



UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

Financial Statements

June 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

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UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

Official Roster

June 30, 2016

Officers

Michelle Coons	Chair
Henry Nemcik	UNM Foundation President and CEO
Laurie Moye	Vice Chair/Chair Elect
Randy Velarde	National Vice Chair
Rodney Harder	Treasurer of the Board
Lynn Mosher	Secretary of the Board

Members

Carolyn Abeita	Henry Nemcik
Carl Alongi	Anthony Pachelli
Michelle Coons	Sherry Parsons
Geraldine Forbes-Isais	Kimberly Peña
Edward Foster	Donald Power
Robert Frank	Dorothy Rainosek
Gary Gordon	Ann Rhoades
William Lang	Nancy Ridenour
Marron Lee	Tommy Roberts
Lameck Lukanga	Kurt Roth
Stephen Martinez	David Salazar
Lynn Mosher	Randy Velarde
Laurie Moye	Linda Warning
Ryan Mummert	Judy Zanotti



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

Independent Auditors' Report

The Board of Trustees
University of New Mexico Foundation, Inc.
and
Mr. Timothy Keller
New Mexico State Auditor:

Report on the Financial Statements

We have audited the accompanying financial statements of the University of New Mexico Foundation, Inc. (the Foundation), a component unit of the University of New Mexico, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Foundation'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 audits 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 opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of New Mexico Foundation, Inc. as of June 30, 2016 and 2015, the respective changes in financial position, and cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in Note 2 to the financial statements, effective July 1, 2015, the Foundation adopted *Governmental Accounting Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 5–9 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 audits 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Foundation's basic financial statements. The statement of net position information by account group, statement of revenues, expenses, and changes in net position information by account group, and notes to supplemental information as of and for the year ended June 30, 2016 on pages 35–37 are presented for purposes of additional analysis, and are not a required part of the basic financial statements.

The statement of net position information by account group, statement of revenues, expenses, and changes in net position information by account group, and notes to supplemental information as of and for the year ended June 30, 2016 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial analysis referred to above are fairly stated in all material respects in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016 on our consideration of the Foundation'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 the Foundation's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
November 10, 2016

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

As a component unit of the University of New Mexico (UNM or the University), the University of New Mexico Foundation, Inc. (the Foundation) applies the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

Overview of the Basic Financial Statements

The Foundation's annual report consists of the Management's Discussion and Analysis, which provides a broad narrative overview of its financial statements for the fiscal years ended June 30, 2016, 2015, and 2014 and the following, which comprise the basic financial statements:

1. Statements of net position, which present information on the Foundation's assets and liabilities and resulting net position.
2. Statements of revenues, expenses, and changes in net position, which provide information on the results of operations for the fiscal years.
3. Statements of cash flows, which present information on changes in cash balances and identify the source of cash flows resulting in those changes.
4. Notes to financial statements, which provide additional information that is essential to a full understanding of the data provided in the financial statements.

Condensed Financial Information

Condensed Assets, Liabilities, and Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 8,771,717	44,007,051	13,669,752
Noncurrent assets	197,684,313	208,918,116	215,460,937
Total assets	<u>206,456,030</u>	<u>252,925,167</u>	<u>229,130,689</u>
Current liabilities	6,813,843	48,587,055	23,895,099
Noncurrent liabilities	5,667,383	6,376,241	6,888,379
Total liabilities	<u>12,481,226</u>	<u>54,963,296</u>	<u>30,783,478</u>
Net position:			
Unrestricted	2,306,713	2,131,929	2,396,794
Investment in capital assets	63,227	87,930	112,632
Restricted	191,604,864	195,742,012	195,837,785
Total net position	<u>\$ 193,974,804</u>	<u>197,961,871</u>	<u>198,347,211</u>

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

Condensed Summary of Revenues, Expenses, and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues:			
Donations and pledges, net	\$ 19,038,409	18,183,206	22,829,875
Direct support from the University of New Mexico	5,415,026	5,641,345	5,969,202
Development funding allocation – Consolidated Investment Fund	2,663,363	2,515,480	2,294,731
Nongift revenue	<u>411,897</u>	<u>803,838</u>	<u>464,794</u>
Total operating revenues	<u>27,528,695</u>	<u>27,143,869</u>	<u>31,558,602</u>
Operating expenses:			
Distributions to UNM	28,292,544	26,224,604	30,455,098
General and administrative	<u>12,658,223</u>	<u>12,213,276</u>	<u>12,134,671</u>
Total operating expenses	<u>40,950,767</u>	<u>38,437,880</u>	<u>42,589,769</u>
Operating loss	(13,422,072)	(11,294,011)	(11,031,167)
Investment (loss) income, net	<u>(2,402,519)</u>	<u>(794,918)</u>	<u>31,649,155</u>
Income (loss) before changes in term and permanent endowments	(15,824,591)	(12,088,929)	20,617,988
Changes in term and permanent endowments	<u>11,837,524</u>	<u>11,703,589</u>	<u>7,731,271</u>
(Decrease) increase in net position	(3,987,067)	(385,340)	28,349,259
Net position, beginning of year	<u>197,961,871</u>	<u>198,347,211</u>	<u>169,997,952</u>
Net position, end of year	<u>\$ 193,974,804</u>	<u>197,961,871</u>	<u>198,347,211</u>

Financial Analysis

- Net position decreased to \$194.0 million at June 30, 2016, a decrease of \$4.0 million, or 2.0%, over the net position of \$198.0 million at June 30, 2015. Net position decreased during the year ended June 30, 2015, by \$385 thousand, or 0.2%, over the net position of \$198.3 million at June 30, 2014.
- The decrease in net position during the years ended June 30, 2016 and 2015 was primarily due to the investment losses during the fiscal years.
- At June 30, 2016, the Foundation's total assets were \$206.5 million, which represents a decrease of 18.4% over June 30, 2015 total assets of \$252.9 million. At June 30, 2015, the Foundation's total assets were \$252.9 million, which represents an increase of 10.4% over June 30, 2014 total assets of \$229.1 million.
- The decrease in total assets during the year ended June 30, 2016 was primarily due to a decrease in the Short-Term Investment fund as a result of a change in the Callable Funds Agreement with UNM, dated July 27, 2015. The agreement called for a transfer of all nonendowed gifts and endowed spending distributions to UNM when received, rather than when spent by UNM.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

- The increase in total assets during the year ended June 30, 2015 was due to an increase in the Short-Term Investment fund as a result of a change in the Treasury Operating Agreement, dated October 1, 2013. The 2013 agreement allowed the Foundation to invest nonendowed gifts and endowed spending distribution until spent by UNM.
- The market value of the Consolidated Investment Fund (CIF) at June 30, 2016 was \$395.1 million, a decrease of \$10.7 million from the June 30, 2015 market value of \$405.8 million. Realized gains for the entire CIF were \$2.4 million and unrealized losses were \$11.3 million during the year ended June 30, 2016. The market value of the Consolidated Investment Fund (CIF) at June 30, 2015 was \$405.8 million, a decrease of \$9.4 million from the June 30, 2014 market value of \$415.2 million. Realized gains for the entire CIF were \$19 million and unrealized losses were \$24 million during the year ended June 30, 2015. The fair value and ownership units of the CIF as of June 30, 2016, 2015, and 2014 are as follows:

	Consolidated Investment Fund		
	2016	2015	2014
Fair value (in millions):			
Foundation	\$ 187.0	189.0	189.1
University of New Mexico	208.1	216.8	226.1
Total fair value of CIF	<u>\$ 395.1</u>	<u>405.8</u>	<u>415.2</u>
Units:			
Foundation	\$ 573,990	570,951	568,158
University of New Mexico	638,750	655,318	679,611
Total units of CIF	<u>\$ 1,212,740</u>	<u>1,226,269</u>	<u>1,247,769</u>

- Additions to endowment principal for the CIF, during the year ended June 30, 2016 were \$22.7 million; an increase of \$8.2 million from the prior year. Additions to endowment principal for the CIF, during the year ended June 30, 2015 were \$14.4 million; an increase of \$4.5 million from the year ended June 30, 2014.
- CIF investment performance showed a net rate of return in the current year of -1.3% compared with the 0.5% and 16.7% net investment return earned during the fiscal years ended June 30, 2015 and 2014, respectively.
- During the year ended June 30, 2016, the CIF had a return of -1.3%, underperforming the CIF benchmark return of -0.9%. Domestic equities returned 2.1%, international equities returned -10.1%, fixed income returned 3.0%, real assets returned -9.1%, private equities returned 1.6%, and marketable alternatives returned 2.0%.
- During the year ended June 30, 2015, the CIF had a return of 0.5%, underperforming the CIF benchmark return of 1.6%. Domestic equities returned 7.4%, international equities returned -6.3%, fixed income returned -2.9%, real assets returned 12.6%, private equities returned 9.4%, and marketable alternatives returned 5.4%.
- Approximately, 91% of the Foundation's assets were held as endowments in the CIF as of June 30, 2016 compared to 75% and 83% at June 30, 2015 and 2014, respectively.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

