), Lobo Development's fiscal agent.

Lobo Development's net position increased \$1,525,600 during the year, from \$222,907 in 2014 to \$1,748,507 in fiscal year 2015, primarily as a result of a \$549,338 reimbursement for projects costs expended in fiscal year 2014 and fiscal year 2015 (recognized as reimbursement revenue), downsizing staff, and an increase in the lease payment allocated for Student Housing-South Campus. During fiscal year 2014, 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 the fiscal year, operating revenue increased by \$1,121,362 and operating expenses decreased by \$503,783, resulting in an increase in net operating income of \$1,625,145. During fiscal year 2014, 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.

Overview of the Basic Financial Statements

The statements of net position of Lobo Development provides both long-term and short-term information about Lobo Development's overall financial position. The statements of revenues, expenses, and changes in net position provides information about the operating revenues and expenses and the nonoperating revenues and expenses of Lobo Development. The statements of cash flows provide information related to the cash inflows and outflows of Lobo Development. The notes to the basic financial statements provide more detailed information about amounts reported in the basic financial statements.

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

Management's Discussion and Analysis

June 30, 2015 and 2014

(unaudited)

Financial Information

Lobo Development's condensed financial information as of and for the fiscal years ended June 30, 2015, 2014, and 2013 are provided in the following table:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Current assets	\$ 1,877,264	595,085	681,952
Noncurrent assets	26,416,226	26,775,511	27,504,795
Total assets	<u>\$ 28,293,490</u>	<u>27,370,596</u>	<u>28,186,747</u>
Current liabilities	\$ 625,941	627,590	614,138
Noncurrent liabilities	25,919,042	26,520,099	27,121,155
Net position	1,748,507	222,907	451,454
Total liabilities and net assets	<u>\$ 28,293,490</u>	<u>27,370,596</u>	<u>28,186,747</u>
Operating revenue	\$ 3,882,546	2,761,184	1,213,330
Operating expenses	1,422,447	1,926,230	1,783,527
Operating income	2,460,099	834,954	(570,197)
Nonoperating revenue	20,916	9,656	4,768
Nonoperating expenses	955,415	1,073,157	144,380
Change in net position	1,525,600	(228,547)	(709,809)
Net position, beginning of year	<u>222,907</u>	<u>451,454</u>	<u>1,161,263</u>
Net position, end of year	<u>\$ 1,748,507</u>	<u>222,907</u>	<u>451,454</u>

Statements of Net Position

Assets – As of June 30, 2015 and 2014, Lobo Development has cash in the amount of \$1,792,401 and \$595,085, respectively, of which \$1,746,922 and \$599,742, respectively, is held by UNM, and \$45,479 and \$(4,657), respectively, is held in an operating bank account at a financial institution. Cash increased primarily as a result of a \$549,338 reimbursement for projects costs expended in fiscal year 2014 and fiscal year 2015, downsizing staff, and an increase in the lease payment allocated for Student Housing-South Campus.

Liabilities and Net Position – Lobo Development's net position at June 30, 2015 was allocated between unrestricted and net investment in capital assets. Lobo Development's net position at June 30, 2014 was allocated between unrestricted and net investment in capital assets and 2013 was considered unrestricted.

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

Management's Discussion and Analysis

June 30, 2015 and 2014

(unaudited)

Statements of Revenues, Expenses, and Changes in Net Position

Revenues – During the fiscal year ended June 30, 2015, Lobo Development generated operating revenue in the amount of \$3,882,546, which included lease payments from the three buildings purchased in FY 2013. During the fiscal year ended June 30, 2014, Lobo Development generated operating revenue in the amount of \$2,761,184. Other income amounted to \$20,916 and \$9,656 during the fiscal years ended June 30, 2015 and 2014, respectively, and was the result of interest earned from UNM.

Expenses – Total operating expenses decreased \$503,783 during the fiscal year ended June 30, 2015 due to an absence of a commitment for development projects and downsizing staff. Total operating expenses increased \$142,703 during the fiscal year ended June 30, 2014.

