



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

Financial Statements

June 30, 2016 and 2015

(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, 2016

**OFFICERS**

David W. Harris

Paul Krebs

Chris Vallejos

**MEMBERS**

Louis Abruzzo

Stephen J. Ciepiela

Jack L. Fortner

Robert G. Frank, Ph.D.

Maria Griego-Raby

David W. Harris

Paul Krebs

Marron Lee

Paul B. Roth, M.D.

Chris Vallejos



**KPMG LLP**  
Two Park Square, Suite 700  
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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 financial statements of Lobo Development Corporation (Lobo Development), a component unit of the University of New Mexico, as of and for the year ended June 30, 2016, 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 auditor considers 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, 2016 and 2015, 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 7 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, 2016 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, 2016

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

Management's Discussion and Analysis

June 30, 2016 and 2015

(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, 2016, 2015 and 2014. 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 2016 by \$1,261,652, resulting in cash on deposit with fiscal agent and cash on hand at the close of fiscal year 2016 of \$3,054,053. The increase during fiscal year 2016 is primarily due to an increase in the lease payments allocated for Student Housing, lower loan payments made to The University of New Mexico (UNM) due to a revised loan agreement, and lower project and administrative expenses. 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 was 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. Interest earned during fiscal year 2016 increased \$8,899 from \$20,916 to \$29,815 due to an increase in earnings on cash being held by UNM, Lobo Development's fiscal agent.

Lobo Development's net position increased \$884,837 during the year, from \$1,748,507 in 2015 to \$2,633,344 in fiscal year 2016, primarily as a result of an increase in the lease payments allocated for Student Housing, lower interest payments made to UNM due to a revised loan agreement, and lower project and administrative expenses. During fiscal year 2015, 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.

During the fiscal year, operating revenue decreased by \$1,168,395 and operating expenses decreased by \$372,048, resulting in a decrease in net operating income of \$796,347. During fiscal year 2015, 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.

**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**  
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Management's Discussion and Analysis

June 30, 2016 and 2015

(Unaudited)

**Financial Information**

Lobo Development's condensed financial information as of and for the fiscal years ended June 30, 2016, 2015, and 2014 are provided in the following table:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 3,057,149	1,877,264	595,085
Noncurrent assets	14,661,863	26,416,226	26,775,511
Total assets	<u>\$ 17,719,012</u>	<u>28,293,490</u>	<u>27,370,596</u>
Current liabilities	\$ 396,558	625,941	627,590
Noncurrent liabilities	14,689,110	25,919,042	26,520,099
Net position	<u>2,633,344</u>	<u>1,748,507</u>	<u>222,907</u>
Total liabilities and net assets	<u>\$ 17,719,012</u>	<u>28,293,490</u>	<u>27,370,596</u>
Operating revenue	\$ 2,714,151	3,882,546	2,761,184
Operating expenses	<u>1,050,399</u>	<u>1,422,447</u>	<u>1,926,230</u>
Operating income	1,663,752	2,460,099	834,954
Nonoperating revenue	186,361	20,916	9,656
Nonoperating expenses	<u>965,276</u>	<u>955,415</u>	<u>1,073,157</u>
Change in net position	884,837	1,525,600	(228,547)
Net position, beginning of year	<u>1,748,507</u>	<u>222,907</u>	<u>451,454</u>
Net position, end of year	<u>\$ 2,633,344</u>	<u>1,748,507</u>	<u>222,907</u>

**Statements of Net Position**

*Assets* – As of June 30, 2016 and 2015, Lobo Development has cash in the amount of \$3,054,053 and \$1,792,401, respectively, of which \$3,001,805 and \$1,746,922, respectively, is held by UNM, and \$52,248 and \$45,479, respectively, is held in an operating bank account at a financial institution. Cash increased primarily as a result of an increase in the lease payments allocated for Student Housing and lower loan payments made to UNM due to a revised loan agreement.

*Liabilities and Net Position* – Lobo Development's net position at June 30, 2016, 2015, and 2014 was allocated between unrestricted and net investment in capital assets.

**Statements of Revenues, Expenses, and Changes in Net Position**

*Revenues* – During the fiscal year ended June 30, 2016, Lobo Development generated operating revenue in the amount of \$2,714,151, which included lease payments from the three buildings purchased in FY 2013. During the fiscal year ended June 30, 2015, Lobo Development generated operating revenue in the amount of \$3,882,546.

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Management's Discussion and Analysis

June 30, 2016 and 2015

(Unaudited)

Operating revenues decreased in FY 2016 as a result of the sale of one building to UNM and as a result included lease payments for half the year.

Other income amounted to \$186,361 and \$20,916 during the fiscal years ended June 30, 2016 and 2015, respectively, and was the result of the gain from the sale of property to UNM and interest earned from UNM, respectively.