- The approved spending distribution from the CIF to UNM departments was \$15.9 million during fiscal year 2016, an increase of \$900 thousand from the approved distribution of \$15.0 million during fiscal year 2015, primarily due to an increase in trailing twenty-quarter average market value per unit of the CIF. Of fiscal year 2016's distribution, \$7.5 million was distributed from Foundation endowments and \$8.4 million was distributed from UNM endowments. The spending distribution for fiscal year 2015 of \$15.0 million increased by \$1.2 million from the fiscal year 2014 approved distribution of \$13.8 million, due to an increase in the trailing twenty-quarter average market value per unit of the CIF at June 30, 2015.
- Total liabilities at June 30, 2016 were \$12.5 million, a decrease of \$42.5 million over June 30, 2015 total liabilities of \$55.0 million. The decrease is due to a decrease in the amount due to University of New Mexico as a result of a change in the Callable Funds Agreement, dated July 27, 2015. Total liabilities at June 30, 2015 increased \$24.2 million over June 30, 2014 total liabilities of \$30.8 million.
- Total operating revenue was \$27.5 million for the fiscal year ended June 30, 2016, an increase of \$400 thousand, or 1.4%, from the previous year total of \$27.1 million, primarily due to an increase in nonendowed gifts. Total operating revenue was \$27.1 million for the fiscal year ended June 30, 2015, a decrease of \$4.5 million, or 14.2%, from the previous year total of \$31.6 million, primarily due to a decrease in nonendowed gifts.
- Changes in term and permanent endowments totaled \$11.8 million during the year ended June 30, 2016; an increase of \$100 thousand, or 1.1%, from the previous year total of \$11.7 million, primarily due to an increase in donations to permanent endowments. Changes in term and permanent endowments totaled \$11.7 million during the year ended June 30, 2015; an increase of \$4.0 million, or 51.9%, from the previous year total of \$7.7 million, primarily due to an increase in donations to permanent endowments.
- Distributions to UNM are endowed spending distributions and nonendowed expenditures and were \$28.3, \$26.2, and \$30.5 million for the years ended June 30, 2016, 2015, and 2014, respectively.
- Investment loss comprises interest, dividends, gains, and losses. Investment loss is presented net of fees and was a net loss of \$2.4 million for the year ended June 30, 2016; an increase in investment loss of \$1.6 million over the year ended June 30, 2015. The increase was the result of a decrease in the rate of return for the CIF from 0.5% in the year ended June 30, 2015 to -1.3% in the year ended June 30, 2016. Investment (loss) income, net of fees, was -\$794 thousand and \$31.6 million for the years ended June 30, 2015 and 2014, respectively.
- The primary funding sources for the Foundation's operating costs in the year ended June 30, 2016 were institutional support from UNM (46.5%), short-term investment income (4.8%), unrestricted gifts and other revenue (0.6%), and a development funding allocation (DFA) (48.1%) based on the market value of the CIF. The DFA rate was 1.6% in fiscal year 2016. The DFA rate was 1.4% for the first three quarters of fiscal year 2015 and 1.6% for the fourth quarter of fiscal year 2015. The DFA rate was 1.4% for fiscal year 2014.
- Direct support from UNM decreased to \$5.4 million for the year ended June 30, 2016 as compared to \$5.6 million for the year ended June 30, 2015 and \$6.0 million for the year ended June 30, 2014.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis (Unaudited)

June 30, 2016 and 2015

- General and administrative expenses for the operating account group totaled \$11.5 million, \$11.3 million, and \$11.4 million for the years ended June 30, 2016, 2015, and 2014, respectively. The Foundation's budgeted operating general and administrative expenses totaled \$11.7 million, \$11.5 million, and \$11.3 million for the years ended June 30, 2016, 2015, and 2014, respectively. Using the unrounded amounts, operating general, and administrative expenses were 1.9% under budget for the years ended June 30, 2016 and 2015, respectively.

Factors Impacting Future Periods

The continued uncertainty of the economy and its effect on donor contributions could have a significant impact on the Foundation.

UNM has made a one-year operating budget commitment of \$4.3 million to fund the Foundation in fiscal year 2017. The fee charged to the CIF (DFA) will remain at 1.6% for fiscal year 2017. UNM has not made an operating budget commitment to fund the Foundation beyond fiscal year 2017.

Contacting the Foundation's Financial Management

If you have questions about this report or need additional financial information, please contact the UNM Foundation's Chief Financial Officer, Rodney Harder, or the Foundation's Controller, Kenny Stansbury, at Two Woodward Center, 700 Lomas Boulevard NE, Suite 203, Albuquerque, New Mexico 87131 or (505) 277-4503.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

Statements of Net Position

June 30, 2016 and 2015

Assets	2016	2015
Current assets:		
Cash and cash equivalents – unrestricted	\$ 3,591,688	2,357,462
Cash and cash equivalents – restricted	3,893,462	40,243,562
Pledges receivable, net of allowance and discounts	984,757	1,186,756
Other current assets	301,810	219,271
Total current assets	8,771,717	44,007,051
Noncurrent assets, restricted:		
Investments held in Consolidated Investment Fund	187,039,854	188,958,673
Investments held by the University of New Mexico		
Foundation, Inc.	5,243,154	14,116,497
Pledges receivable, net of allowance and discounts	828,237	1,352,042
Artwork	2,717,082	2,717,902
Real estate	1,612,433	1,685,072
Capital assets, net	63,227	87,930
Other noncurrent assets	180,326	—
Total noncurrent assets	197,684,313	208,918,116
Total assets	\$ 206,456,030	252,925,167
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 158,288	124,496
Accrued payroll	1,676,152	1,258,914
Current portion of annuities payable	337,890	340,768
Advances from the University of New Mexico	147,393	92,550
Due to the Consolidated Investment Fund	717,251	460,988
Due to the University of New Mexico	3,776,869	46,309,339
Total current liabilities	6,813,843	48,587,055
Noncurrent liabilities:		
Annuities payable	2,089,450	2,308,853
Due to the University of New Mexico	3,577,933	4,067,388
Total noncurrent liabilities	5,667,383	6,376,241
Total liabilities	12,481,226	54,963,296
Net position:		
Unrestricted	2,306,713	2,131,929
Investment in capital assets	63,227	87,930
Restricted, expendable	18,773,332	21,145,692
Restricted, nonexpendable	172,831,532	174,596,320
Total net position	193,974,804	197,961,871
Total liabilities and net position	\$ 206,456,030	252,925,167

See accompanying notes to financial statements.

(A Component Unit of the University of New Mexico)
 Statements of Revenues, Expenses and Changes in Net Position
 Years ended June 30, 2016 and 2015

	2016	2015
Operating revenues:		
Donations and pledges, net of provision for allowance and discounts of \$442,172 and \$11,727 for the years ended June 30, 2016 and 2015, respectively	\$ 19,038,409	18,183,206
Direct support from the University of New Mexico	5,415,026	5,641,345
Development funding allocation – Consolidated Investment Fund	2,663,363	2,515,480
Nongift revenue	411,897	803,838
Total operating revenues	27,528,695	27,143,869
Operating expenses:		
Distributions to the University of New Mexico	28,292,544	26,224,604
General and administrative expenses	12,658,223	12,213,276
Total operating expenses	40,950,767	38,437,880
Operating loss	(13,422,072)	(11,294,011)
Nonoperating revenue:		
Investment loss, net	(2,402,519)	(794,918)
Loss before changes in term and permanent endowments	(15,824,591)	(12,088,929)
Changes in term and permanent endowments:		
Donations	11,133,504	10,323,705
Institutional transfers to Consolidated Investment Fund	583,324	1,492,654
Nongift revenue	105,710	26,981
Adjustment of actuarial liability for annuities payable	323,190	198,555
Expenditure for payments to annuitants and beneficiaries	(308,204)	(338,306)
Total changes in term and permanent endowments	11,837,524	11,703,589
Decrease in net position	(3,987,067)	(385,340)
Net position, beginning of year	197,961,871	198,347,211
Net position, end of year	\$ 193,974,804	197,961,871