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, 2015 amounts to \$(453,872) (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 \$26,520,098. 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 2015 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 describe the financial condition and position of Lobo Development.

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

Management's Discussion and Analysis

June 30, 2015 and 2014

(unaudited)

If you have questions about this report or need additional financial information, contact:

Lobo Development Corporation
801 University Boulevard SE, Suite 207
Albuquerque, New Mexico 87106-4345

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

Statements of Net Position

June 30, 2015 and 2014

Assets	2015	2014
Current assets:		
Cash on deposit with fiscal agent	\$ 1,746,922	599,742
Cash on deposit with bank	45,479	(4,657)
Current portion of note receivable	50,000	—
Accounts receivable	34,863	—
Total current assets	1,877,264	595,085
Capital assets:		
Capital assets	27,662,117	27,662,117
Less accumulated depreciation	(1,595,891)	(886,606)
Net capital assets	26,066,226	26,775,511
Noncurrent assets:		
Note receivable	350,000	—
Total assets	\$ 28,293,490	27,370,596
Liabilities and Net Position		
Current liabilities:		
Current portion of long-term debt	\$ 601,056	601,056
Accounts payable	24,885	26,534
Total current liabilities	625,941	627,590
Noncurrent liabilities:		
Long-term debt	25,919,042	26,520,099
Total noncurrent liabilities	25,919,042	26,520,099
Net position:		
Net investment in capital assets	(453,872)	(345,644)
Unrestricted	2,202,379	568,551
Total net position	1,748,507	222,907
Total liabilities and net position	\$ 28,293,490	27,370,596

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, 2015 and 2014

	2015	2014
Operating revenues:		
Project revenue	\$ 3,333,208	2,761,184
Reimbursement revenue	549,338	—
Total operating revenues	3,882,546	2,761,184
Operating expenses:		
Project expenses	318,695	731,703
Depreciation	709,285	709,285
Administrative expenses	394,467	485,242
Total operating expenses	1,422,447	1,926,230
Operating income	2,460,099	834,954
Nonoperating revenue:		
Interest income	20,916	9,656
Nonoperating expenses:		
Interest expense	805,415	823,157
Distributions to UNM	150,000	250,000
Change in net position	1,525,600	(228,547)
Net position, beginning of year	222,907	451,454
Net position, end of year	\$ 1,748,507	222,907

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, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Payments to suppliers of goods or services	\$ (474,690)	(873,518)
Payments to employees for services	(240,121)	(347,718)
Payments received from contractors	549,338	—
Payments received from fiscal agent	3,298,345	2,761,184
Net cash provided by operating activities	<u>3,132,872</u>	<u>1,539,948</u>
Cash flows from capital and related financing activities:		
Earnest money received for asset purchase	—	20,000
Distributions to UNM	(150,000)	(250,000)
Debt repayment to fiscal agent principal	(601,057)	(583,314)
Debt repayment to fiscal agent interest	(805,415)	(823,157)
Net cash (used in) capital and related financing activities	<u>(1,556,472)</u>	<u>(1,636,471)</u>
Cash flows (used in) investing activities:		
Interest paid on deposits with fiscal agent	20,916	9,656
Cash paid on note receivable	(400,000)	—
Net cash (used in) investing activities	<u>(379,084)</u>	<u>9,656</u>
Net increase in cash and cash equivalents	1,197,316	(86,867)
Cash and cash equivalents, beginning of year	595,085	681,952
Cash and cash equivalents, end of year	<u>\$ 1,792,401</u>	<u>595,085</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,460,099	834,954
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Change in accounts payable	(1,649)	(4,291)
Change in accounts receivable	(34,863)	—
Depreciation expense	709,285	709,285
Net cash provided by operating activities	<u>\$ 3,132,872</u>	<u>1,539,948</u>

See accompanying notes to financial statements.