*Expenses* – Total operating expenses decreased \$372,048 during the fiscal year ended June 30, 2016 due to an absence of development of projects and reduced depreciation expenses associated with the sale of building to UNM. Total operating expenses decreased \$503,783 during the fiscal year ended June 30, 2015.

UNM is the fiscal agent of Lobo Development. UNM holds the majority of Lobo Development's cash 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, 2016 amounts to \$(398,319) (net of accumulated depreciation). Additional information concerning Lobo Development's capital assets may be found in note 5 to the financial statements.

At the end of the current fiscal year, Lobo Development had total debt outstanding of \$15,060,182. Additional information concerning Lobo Development's long-term debt may be found in note 6 to the financial statements.

On January 1, 2016, UNM entered into a Memorandum of Understanding (MOU) with UNM Health Sciences Center (UNM HSC) to establish that UNM HSC will accept financial and operational responsibility for one of the buildings Lobo Development purchased in 2013 (2600 College/UNM West). The outstanding balance of the promissory note for this building was \$11,001,206. Lobo Development sold the building to UNM and entered into a revised promissory note with UNM, the balance of which consists of outstanding debt for the remaining two buildings.

**Factors Impacting Future Periods**

Lobo Development is currently involved in the commercial development of vacant UNM property and has been negotiating with developers. 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 or if expansion of business will transpire.

Anticipated revenue sources for 2017 include campus student housing ground rent, commercial development ground rent, and real estate income.

***Contacting Lobo Development's Financial Management***

This report is meant to describe the financial condition and position of Lobo Development.



**LOBO DEVELOPMENT CORPORATION**  
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Management's Discussion and Analysis

June 30, 2016 and 2015

(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, 2016 and 2015

<b>Assets</b>	<b>2016</b>	<b>2015</b>
Current assets:		
Cash on deposit with fiscal agent	\$ 3,001,805	1,746,922
Cash on deposit with bank	52,248	45,479
Prepaid insurance	3,096	—
Current portion of note receivable	—	50,000
Accounts receivable	—	34,863
Total current assets	3,057,149	1,877,264
Capital assets:		
Capital assets	15,994,759	27,662,117
Less accumulated depreciation	(1,332,896)	(1,595,891)
Net capital assets	14,661,863	26,066,226
Noncurrent assets:		
Note receivable	—	350,000
Total assets	\$ 17,719,012	28,293,490
<b>Liabilities and Net Position</b>		
Current liabilities:		
Current portion of long-term debt	\$ 371,072	601,056
Accounts payable	25,486	24,885
Total current liabilities	396,558	625,941
Noncurrent liabilities:		
Long-term debt	14,689,110	25,919,042
Total noncurrent liabilities	14,689,110	25,919,042
Net position:		
Net investment in capital assets	(398,319)	(453,872)
Unrestricted	3,031,663	2,202,379
Total net position	2,633,344	1,748,507
Total liabilities and net position	\$ 17,719,012	28,293,490

See accompanying notes to financial statements.

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Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Operating revenues:		
Project revenue	\$ 2,714,102	3,333,208
Reimbursement revenue	49	549,338
Total operating revenues	2,714,151	3,882,546
Operating expenses:		
Project expenses	136,590	318,695
Depreciation expenses	559,703	709,285
Administrative expenses	354,106	394,467
Total operating expenses	1,050,399	1,422,447
Operating income	1,663,752	2,460,099
Nonoperating revenue:		
Interest income	29,815	20,916
Gain on sale of property	156,546	—
Nonoperating expenses:		
Interest expense	585,276	805,415
Distributions to UNM	200,000	150,000
Distributions to UNM-Athletics	180,000	—
Change in net position	884,837	1,525,600
Net position, beginning of year	1,748,507	222,907
Net position, end of year	\$ 2,633,344	1,748,507

See accompanying notes to financial statements.

**LOBO DEVELOPMENT CORPORATION**  
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Statements of Cash Flows

Years ended June 30, 2016 and 2015

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Payments to suppliers of goods or services	\$ (293,749)	(474,690)
Payments to employees for services	(199,442)	(240,121)
Payments received from contractors	49	549,338
Payments received from fiscal agent	2,748,965	3,298,345
Net cash provided by operating activities	2,255,823	3,132,872
Cash flows from capital and related financing activities:		
Distributions to UNM	(200,000)	(150,000)
Distributions to UNM-Athletics	(180,000)	—
Debt repayment to fiscal agent principal	(458,710)	(601,057)
Debt repayment to fiscal agent interest	(585,276)	(805,415)
Net cash used in capital and related financing activities	(1,423,986)	(1,556,472)
Cash flows from investing activities:		
Interest paid on deposits with fiscal agent	29,815	20,916
Cash paid on note receivable	400,000	(400,000)
Net cash provided by (used in) investing activities	429,815	(379,084)
Net increase in cash and cash equivalents	1,261,652	1,197,316
Cash and cash equivalents, beginning of year	1,792,401	595,085
Cash and cash equivalents, end of year	\$ 3,054,053	1,792,401
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,663,752	2,460,099
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Change in accounts payable	601	(1,649)
Change in accounts receivable	34,863	(34,863)
Change in prepaid insurance	(3,096)	—
Depreciation expense	559,703	709,285
Net cash provided by operating activities	\$ 2,255,823	3,132,872
Supplemental information:		
Sale of building to UNM	\$ 10,844,660	—
Revision of debt with UNM	11,001,206	—

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2016 and 2015

**(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, 2016, \$380,000 was distributed back to UNM. For the year ended June 30, 2015, \$150,000 was distributed back to UNM.