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Cash received from donors and other sources	\$ 18,445,221	17,334,747
Cash received from the University of New Mexico	5,387,330	7,131,715
Cash received from the Consolidated Investment Fund	2,663,363	2,515,480
Cash paid to employees	(8,884,361)	(8,830,893)
Cash paid to vendors	(3,473,794)	(2,751,146)
Cash distributed to the University of New Mexico	(71,314,469)	(620,115)
Net cash flows (used in) from operating activities	(57,176,710)	14,779,788
Cash flows from noncapital financing activities:		
Donations and pledges	7,743,274	8,921,719
Institutional transfers to Consolidated Investment Fund	583,324	1,492,654
Payments to annuitants and beneficiaries	(207,295)	(338,306)
Net cash flows from noncapital financing activities	8,119,303	10,076,067
Cash flows from investing activities:		
Proceeds from sale of investments	29,011,674	102,162,771
Purchases of investments	(15,860,341)	(96,324,881)
Interest and dividends received	790,200	954,552
Net cash flows from investing activities	13,941,533	6,792,442
Net (decrease) increase in cash and cash equivalents	(35,115,874)	31,648,297
Cash and cash equivalents, beginning of year	42,601,024	10,952,727
Cash and cash equivalents, end of year	\$ 7,485,150	42,601,024
Cash and cash equivalents, unrestricted	\$ 3,591,688	2,357,462
Cash and cash equivalents, restricted	3,893,462	40,243,562
Total	\$ 7,485,150	42,601,024

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

Statements of Cash Flows

Years ended June 30, 2016 and 2015

	2016	2015
Reconciliation of operating loss to net cash from operating activities:		
Operating loss	\$ (13,422,072)	(11,294,011)
Adjustments to reconcile operating loss to net cash flows from (to) operating activities:		
Depreciation expense	29,364	27,810
Donations of investments	(1,498,938)	(1,013,905)
Donations of artwork	(63,050)	(144,685)
Donation of real estate	(168,901)	(61,000)
Changes in assets and liabilities:		
Due to the University of New Mexico	(43,021,925)	25,604,489
Other current assets	(82,539)	1,664,539
Pledges receivable	725,804	(63,081)
Accounts payable	33,792	(3,933)
Accrued payroll	417,238	237,734
Advances from the University of New Mexico	54,843	(174,169)
Other noncurrent assets	(180,326)	—
Total adjustments	(43,754,638)	26,073,799
Net cash from operating activities	\$ (57,176,710)	14,779,788
Supplemental disclosures of noncash investing, noncapital, and financing activities:		
Change in fair value of investments	\$ (5,762,239)	(11,329,933)
Donations of investments to permanent endowments	3,495,940	1,428,968

See accompanying notes to financial statements.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2016 and 2015

(1) Nature of Business

The University of New Mexico Foundation, Inc. (the Foundation) was organized on May 3, 1979, as a New Mexico not-for-profit corporation to solicit, receive, distribute, invest, and manage private gifts and donations given for the benefit of the University of New Mexico (UNM or University). By managing funds, identifying and developing new sources of private support, encouraging the adoption of common goals, and nurturing cooperation toward meeting those goals, the Foundation allows UNM to focus more clearly on its mission to engage in comprehensive educational, research, and service programs.

In accordance with the amended Memorandum of Agreement (Memorandum) between the Foundation and the Regents of the University of New Mexico, dated September 25, 2012, UNM will continue to provide the Foundation sufficient administrative support to allow the Foundation to conduct its business and fulfill its responsibilities to the University. In return for this support, the Foundation guarantees that all private gifts and donations it receives, records, and reflects in the accompanying financial statements are for the exclusive benefit of UNM. These financial statements only reflect private support received directly by the Foundation. In addition, the Foundation provides solicitation assistance, consultation, and other related services, including investment oversight responsibilities associated with UNM's ownership of Consolidated Investment Fund (CIF) endowments. The Foundation has no component units.

The Memorandum further stipulates that the expenditure of gift funds and income on gift funds for the benefit of any unit of the University or affiliated organization will be disbursed through the University's general ledger system, unless specifically approved by the University President or his/her designee, and that the Foundation will provide the University appropriate documentation regarding any donor-imposed gift restrictions to assist the University in following the donor directives. The University is responsible for monitoring all disbursements through the University's general ledger system from both nonendowed gift accounts and endowed spending accounts to ensure that any and all donor-imposed restrictions are honored.

(2) Summary of Significant Accounting Policies

(a) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

As a component unit of UNM, the Foundation presents its financial statements in accordance with U.S. generally accepted accounting standards as established by the Governmental Accounting Standards Board (GASB).

The Foundation applies business-type activity accounting and the Foundation's basic financial statements are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred.

The significant accounting policies utilized by the Foundation in the preparation of the financial statements are described below.

(b) *Cash and Cash Equivalents*

Cash and cash equivalents include cash on deposit at financial institutions and do not include Foundation investments held by the CIF.

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Restricted cash and cash equivalents are donor restricted to use for a particular UNM program or purpose.

(c) *Investments, Real Estate, and Artwork*

Investments, real estate, and artwork are reported at fair value. Money market investments are carried at amortized cost, which approximates fair value. All real estate and artwork reflected in the accompanying statements of net position were contributed to the Foundation. Donated real estate and artwork are recorded at fair value at the date of the gift less an estimated reserve for selling costs. Periodic appraisals and market analyses are performed to determine the appropriateness of fair value.

The basis of determining the fair value of investments is the readily determinable sales price or current exchange rate of the investments based on prices or quotations from over-the-counter markets. Where fair value is not readily determinable, the Foundations uses net asset value per share, units owned and other valuation factors to approximate fair value.

As the CIF is not publically quoted, the value is based on the total estimated value of the underlying investments within the CIF. Within the CIF, the alternative investments are valued as reported by the general partners and fund managers. Management reviews and evaluates the valuation received from third parties and believes the carrying amount to be a reasonable estimate of fair value. As limited partnership investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed.

Investments held by the Foundation have been classified as current and noncurrent based on the nature of the underlying investment. Investment in the CIF has been classified as noncurrent due to restrictions limiting the Foundation's ability to use these investments.

It is the Foundation's policy to liquidate donated investments as soon as possible following receipt.

(d) *Due to the Consolidated Investment Fund*

Amounts due to the CIF represent funds transferred from the University to be invested in the endowment and held temporarily by the Foundation. The funds are transferred to the CIF on a monthly basis.

(e) *Due to the University of New Mexico and Distributions to the University of New Mexico*

The current amount due to UNM represents nonendowed, restricted assets held by the Foundation. The amount and timing of the transfers are defined in the Callable Funds Agreement, dated July 27, 2015.

The noncurrent amount due to UNM represents nonendowed assets held by the Foundation, primarily cash and pledges receivable, which are expected to be distributed to UNM in a subsequent fiscal year.

(f) *Annuities Payable*

Annuities payable represents the liability established for donations whereby a specified amount of funds are to be paid to the donor for the duration of his or her life. The Foundation uses annuity rates,

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including the discount and remainder factors, based on the American Council on Gift Annuities guidelines to establish the estimated liability. Significant factors of the estimate include the donor's age, amount of donation, and the discount rate, and are updated annually to adjust the liability.

(g) Net Position

To ensure observance of limitations and restrictions placed on the use of reserves available to the Foundation, net positions are classified as follows, based on the existence or absence of donor-imposed restrictions:

Unrestricted net position – resources that are not subject to donor-imposed restrictions. The Board of Trustees designates a portion of this net position as nonexpendable reserves for annuities payable.

Investment in capital assets – represents the Foundation's total investment in capital assets, net of accumulated depreciation.

Restricted net position – resources that, because of donor-imposed restrictions, must be used for a specified purpose, generally UNM programs, or maintained for a specified time period.

- Restricted, expendable – resources that are contributions designed by donors for use by particular entities or programs or for specific purposes or functions of UNM. Resources include term endowments with donor-imposed time restrictions for spending or transferring the funds to UNM. These funds also include quasi-endowments, of which the corpus can be invaded. Investment income on endowment investments are classified as restricted, expendable net position unless otherwise specified by the donor.
- Restricted, nonexpendable – resources that are permanent endowments. Such funds are generally subject to donor restrictions requiring that the principal be invested in perpetuity for the purpose of producing income and appreciation that may be expended or added to the principal in accordance with the donor's wishes.

When both restricted and unrestricted funds are available, the Foundation expends restricted funds first in accordance with donor-imposed restrictions. The expenditure of unrestricted funds requires approval by the Board of Trustees.

(h) Classification of Revenues and Expenses

Operating loss reported in the financial statements includes revenues and expenses related to the continuing operations of the Foundation. Principal operating revenues include nonendowed donations and pledges, direct support from the University, and the development funding allocation received from the CIF. Principal operating expenses include distributions to the University and general and administrative expenses.

Nonoperating revenues include investment losses.

Changes in term and permanent endowments include donations to permanent endowments and annuities, actuarial adjustments to annuities payable, payments to annuitants, and institutional transfers to the CIF.