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

Notes to the Financial Statements

June 30, 2015 and 2014

(1) Description of Business

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

Lobo Development was incorporated in the State of New Mexico on October 4, 2007. It was organized under the amended State of New Mexico's University Research Park Act. The name of the Act has since been changed to the University Research Park and Economic Development Act.

Lobo Development was established to benefit the UNM Regents by relieving the University of New Mexico from the responsibilities to acquire, own, manage, and develop certain real estate in a commercially reasonable manner and to maximize the University's return from these assets; by contributing all of the corporation's net revenues to the University for the support of the teaching, research, and service mission of the University; and by creating learning opportunities for students in this development activity. The activities of the corporation shall include the acquisition, development, disposition, and rental of real estate for the benefit of the University.

Under the Memorandum of Agreement 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, 2015, \$150,000 was distributed back to UNM. For the year ended June 30, 2014, \$250,000 was distributed back to UNM.

Primary activities performed by LDC during the year ended June 30, 2015 focused on efforts to establish the UNM Sports and Entertainment District at South Campus and marketing of commercial sites along Gibson Boulevard. Activities included a Request for Proposal to the development community, selection and negotiations with developers, and negotiations of a ground lease for a fast food restaurant.

Lobo Development staff also completed feasibility studies on multiple sites that have been identified for commercial use in the UNM Consolidated Master Plan.

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 and Presentation

As a proprietary fund, Lobo Development's financial statements are reported using a flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred. Operating revenues and expenses are those incurred that relate directly to project management services. All other revenues and expenses are considered nonoperating.

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

Notes to the Financial Statements

June 30, 2015 and 2014

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 the fiscal year ended 2015 originated from the following sources: (1) Student Housing project/ACC Component I, (2) Student Housing project/ACC Component II, (3) Real Estate/Mesa del Sol, and (4) Rent from three occupancy leases. Revenue for the fiscal year ended 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. All revenue from these sources is originally paid to UNM and UNM determines which revenue streams are allocated to Lobo Development.

(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.

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

Notes to the Financial Statements

June 30, 2015 and 2014

(g) Capital Assets

Capital assets are recorded at original cost, or fair value if donated. Per Section 12-6-10 NMSA 1978, Lobo Development follows UNM's capitalization policy for moveable equipment includes all items with a unit cost of \$5,000 or more, and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, generally 39 years for buildings.

(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, 2015 and 2014, Lobo Development had a balance in that pooled account of \$1,746,922 and \$599,742, 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, 2015, the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank were \$54,236 and \$45,479, respectively. 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. 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.

On May 29, 2015, Lobo Development entered into a MOA with the University of New Mexico Athletics Department (Athletics), wherein a \$400,000, 0% interest loan was extended to Athletics, payable to Lobo Development over a five year period beginning in FY 2015-16. The first of these payments is due to Lobo Development on June 30, 2016 in the amount of \$50,000, with the remaining payments being agreed upon by both parties during the annual budgeting process.

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

Notes to the Financial Statements

June 30, 2015 and 2014

Lobo Development did not purchase goods and services of companies that board members are employed by during the fiscal years ended June 30, 2015 and 2014.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Balance at June 30, 2014</u>	<u>Additions/ completions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2015</u>
Buildings	\$ 27,662,117	—	—	27,662,117
Accumulated depreciation	<u>(886,606)</u>	<u>(709,285)</u>	<u>—</u>	<u>(1,595,891)</u>
Total capital assets	<u>\$ 26,775,511</u>	<u>(709,285)</u>	<u>—</u>	<u>26,066,226</u>

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	\$ 27,662,117	—	—	27,662,117
Accumulated depreciation	<u>(177,321)</u>	<u>(709,285)</u>	<u>—</u>	<u>(886,606)</u>
Total capital assets	<u>\$ 27,484,796</u>	<u>(709,285)</u>	<u>—</u>	<u>26,775,511</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:

	<u>Balance at July 1</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance at June 30</u>	<u>Due within one year</u>
Note payable to UNM, FY 2014	\$ 27,704,469	—	(583,314)	27,121,155	601,056
Note payable to UNM, FY 2015	27,121,155	—	(601,057)	26,520,098	601,056