Primary activities performed by LDC during the year ended June 30, 2016 focused on efforts to establish the UNM Sports and Entertainment District at South Campus and marketing of commercial sites along Gibson Boulevard. Activities included negotiation with a developer 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.

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Notes to Financial Statements

June 30, 2016 and 2015

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 2016 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, (4) Rent from three occupancy leases, and (5) Gain from sale of property. 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. 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.

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Notes to Financial Statements

June 30, 2016 and 2015

**(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.

**(h) Adoption of New GASB Pronouncements**

During the year ended June 30, 2016, Lobo Development adopted GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (GASB 76) that supersedes GASB Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. GASB 76 identifies the hierarchy of generally accepted accounting principles for state and local governments which did not have a significant effect.

**(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, 2016 and 2015, Lobo Development had a balance in that pooled account of \$3,001,805 and \$1,746,922, 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, 2016, the bank balance and the book balance in Lobo Development's separate checking account with Compass Bank were \$61,084 and \$52,248, respectively. 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. 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.

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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 2015–2016. The \$400,000 loan was paid off in June 2016.

On January 1, 2016, the UNM entered into a Memorandum of Understanding (MOU) with UNM Health Sciences Center (UNM HSC) to establish that UNM HSC will accept financial and operational responsibility for one of the buildings Lobo Development purchased in 2013 (2600 College/UNM West). The outstanding balance of the promissory note for this building was \$11,001,206. The building had a carrying value of \$10,844,660 at the time of the sale. Lobo Development sold the building to UNM and entered into a revised promissory note with UNM, the balance of which consists of outstanding debt for the remaining two buildings.

Lobo Development did not purchase goods and services of companies that board members are employed by during the fiscal years ended June 30, 2016 and 2015.

**(5) Capital Assets**

Capital asset activity for the year ended June 30, 2016 was as follows:

	<b>Balance at June 30, 2015</b>	<b>Additions/ completions</b>	<b>Retirements/ disposals</b>	<b>Balance at June 30, 2016</b>
Buildings	\$ 27,662,117	—	(11,667,358)	15,994,759
Accumulated depreciation	(1,595,891)	(559,703)	822,698	(1,332,896)
Total capital assets	<u>\$ 26,066,226</u>	<u>(559,703)</u>	<u>(10,844,660)</u>	<u>14,661,863</u>

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

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

**(6) Long-Term Debt**

A promissory note payable to UNM was issued to finance the capital assets purchase made in fiscal year 2013. A Loan Revision Agreement was issued January 1, 2016 to reduce the principal due to a sale of one of the three buildings. Principal and interest payments are due monthly on the first day of each month. This



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Notes to Financial Statements

June 30, 2016 and 2015

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>Sale</u>	<u>Payments</u>	<u>Balance at June 30</u>	<u>Due within one year</u>
Note payable to UNM, FY 2015	\$ 27,121,155	—	(601,057)	26,520,098	601,056
Note payable to UNM, FY 2016	26,520,098	(11,001,206)	(458,710)	15,060,182	371,072

At June 30, 2016, minimum future payments under this promissory note are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fiscal year ending June 30:			
2017	\$ 371,072	446,731	817,803
2018	382,358	435,444	817,802
2019	393,988	423,815	817,803
2020	13,912,764	344,310	14,257,074
	<u>\$ 15,060,182</u>	<u>1,650,300</u>	<u>16,710,482</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, 2016 and 2015 were \$10,586 and \$28,801, respectively, which consisted of \$5,280 and \$12,541 contributed by employees and \$5,306 and \$16,260 contributed by Lobo Development, respectively.

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

Notes to Financial Statements

June 30, 2016 and 2015

**(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, 2016.



**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, 2016, 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, 2016.

**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  
November 11, 2016

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

Schedule of Findings and Responses

Year ended June 30, 2016

**Findings – Financial Statement Audits**

**Prior Year Findings**

15-001 Revenues Resolved

**Current Year Findings**

None

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

Exit Conference

Year ended June 30, 2016

An exit conference was held on October 19, 2016. 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
Thomas Neale	Director

***KPMG LLP***

Caroline M. Garcia	Partner
Lakmini H. Perera	Manager

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