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(i) **Revenue Recognition**

Donations – The Foundation recognizes revenue on donations when all applicable eligibility requirements are met. Donations to permanent endowments or term endowments, as defined in note 6, are reported as changes to term and permanent endowments.

Pledges – The Foundation recognizes nonendowed pledges as increases in assets and revenue upon receipt of a signed pledge commitment, so long as collectibility is probable, and when all applicable eligibility requirements are met. An allowance for doubtful pledges is recorded when the pledge is recorded. The allowance is based on past pledge loss experience and other factors that management considers necessary in estimating pledge losses.

Nongift – Includes the dollar value of any benefit provided to a donor making a charitable contribution.

Wills and Bequests – Contributions resulting from wills and bequests are recognized as revenue in the reporting period during which the respective estates are probated and all applicable eligibility requirements are met. These contributions are reported as donations and pledges, net in the accompanying statements of revenues, expenses, and changes in net position.

Direct support from UNM – The University provides support to the Foundation to fund administrative and fundraising activities, while the Foundation provides the University with investment management services and fundraising activities, and facilitates funding of scholarships, faculty, and program support through distributions to UNM.

Development funding allocation (DFA) – Consolidated Investment Fund – A percentage of the market value of the CIF is allocated, annually, to the Foundation for general support of its operations. The allocation is used by the Foundation to cover the employment of its staff and other operating costs. The DFA rate was 1.4% for the first three quarters of fiscal year 2015 and 1.6% for the fourth quarter of fiscal year 2015. The DFA rate was 1.6% for fiscal year 2016. The allocation does not provide support for third-party investment consultant fees, custodial fees, and investment manager fees. These costs are assigned directly to the CIF and revenue is recognized when earned.

Investment loss, net – Investment loss, net includes interest, dividends, unrealized gains or losses, and realized gains or losses. Investment interest and dividends are recognized when earned. Changes in the estimated fair value of investments are reported as unrealized gains and losses. Realized gains and losses are recognized as the difference between the sales proceeds and amortized costs when realized (sold), calculated independently of the unrealized loss.

(j) **Institutional Transfers to CIF**

Institutional transfers to CIF represent transfers of nonendowed and endowed spending funds from the University to the CIF.

(k) **Income Taxes**

The Foundation is an organization described in Internal Revenue Code (IRC) Section 501(c)(3) and as such is exempt from federal and state income tax on its related income under Section 501(a) of the

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IRC. Furthermore, as a publicly supported organization it is classified as a public charity and not a private foundation under IRC Section 509(a)(1). The Foundation had no material unrelated business income; therefore, no provision for income taxes is included in the financial statements.

As of June 30, 2015, the most recent filing date, the Foundation had a net operating loss carryforward of approximately \$2.9 million, as a result of cumulative losses from underlying partnership investments within the CIF. The deferred tax asset associated with this loss carryforward of approximately \$1 million is not recognized on the accompanying statements of net position due to the uncertainty of future income that would be necessary to realize the benefit. The Foundation estimates that the change in the deferred tax asset for the year ended June 30, 2016 is immaterial.

(l) Estimates

Management uses estimates and assumptions in preparing the accompanying financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

(m) Adoption of New GASB pronouncements

The Foundation adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

During the year ended June 30, 2016, the Foundation implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, that supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and identifies the hierarchy of generally accepted accounting principles for state and local governments.

(3) Cash and Cash Equivalents

The Foundation has a carrying value of \$106,215 and \$24,615 on deposit in pooled accounts with UNM at June 30, 2016 and 2015, respectively. The UNM deposits are held in demand and time accounts at local financial institutions and in a fixed income portfolio. New Mexico statutes require financial institutions to pledge qualifying collateral to UNM to cover at least 50% of the uninsured deposits. All collateral is held by third parties in safekeeping.

The Foundation is at risk to the extent that UNM's funds are uninsured or uncollateralized.

Risk disclosure information relating to the cash and cash equivalents held at UNM may be obtained by reference to the annual financial report of the University of New Mexico. That report may be obtained by contacting the Controller's office at 1 University of New Mexico, MSC01 1300, University of New Mexico, Albuquerque, New Mexico 87131.

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The Foundation also holds cash outside of the University. These cash balances, including deposits in transit, had a carrying value of \$7,378,935 and \$42,576,409 at June 30, 2016 and 2015, respectively.

The Foundation's operating accounts (Operating and Development) had deposits totaling \$6,196,816 and \$40,972,228 at June 30, 2016 and 2015, respectively. These amounts are invested in overnight sweep accounts and are collateralized at 96% and 101% of the invested balance for June 30, 2016 and 2015, respectively. At June 30, 2016 and 2015, these funds were collateralized by government-backed securities held in the Foundation's name. The Foundation also held deposits at a credit union totaling \$78,515 and \$118,503 at June 30, 2016 and 2015, respectively. Below is a summary of the Federal Deposit Insurance Corporation (FDIC) insured, National Credit Union Administration (NCUA) insured, and collateralized accounts:

	2016	2015
Operating account		
balance	\$ 4,116,953	37,220,620
Gift account balance	2,079,863	3,751,608
Credit union balance	78,515	118,503
	\$ 6,275,331	41,090,731
FDIC insurance	\$ 250,000	250,000
NCUA insurance	78,515	118,503
Collateralization:		
CUSIP	Maturity	Type of Security
<u>3128MJTQ3</u>	<u>11/1/2043</u>	<u>FN-30</u>
36179NTD0	11/1/2043	FN-30
31419AQ83	11/1/2040	FN-30
3138Y9RH3	1/1/2045	FN-30
3138WAGS0	11/1/2043	FN-30
	Total collateralization	
	\$ 6,008,812	41,450,497

There were no uninsured and under collateralized balances at June 30, 2016 and 2015.

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A detail of the cash accounts at June 30, 2016 is included below:

Name of depository	Account name	Account type	Bank balance	Reconciling items	Reconciled balance
University of New Mexico	Operating – UNM	Cash	\$ 106,215	—	106,215
Wells Fargo	Operating	Cash	4,116,953	(50,559)	4,066,394
Wells Fargo	Development	Cash	2,079,863	199,608	2,279,471
NUSENDA	General Fund	Cash	78,515	—	78,515
Fidelity	Restricted Fund	Money Market	138,556	—	138,556
Southwest Securities	Charitable Trust Fund	Money Market	27,672	—	27,672
Morgan Stanley	Security donation	Money Market	7	—	7
Wells Fargo	Irrevocable Trust Fund	Money Market	80,782	—	80,782
USB Financial Services	Endowed Chair	Money Market	506,093	—	506,093
USB Financial Services	Endowed Professorship	Money Market	201,445	—	201,445
			<u>\$ 7,336,101</u>	<u>149,049</u>	<u>7,485,150</u>

A detail of the cash accounts at June 30, 2015 is included below:

Name of depository	Account name	Account type	Bank balance	Reconciling items	Reconciled balance
University of New Mexico	Operating – UNM	Cash	\$ 24,615	—	24,615
Wells Fargo	Operating	Cash	37,220,620	(35,952)	37,184,668
Wells Fargo	Development	Cash	3,751,608	1,018,835	4,770,443
NUSENDA	General Fund	Cash	118,503	—	118,503
Southwest Securities	Charitable Trust Fund	Money Market	22,310	—	22,310
Bank of America	Scholarship Trust 1	Money Market	28,143	—	28,143
Bank of America	Scholarship Trust 2	Money Market	48,164	—	48,164
Wells Fargo	Irrevocable Trust Fund	Money Market	58,918	—	58,918
UBS Financial Services	Endowed Chair	Money Market	309,777	—	309,777
UBS Financial Services	Endowed Professorship	Money Market	35,483	—	35,483
			<u>\$ 41,618,141</u>	<u>982,883</u>	<u>42,601,024</u>

(4) Investments

Investments reported by the Foundation represent investments contributed to the Foundation that are held outside of the CIF and the Foundation's share of the CIF. Foundation endowment funds are pooled with endowment funds owned by the University in the CIF. The CIF is a unitized investment portfolio, a consolidated internal investment pool of the University.

Consolidated Investment Fund – The investment of the CIF endowment funds is in accordance with the laws of 1991, Chapter 69 of the State of New Mexico. In accordance with UNM and the Foundation's Memorandum, the endowment assets of the Foundation and UNM are commingled for investment purposes whenever possible in the CIF. The investment of UNM and Foundation endowment funds is in accordance with Sections 6-8-10 and 46-9-1 through 46-9-12, New Mexico Statutes Annotated (NMSA) 1978.