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

Notes to the Financial Statements

June 30, 2015 and 2014

At June 30, 2015, minimum future payments under this promissory note are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
2016	\$ 601,056	787,133	1,388,189
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	23,945,691	708,275	24,653,966
	<u>\$ 26,520,098</u>	<u>3,741,470</u>	<u>30,261,568</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. Workers' compensation insurance and property insurance are provided by private companies at Lobo Development's expense. The Risk Management program liability insurance coverage includes most employee liability claims; those claims falling outside this state program are in limited amounts and are covered by UNM from its operating budget. UNM's exposure is limited to \$1,000 per any first party incurred property loss, with the exception of theft, which has a \$5,000 deductible.

(8) Defined-Contribution Plan

Lobo Development entered into a 403(b) defined-contribution plan effective January 1, 2013. As a defined-contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan may be amended by a board of director's resolution. The plan is available to all employees of Lobo Development, beginning the first day of the plan year quarter coincident with or next following the date the employee first performs their first day of service and are considered to be immediately vested. The plan allows for variable employee contributions up to the Internal Revenue Service maximum allowed amount. Principal Financial Group administers the plan, and Lobo Development contributes the sum of (a) a 6% match for employees that contribute to the plan and (b) a discretionary contribution as determined by Lobo Development for employees who do not contribute to the plan. Contributions to the plan for the fiscal years ended June 30, 2015 and 2014 were \$28,801 and \$54,332, respectively, which consisted of \$12,541 and \$41,149 contributed by employees and \$16,260 and \$13,083 contributed by Lobo Development, respectively.

(9) Subsequent Events

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is November 11, 2015.



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. Timothy Keller, New Mexico State Auditor:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Lobo Development Corporation (Lobo Development), a component of the University of New Mexico, which comprise the statement of net position as of June 30, 2015, 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 November 11, 2015.

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*.

Management's Response to the Finding

Lobo Development's response to the finding identified in our audit is described in the accompanying schedule of findings. 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 the response.

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
November 11, 2015

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

Schedule of Findings and Responses

Year ended June 30, 2015

Findings – Financial Statement Audits

Prior Year Findings

None.

Current Year Findings

Finding Number: 2015-001

Findings Title: Revenues

Type of Finding: Finding that does not rise to the level of a significant deficiency.

Condition and Criteria:

In accordance with the policies set forth by management, as noted in the Summary of Significant Accounting Policies and Practices, revenues are recognized under the terms of the Memorandum of Agreement (MOA) between the University of New Mexico (UNM) Regents and Lobo Development. For the fiscal year ended June 30, 2015, it was determined that certain lease agreements between Lobo Development and UNM Regents contained 3% escalation clauses for rents due.

Lobo Development failed to properly identify that one of these lease agreements contained a 3% escalation clause for rent due which resulted in not properly recording the increased revenue associated with the lease agreement.

Effect

Weaknesses in internal control could result in inappropriate recognition of revenue.

Cause

Internal controls related to the recognition of revenues have not been properly designed or implemented.

Auditor's Recommendation

We recommend that Lobo Development institute controls around the recognition of revenue to ensure that revenues are appropriately recognized in a timely and accurate fashion in accordance with management's policies.

Management's Response

Revenue contracts and other supporting documentation will be reviewed yearly to ensure proper recognition and collection of operating revenues.

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

Exit Conference

Year ended June 30, 2015

An exit conference was held on October 12, 2015. During this meeting, the contents of this report were discussed with the following individuals:

Lobo Development Corporation

Chris Vallejos Secretary Treasurer, Board of Directors, LDC

Keelie L. Garcia Administrative Operations Manager

KPMG LLP

Caroline M. Garcia Partner

Jessa Huybrechts Manager

Lobo Development is responsible for the contents of the financial statements. KPMG LLP assisted with the preparation of the financial statements.