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At June 30, 2016 and 2015, the Foundation held approximately 91% and 93%, respectively, of its investments in the CIF. Under the terms of an agreement with the UNM Board of Regents, the Foundation provides management oversight for the entire CIF. The Foundation Investment Committee works with an institutional investment consultant to structure the portfolio and hire independent investment managers. The investment managers are then responsible for specific asset categories and management styles.

Investments in the CIF are diversified with the intention of minimizing the risk of investment losses. Consequently, the target portfolio allocations are 20% domestic equity, 20% international equity, 18% fixed income, 2% cash, 10% real assets, 10% private equity, and 20% marketable alternative investments.

The fair value and ownership units of the CIF as of June 30 are as follows:

	Consolidated Investment Fund			
	2016	Percentage	2015	Percentage
Fair value (in millions):				
Foundation	\$ 187.0	47%	\$ 189.0	47%
University of New Mexico	208.1	53	216.8	53
Total fair value	\$ 395.1		\$ 405.8	
Units:				
Foundation	573,990	47%	570,951	47%
University of New Mexico	638,750	53	655,318	53
Total units	1,212,740		1,226,269	

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Investments Held by the Foundation – A detail of the investment accounts at June 30 is as follows:

<u>Depository/account name</u>	<u>Account type</u>	<u>2016</u>	<u>2015</u>
Bank of America:			
Scholarship Fund Trust 1	Mutual funds, fixed	\$ —	163,308
Scholarship Fund Trust 1	Mutual funds, equity	—	457,940
Scholarship Fund Trust 1	Real estate	—	39,988
Scholarship Fund Trust 1	Other funds	—	50,649
Scholarship Fund Trust 2	Mutual funds, fixed	—	293,769
Scholarship Fund Trust 2	Mutual funds, equity	—	837,999
Scholarship Fund Trust 2	Real estate	—	64,043
Scholarship Fund Trust 2	Other funds	—	88,870
Wells Fargo:			
Charitable Trust Fund	Mutual funds, fixed	373,735	315,068
Charitable Trust Fund	Mutual funds, equity	934,598	1,137,078
Charitable Trust Fund	Real estate funds	195,912	215,299
Charitable Trust Fund	Other funds	201,311	219,878
Morgan Stanley Smith Barney:			
Short term investments	Mutual funds, fixed	—	1,910,616
Short term investments	Mutual funds, equity	—	3,643,513
Short term investments	Other funds	—	3,304
UBS Financial services:			
Endowed Chair	Municipal bonds	2,691,231	2,783,767
Endowed Chair	Other funds	24,702	22,667
Endowed Professorship	Municipal bonds	232,625	388,877
SWS Financial services:			
Charitable Trust Fund	Mutual funds, fixed	12,080	12,800
Charitable Trust Fund	Mutual funds, equity	257,658	224,073
Charitable Trust Fund	Domestic corporate stock	188,670	235,266
NUSENDA Credit Union:			
Operating Fund	Certificate of Deposit	—	1,007,725
Fidelity			
Operating Fund	Mutual funds, equity	130,632	—
		<u>\$ 5,243,154</u>	<u>14,116,497</u>

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the Foundation will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Mutual funds and external investment pools are not exposed to custodial credit risk.

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At June 30, 2016, the Foundation did not have a policy to limit its exposure to custodial credit risk; however, as of June 30, 2016 and 2015, the investments that were subject to custodial credit risk were 1.6% and 2.1% of total investments at June 30, 2016 and 2015, respectively.

The investments held in the CIF are not subject to custodial credit risk. A summary of the investments held by the Foundation and the exposure to custodial credit risk at June 30 is as follows:

	2016	2015
Custodial credit risk:		
Certificate of deposit	\$ —	1,007,725
Municipal bonds	2,923,856	3,172,644
Domestic corporate stock	188,670	235,266
Total securities held by custodians	3,112,526	4,415,635
Investments not subject to custodial credit risk:		
Mutual funds	1,708,703	8,996,164
Real estate	195,912	319,330
Other	226,013	385,368
Total investments held by the Foundation	5,243,154	14,116,497
Investments held in CIF – not subject to custodial credit risk	187,039,854	188,958,673
Total investments	\$ 192,283,008	203,075,170

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Foundation’s investment in a single issuer. Investments in any one issuer that represent 5% or more of total investments are considered to be exposed to concentrated credit risk and are required to be disclosed. Investments issued and explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

At June 30, 2016, the Foundation did not have a policy to limit its exposure to concentrated credit risk; however, as of June 30, 2016 and 2015, the Foundation did not have any investments in one issuer that represented more than 5% of total investments.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Currently, the Foundation does not have a policy to limit its exposure to interest rate risk. The Foundation Investment Committee manages credit risk and interest rate risk with the assistance of third-party investment advisors.

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A summary of the investments and the respective maturities at June 30, 2016 and 2015 and the exposure to interest rate risk is as follows:

		2016 Investment maturities				
		Fair value	Less than one year	1–5 years	6–10 years	More than 10 years
At interest rate risk:						
Municipal bonds	\$	2,923,856	392,340	959,224	1,181,040	391,252
		2,923,856	392,340	959,224	1,181,040	391,252
Not subject to interest rate risk:						
Domestic corporate stock		188,670				
Mutual funds		1,708,703				
Real estate		195,912				
Other		226,013				
Investments held in CIF		187,039,854				
Total investments	\$	192,283,008				

		2015 Investment maturities				
		Fair value	Less than one year	1–5 years	6–10 years	More than 10 years
At interest rate risk:						
Municipal bonds	\$	3,172,644	319,987	933,076	1,319,996	599,585
Certificates of deposit		1,007,725	1,007,725	—	—	—
		4,180,369	1,327,712	933,076	1,319,996	599,585
Not subject to interest rate risk:						
Domestic corporate stock		235,266				
Mutual funds		8,996,164				
Real estate		319,330				
Other		385,368				
Investments held in CIF		188,958,673				
Total investments	\$	203,075,170				

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Foundation is required to disclose credit ratings of its investments in order to assess credit risk.

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A summary of the Foundation's investments at June 30, 2016 and 2015 that are subject to credit risk is as follows:

June 30, 2016			
Credit rating (Moody's)	Municipal	Total	Percentage of bond portfolio
Aaa	\$ 651,091	651,091	22.3%
Aa1	148,347	148,347	5.1
Aa2	986,539	986,539	33.7
Aa3	607,509	607,509	20.8
A1	10,356	10,356	0.4
A2	32,101	32,101	1.1
A3	63,702	63,702	2.2
Not rated	424,211	424,211	14.5
Total	\$ <u>2,923,856</u>	<u>2,923,856</u>	<u>100%</u>

June 30, 2015			
Credit rating (Moody's)	Municipal	Total	Percentage of bond portfolio
Aaa	\$ 797,087	797,087	25.1%
Aa1	380,230	380,230	12.0
Aa2	1,108,922	1,108,922	35.0
Aa3	436,746	436,746	13.8
A1	106,217	106,217	3.3
A2	57,454	57,454	1.8
A3	64,662	64,662	2.0
Not rated	221,326	221,326	7.0
Total	\$ <u>3,172,644</u>	<u>3,172,644</u>	<u>100%</u>

Foreign Currency Risk – None of the investments are subject to foreign currency risk.

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All Investments – Investment Income

During the years ended June 30, 2016 and 2015, the Foundation recognized realized and unrealized gains (losses) on investments held as outlined below:

	<u>CIF</u>	<u>Foundation</u>	<u>Real estate</u>	<u>Short-term investments</u>	<u>Total</u>
2016:					
Realized gains	\$ 1,097,029	159,017	18,145	128,244	1,402,435
Unrealized losses	(5,289,742)	(384,179)	(55,737)	(32,581)	(5,762,239)
Other investment income	1,191,579	305,704	—	460,002	1,957,285
Total investment (loss) income	<u>\$ (3,001,134)</u>	<u>80,542</u>	<u>(37,592)</u>	<u>555,665</u>	<u>(2,402,519)</u>
2015:					
Realized gains	\$ 8,779,893	86,094	141,326	(426,505)	8,580,808
Unrealized (losses) gains	(11,099,920)	(323,030)	70,337	22,680	(11,329,933)
Other investment income	1,316,476	364,922	—	272,809	1,954,207
Total investment (loss) income	<u>\$ (1,003,551)</u>	<u>127,986</u>	<u>211,663</u>	<u>(131,016)</u>	<u>(794,918)</u>

Fair Value Measurement – The Foundation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- *Level 1* inputs are quoted prices (unadjusted) for identical assets in active markets, accessible at the measurement date. Level 1 inputs include exchange markets, dealer markets, brokered markets, and principal-to-principal markets.
- *Level 2* inputs are inputs—other than quoted prices included within Level 1—that are observable for an asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active.
- *Level 3* inputs are unobservable inputs for an asset.

Investments that do not have a readily determinable fair value are recorded using net asset value (NAV). NAV is generally provided by the investment managers but the Foundation considers the reasonableness of the NAV, based on market information, to arrive at the fair value estimates for each investment.

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The Foundation has the following recurring fair value measurements as of June 30, 2016:

	<u>Fair value measurement using</u>			
	<u>Fair value</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments held by the Foundation:				
Domestic corporate stock	\$ 188,670	188,670	—	—
Mutual funds, fixed	385,815	385,815	—	—
Mutual funds, equity	1,322,888	1,322,888	—	—
Municipal bonds	2,923,856	—	2,923,856	—
Real estate mutual funds	195,912	195,912	—	—
Other funds	226,013	226,013	—	—
	<u>226,013</u>	<u>226,013</u>	<u>—</u>	<u>—</u>
Total investments held by the Foundation	<u>\$ 5,243,154</u>	<u>2,319,298</u>	<u>2,923,856</u>	<u>—</u>
Investments held in the CIF by fair value measure:				
Exchange-traded funds	\$ 5,428,821	5,428,821	—	—
Mutual funds, fixed	20,048,606	20,048,606	—	—
	<u>20,048,606</u>	<u>20,048,606</u>	<u>—</u>	<u>—</u>
Total investments held by the CIF by fair value level	<u>\$ 25,477,427</u>	<u>25,477,427</u>	<u>—</u>	<u>—</u>
Investments measured at the NAV:				
	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Marketable alternatives				
Multistrategy hedge funds	\$ 8,825,963	—	Quarterly – annually	45-60 days
Event driven hedge funds	4,474,256	—	Quarterly	65 days
Equity hedge funds	6,891,266	—	Monthly	30 days
Distressed/restructuring hedge funds	9,070,353	—	Monthly – annually	30-90 days
Global macro hedge funds	6,846,486	—	Monthly – annually	3-90 days
Systematic diversified risk hedge funds	1,165,870	—	Monthly	2 days

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	<u>Fair value</u>	<u>Unfunded commitments</u>	<u>Redemption frequency (if currently eligible)</u>	<u>Redemption notice period</u>
Private equity funds	\$ 21,018,683	12,026,060		
Illiquid real asset funds	2,184,676	1,075,977		
Real estate funds	5,885,479	328,351		
Mutual funds, fixed	14,157,970	—	Daily – monthly	5 to 60 days
Mutual funds, equity	<u>76,547,027</u>	<u>—</u>	Daily	1 to 2 days
Total investments in the CIF measured at the NAV	157,068,029	<u><u>13,430,388</u></u>		
Money market funds held in the CIF, measured at amortized cost	<u>4,494,398</u>			
Total investments held in the CIF	<u>\$ 187,039,854</u>			

The Foundation has the following recurring fair value measurements as of June 30, 2015:

	<u>Fair value measurement using</u>			
	<u>Fair value</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Investments held by the Foundation:				
Domestic corporate stock	\$ 235,266	235,266	—	—
Mutual funds, fixed	2,695,561	2,695,561	—	—
Mutual funds, equity	6,300,603	6,300,603	—	—
Municipal bonds	3,172,644	—	3,172,644	
Real estate mutual funds	319,330	319,330	—	—
Other funds	<u>385,368</u>	<u>385,368</u>	<u>—</u>	<u>—</u>
Total investments held by the Foundation by fair value level	13,108,772	<u><u>9,936,128</u></u>	<u><u>3,172,644</u></u>	<u><u>—</u></u>
Certificate of deposit, measured at amortized cost	<u>1,007,725</u>			
Total investments held by the Foundation	<u>\$ 14,116,497</u>			

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	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments held in the CIF:				
Exchange-traded funds	\$ 5,832,389	5,832,389	—	—
Mutual funds, fixed	19,037,962	19,037,962	—	—
Total investments held by the CIF by fair value level	\$ 24,870,351	24,870,351	—	—
Investments measured at the NAV:				
	Fair value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Marketable alternatives				
Multistrategy hedge funds	\$ 9,801,613	—	Quarterly – annually	45-60 days
Event driven hedge funds	3,925,541	—	Quarterly	65 days
Equity hedge funds	5,653,703	—	Monthly	30 days
Distressed/restructuring hedge funds	10,195,268	—	Monthly – annually	30-90 days
Global macro hedge funds	8,203,732	—	Monthly – annually	3-90 days
Private equity funds	19,655,254	3,554,790		
Illiquid real asset funds	5,660,860	1,245,277		
Real estate funds	3,239,324	468,889		
Mutual funds, fixed	13,599,217	—	Daily – monthly	5 to 60 days
Mutual funds, equity	80,749,943	—	Daily	1 to 2 days
Total investments in the CIF measured at the NAV	160,684,455	5,268,956		
Money market funds held in the CIF, measured at amortized cost	3,403,867			
Total investments held in the CIF	\$ 188,958,673			

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(5) Pledges Receivable

Pledges receivable consisted of the following at June 30, 2016 and 2015:

	2016	2015
Amounts receivable in less than one year	\$ 984,757	1,186,756
Amounts receivable in more than one year	1,184,764	1,643,391
Total pledges receivable	2,169,521	2,830,147
Discounts to net present value	(61,948)	(97,967)
Allowance for doubtful pledges	(294,579)	(193,382)
Pledges receivable, net	\$ 1,812,994	2,538,798

Noncurrent pledges receivable are discounted at the Internal Revenue Service discount rate 1.8% and 2.0% for the years ended June 30, 2016 and 2015, respectively. All pledges are for nonendowed gifts.

(6) Artwork

Artwork activity for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Artwork:		
Beginning balance	\$ 7,691,385	7,692,089
New donations received	63,050	144,685
Sales	(46,000)	(145,389)
Balance at June 30	7,708,435	7,691,385
Reserve for selling costs	(4,991,353)	(4,973,483)
Artwork, at fair value as of June 30	\$ 2,717,082	2,717,902

The Foundation received a major gift of artwork on June 25, 2014, consisting of over 1,000 works of art created by Beatrice Mandelman and Louis Ribak. The artwork was recorded at an amount approximating fair value \$(7,680,089) along with a reserve for estimated selling costs \$(4,949,853). The Foundation sells the artwork with the net proceeds benefiting UNM's art programs, collections, and museums. The Foundation expects the sales to be completed over many years, given the desire to preserve the market value of the artwork.

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June 30, 2016 and 2015

(7) Real Estate

The Foundation also has investments in real estate. The real estate activity for the years ended June 30, 2016 and 2015 is as follows:

	2016	2015
Real estate, values as of date of original receipt:		
Beginning balance	\$ 2,405,517	2,671,801
New donations received	168,901	61,000
Sales	(275,861)	(327,284)
Balance at June 30	2,298,557	2,405,517
Fair value adjustment, at June 30 net	(686,124)	(720,445)
Real estate, at fair value as of June 30	\$ 1,612,433	1,685,072

(8) Endowments

Permanent Endowments. Permanent endowments are those funds subject to restrictions in gift instruments permitting only the income be used as specified by the donor and that the principal be held in perpetuity.

Term Endowments. Term endowments are funds similar to true endowment funds except that upon the passage of a stated period of time or a particular occurrence, all or part of the principal may be expended at any time.

Quasi-endowments. Quasi-endowment funds are subject to donor restrictions in gift instruments permitting the donation only be used for a specified purpose, generally for UNM programs. Any portion of the principal of quasi-endowment funds may be expended for the donor-specified purpose at any time.

At June 30, 2016 and 2015, endowments comprised the following:

	2016	2015
Permanent endowment	\$ 172,348,560	174,126,914
Term endowment	412,023	441,924
Quasi-endowment (designated as endowment by the Board of Trustees)	18,361,309	20,703,768
	\$ 191,121,892	195,272,606

If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the interest, dividends, and net appreciation (realized and unrealized) of the investments of endowment funds. Distributions are made from the CIF to UNM entities that benefit from the endowment funds.

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The endowment spending policy aims to distribute on an annual basis a percentage of the average market value of the CIF, at the calendar year-end, of the previous 20 quarters. The spending distribution shall not exceed 6% nor be less than 4% of the average market value. The endowment spending policy allows for the spending distribution regardless of whether the fair market value of an individual account exceeds its historic gift value, unless otherwise precluded by the donor or by law. This practice is consistent with the Uniform Prudent Management of Institutional Funds Act.

(9) Composition of Net Position

Net position consisted of the following at June 30:

	2016	2015
Permanent endowments, nonexpendable	\$ 172,348,560	174,126,914
Annuity gifts, nonexpendable	482,972	469,406
Total nonexpendable	172,831,532	174,596,320
Term endowments, expendable after specified time	412,023	441,924
Quasi-endowments, expendable for specified purpose	18,361,309	20,703,768
Total restricted	191,604,864	195,742,012
Designated reserve for annuities payable	1,000,000	1,000,000
Other unrestricted	1,306,713	1,131,929
Total unrestricted	2,306,713	2,131,929
Investment in capital assets	63,227	87,930
Total net position	\$ 193,974,804	197,961,871

(10) Annuities Payable

During the years ended June 30, 2016 and 2015, the Foundation had the following annuities payable activity:

	2016	2015
Balance due at beginning of year	\$ 2,649,621	2,848,175
Net reductions to annuities payable	(118,567)	(58,649)
Net change in actuarial liability	(103,714)	(139,905)
Balance due at end of year	\$ 2,427,340	2,649,621
Amount due in one year	\$ 337,890	340,768

(11) Wills and Bequests (Unaudited)

The Foundation has been newly named as a beneficiary in wills and bequests totaling \$23,310,269 and \$16,010,674 during the fiscal years ended June 30, 2016 and 2015, respectively. These amounts are not recorded in the financial statements.

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(12) Operating Expenses

Operating expenses consisted of the following for the year ended June 30, 2016:

	<u>Operating accounts</u>	<u>General accounts</u>	<u>Endowment accounts</u>	<u>Life income accounts</u>	<u>Total</u>
Staff salaries	\$ 7,471,279	20,601	—	—	7,491,880
Fringe benefits	1,383,449	1,631	—	—	1,385,080
Donor relations	316,655	470,134	1,250	—	788,039
Professional services	349,217	197,545	2,996	681	550,439
Payroll taxes	446,870	1,439	—	—	448,309
General and administrative	245,069	141,819	46,728	4,196	437,812
Travel	259,317	104,080	818	843	365,058
Office lease, building	292,298	30,089	10,387	—	332,774
Computer equipment and software	238,450	1,533	—	—	239,983
Insurance	45,227	71,794	1,121	714	118,856
Dues and subscriptions	111,817	17	—	—	111,834
Printing, fund-raising, and promotional material	82,333	2,371	—	—	84,704
Postage and mailing	67,343	294	41	30	67,708
Audit fees	65,724	—	—	—	65,724
Professional development	62,839	—	—	—	62,839
Meeting expense	31,849	—	—	—	31,849
Depreciation	24,703	—	—	4,661	29,364
Furniture, office equipment, and property	3,712	4,101	—	21,345	29,158
Property taxes	—	757	8,373	7,683	16,813
	<u>\$ 11,498,151</u>	<u>1,048,205</u>	<u>71,714</u>	<u>40,153</u>	<u>12,658,223</u>

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June 30, 2016 and 2015

Operating expenses consisted of the following for the year ended June 30, 2015:

	<u>Operating accounts</u>	<u>General accounts</u>	<u>Endowment accounts</u>	<u>Life income accounts</u>	<u>Total</u>
Staff salaries	\$ 7,190,337	21,004	—	—	7,211,341
Fringe benefits	1,389,326	1,634	—	—	1,390,960
Donor relations	261,372	314,599	750	—	576,721
General and administrative	307,501	195,611	57,619	5,295	566,026
Payroll taxes	488,964	1,700	—	—	490,664
Professional services	371,728	51,670	13,959	1,876	439,233
Office lease and building	299,610	9,920	42,379	—	351,909
Computer equipment and software	256,335	—	—	—	256,335
Travel	218,021	18,481	607	426	237,535
Insurance	62,762	78,167	—	—	140,929
Dues and subscriptions	128,257	204	—	—	128,461
Printing, fund-raising, and promotional material	90,652	5,761	—	—	96,413
Postage and mailing	63,080	11,869	10	—	74,959
Audit fees	65,813	4,280	—	—	70,093
Furniture, office equipment, and property	10,165	1,050	18,599	20,151	49,965
Professional development	48,342	—	—	—	48,342
Meeting expense	32,721	—	—	—	32,721
Depreciation	24,703	—	—	3,107	27,810
Property taxes	—	1,173	12,898	8,788	22,859
	<u>\$ 11,309,689</u>	<u>717,123</u>	<u>146,821</u>	<u>39,643</u>	<u>12,213,276</u>

The Foundation leases space in an office building from UNM, under a three-year lease term expiring in fiscal year 2019. Lease expense in fiscal years 2016 and 2015 was \$305,039 and \$313,295, respectively. The expected lease payment for fiscal years 2017, 2018, and 2019 is \$270,360 per year.

(13) Contingencies

The Foundation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions and natural disasters. The Foundation is insured through private carriers for liability, casualty, and director and officer liability insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the years ended June 30, 2016 and 2015.

(14) Pension Plan

Beginning in fiscal year 2009, the Foundation created a defined-contribution 403(b) retirement plan. The plan is available to all full-time employees, beginning with the first day of service. The Foundation administers the plan and contributes the sum of (a) 5% of gross salary for employees who do not contribute to the plan and (b) up to an additional 4% match for employees who do contribute to the plan. The Foundation's contributions to the plan for the years ended June 30, 2016 and 2015 were \$564,867 and \$520,000, respectively.

SUPPLEMENTAL INFORMATION

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.

(A Component Unit of the University of New Mexico)

Financial Analysis by Account Group (Unaudited)

June 30, 2016

Operating Account Group

The operating account group is used to account for the operating revenues and expenses of the Foundation.

The net position of the operating account group increased from \$2.2 million at June 30, 2015 to \$2.4 million at June 30, 2016. The increase was primarily the result of higher investment revenue for the year ended June 30, 2015. Net investment income in the operating account group totaled \$556 thousand for the fiscal year ended June 30, 2016 compared to negative \$131 thousand for the year ended June 30, 2015.

General Account Group

The general account group is used to account for current or nonendowed gifts that are expendable by UNM for purposes designated by the donor. Interest earned on nonendowed gifts is transferred to the operating account group. As new gifts are received and all applicable eligibility requirements are met, the Foundation recognizes an asset and revenue and also accrues a payable to the University until the gift funds are transferred to UNM.

Distributions from the general account group to the University decreased from \$16.7 million for the year ended June 30, 2015 to \$13.5 million for the year ended June 30, 2016, a decrease of \$3.2 million. The decrease was primarily due to a decrease in nonendowed gifts in the general account group for the year ended June 30, 2016.

Endowment and Quasi-Endowment Account Group

Permanent endowments are those funds subject to restrictions in gift instruments requiring that only the income be used as specified by the donor and that the principal be held in perpetuity. Term endowment funds are funds similar to true endowment funds except that upon the passage of a stated period of time or a particular occurrence, all or part of the principal may be expended. Quasi-endowment funds are funds designated by the donor. The principal of quasi-endowment funds may be expended for the donor-specified purpose of the endowment at any time.

The spending distribution shall not exceed 6% nor be less than 4% of the average market value. The endowment spending policy allows for the spending distribution regardless of whether the fair market value of an individual account exceeds its historic gift value, unless otherwise precluded by the donor or by law. This practice is consistent with the Uniform Prudent Management of Institutional Funds Act.

The net position of the endowment account group decreased from \$195.3 million at June 30, 2015 to \$191.1 million at June 30, 2016, an increase of \$0.5 million, or 2.2%. The decrease is primarily due an investment loss of 1.3% for the fiscal year ended June 30, 2016.

Life Income Account Group

The life income account group is used to account for charitable gift annuities and charitable remainder trusts. Charitable gift annuities require that a portion of the income earned on the fund assets be paid to the donor or other designated beneficiaries during their lifetime. When the gift is received, a liability is recorded that represents an actuarial calculation of the present value of future amounts due under the gift agreement. This liability is adjusted annually. The majority of life income account group assets is invested with endowment account group assets in the CIF and as a result, exhibits similar return characteristics.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
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Statement of Net Position Information by Account Group

June 30, 2016

Assets	Operating account group	General account group	Endowment and quasi- endowment account group	Life income account group	Combined total
Current assets:					
Cash and cash equivalents – unrestricted	\$ 3,591,688	—	—	—	3,591,688
Cash and cash equivalents – restricted	138,556	2,753,327	1,536,276	(534,697)	3,893,462
Pledges receivable	—	984,757	—	—	984,757
Other current assets	289,407	9,171	3,232	—	301,810
Total current assets	<u>4,019,651</u>	<u>3,747,255</u>	<u>1,539,508</u>	<u>(534,697)</u>	<u>8,771,717</u>
Noncurrent assets:					
Investments held in Consolidated Investment Fund	—	—	185,139,399	1,900,455	187,039,854
Investments held by the University of the New Mexico Foundation, Inc.	130,632	1	4,654,114	458,407	5,243,154
Pledges receivable	—	828,237	—	—	828,237
Artwork	—	2,699,562	17,520	—	2,717,082
Real estate	—	50,133	486,643	1,075,657	1,612,433
Capital assets, net	63,227	—	—	—	63,227
Other noncurrent assets	93,269	65,419	21,638	—	180,326
Total noncurrent assets	<u>287,128</u>	<u>3,643,352</u>	<u>190,319,314</u>	<u>3,434,519</u>	<u>197,684,313</u>
Total assets	<u>\$ 4,306,779</u>	<u>7,390,607</u>	<u>191,858,822</u>	<u>2,899,822</u>	<u>206,456,030</u>
Liabilities and Net Position					
Current liabilities:					
Accounts payable	\$ 117,321	31,778	—	9,189	158,288
Accrued payroll	1,672,125	4,027	—	—	1,676,152
Annuities payable	—	—	—	337,890	337,890
Advances from the University of New Mexico	147,393	—	—	—	147,393
Due to (from) the Consolidated Investment Fund	—	—	736,930	(19,679)	717,251
Due to the University of New Mexico	—	3,776,869	—	—	3,776,869
Total current liabilities	<u>1,936,839</u>	<u>3,812,674</u>	<u>736,930</u>	<u>327,400</u>	<u>6,813,843</u>
Noncurrent liabilities:					
Annuities payable	—	—	—	2,089,450	2,089,450
Due to the University of New Mexico	—	3,577,933	—	—	3,577,933
Total noncurrent liabilities	<u>—</u>	<u>3,577,933</u>	<u>—</u>	<u>2,089,450</u>	<u>5,667,383</u>
Total liabilities	<u>1,936,839</u>	<u>7,390,607</u>	<u>736,930</u>	<u>2,416,850</u>	<u>12,481,226</u>
Net position:					
Unrestricted	1,306,713	—	—	—	1,306,713
Designated reserve for annuities payable	1,000,000	—	—	—	1,000,000
Invested in capital assets	63,227	—	—	—	63,227
Restricted	—	—	191,121,892	482,972	191,604,864
Total net position	<u>2,369,940</u>	<u>—</u>	<u>191,121,892</u>	<u>482,972</u>	<u>193,974,804</u>
Total liabilities and net position	<u>\$ 4,306,779</u>	<u>7,390,607</u>	<u>191,858,822</u>	<u>2,899,822</u>	<u>206,456,030</u>

See accompanying notes to supplemental information.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
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Statement of Revenues, Expenses and Changes in Net Position Information by Account Group
Year ended June 30, 2016

	Operating account group	General account group	Endowment and quasi- endowment account group	Life income account group	Combined total
Operating revenues:					
Donations and pledges, net	\$ 146,517	14,364,173	4,527,719	—	19,038,409
Direct support from the University of New Mexico	5,415,026	—	—	—	5,415,026
Development funding allocation – Consolidated Investment Fund	2,663,363	—	—	—	2,663,363
Nongift revenue	5,985	331,343	2,639	71,930	411,897
Total operating revenues	<u>8,230,891</u>	<u>14,695,516</u>	<u>4,530,358</u>	<u>71,930</u>	<u>27,528,695</u>
Operating expenses:					
Distributions to the University of New Mexico	—	13,504,169	14,756,064	32,311	28,292,544
General and administrative expenses	11,498,151	1,048,205	71,714	40,153	12,658,223
Total operating expenses	<u>11,498,151</u>	<u>14,552,374</u>	<u>14,827,778</u>	<u>72,464</u>	<u>40,950,767</u>
Operating (loss) income	<u>(3,267,260)</u>	<u>143,142</u>	<u>(10,297,420)</u>	<u>(534)</u>	<u>(13,422,072)</u>
Investment income (loss)	<u>555,665</u>	<u>58,245</u>	<u>(2,994,876)</u>	<u>(21,553)</u>	<u>(2,402,519)</u>
(Loss) income before changes in term and permanent endowments	<u>(2,711,595)</u>	<u>201,387</u>	<u>(13,292,296)</u>	<u>(22,087)</u>	<u>(15,824,591)</u>
Changes in term and permanent endowments:					
Donations	—	—	11,054,413	79,091	11,133,504
Institutional transfers to CIF	—	—	583,324	—	583,324
Nongift revenue	—	—	105,710	—	105,710
Adjustment of actuarial liability for annuities payable	—	—	—	323,190	323,190
Expenditure for payments to annuitants and beneficiaries	—	—	—	(308,204)	(308,204)
Total changes in term and permanent endowments	<u>—</u>	<u>—</u>	<u>11,743,447</u>	<u>94,077</u>	<u>11,837,524</u>
Transfers:					
Development funding allocation – Consolidated Investment Fund	2,941,085	—	(2,908,993)	(32,092)	—
Other transfers	(79,409)	(201,387)	307,128	(26,332)	—
Total transfers	<u>2,861,676</u>	<u>(201,387)</u>	<u>(2,601,865)</u>	<u>(58,424)</u>	<u>—</u>
Increase (decrease) in net position	<u>150,081</u>	<u>—</u>	<u>(4,150,714)</u>	<u>13,566</u>	<u>(3,987,067)</u>
Net position, beginning of year	<u>2,219,859</u>	<u>—</u>	<u>195,272,606</u>	<u>469,406</u>	<u>197,961,871</u>
Net position, end of year	<u>\$ 2,369,940</u>	<u>—</u>	<u>191,121,892</u>	<u>482,972</u>	<u>193,974,804</u>

See accompanying notes to supplemental information.

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
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Notes to Supplemental Information

June 30, 2016

(1) Measurement Focus and Financial Information

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the assets, liabilities, and net position are reported internally in four self-balancing funds as follows:

Operating Account Group. Funds of the Foundation consisting of unrestricted resources and interest and dividends transferred from the general account group as further discussed below.

General Account Group. Expendable funds for conveyance to UNM for scholarships, academic and administrative departments, building projects, and other University-related activities. Currently, the interest and dividends earned on assets in this fund are transferred to the operating account group and retained by the Foundation to provide a portion of the operating budget revenue. Cash held in this fund is restricted for the purpose of distributions to UNM.

Endowment and Quasi-Endowment Account Group. Permanent endowments are those funds subject to restrictions in gift instruments requiring that only the income be used as specified by the donor and that the principal be held in perpetuity. Term endowment funds are funds similar to true endowment funds except that upon the passage of a stated period of time or a particular occurrence, all or part of the principal may be expended. Quasi endowment funds are funds designated by the donor. The principal of quasi-endowment funds may be expended for the donor specified purpose of the endowment at any time.

Life Income Account Group. Account groups subject to the requirement that part of the income earned on the fund assets be paid periodically to donor-designated beneficiaries. Such income payments terminate at a time specified in the agreements, at which time the principal reverts to the Foundation and equivalent revenue is recognized. Annually, any net residual income or loss is credited/charged to the liability account, "annuities payable." This payable is adjusted annually, through the account group balance, to represent the present value of the aggregate liability for amounts estimated to be paid to beneficiaries based upon the actuarially determined expected lives of the designated beneficiaries.

(2) Transfers

Transfers among these account groups are the result of gifts whose restrictions have been satisfied, donors' requests to amend their initial gift restrictions, actions of the Board of Trustees, or payment of the development funding allocation.



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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 Trustees
University of New Mexico Foundation, Inc.
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 the University of New Mexico Foundation, Inc. (the Foundation), which comprise the statement of net position as of June 30, 2016, and the related statements 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 10, 2016.

Internal Control over Financial Reporting

In planning and performing our audits of the financial statements, we considered the Foundation'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 the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 audits 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 the Foundation'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 audits, 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 Foundation's internal control or on compliance. This report is an integral part of an audits performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Albuquerque, New Mexico
November 10, 2016

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

Schedule of Findings and Responses

June 30, 2016

Prior Year Findings

None

Current Year Findings

None

UNIVERSITY OF NEW MEXICO FOUNDATION, INC.
(A Component Unit of the University of New Mexico)

Exit Conference

June 30, 2016

An exit conference was conducted on September 20, 2016, in which the contents of this report were discussed with the following:

For the University of New Mexico Foundation, Inc.

Audit Committee Members:

Kimberly Peña, Committee Chair

Michelle Coons, Board Chair

Nancy Ridenour, Board Member

Gary Dushane, Board Member

Foundation Management:

Henry Nemcik, Chief Executive Officer

Rodney Harder, Chief Financial Officer

Kenny Stansbury, Controller

Giulia Urquhart, General Counsel

Candelaria Romero, Administrative Assistant

For KPMG LLP

Suzette Longfellow, Managing Director

Jonathan Roepcke, Manager