REVIEW OF UNM FOUNDATION OPERATIONS

THE UNIVERSITY OF NEW MEXICO

Report 2012-06
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THE UNIVERSITY *of* NEW MEXICO

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ABBREVIATIONS

Bylaws	Restated and Amended Bylaws
CASE	Council for Advancement and Support of Education
CFO	Chief Financial Officer
CIF	Consolidated Investment Fund
CIP	Consolidated Investment Policy
DFA	Development Funding Allocation
ERB	New Mexico Educational Retirement Board
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
Form 990	Form 990, Return of Organization Exempt From Income Tax
Foundation	University of New Mexico Foundation, Inc.
HSC	Health Sciences Center
I&G	Instructional and General
Internal Audit	University of New Mexico Internal Audit Department
IT	Information Technology
MOA	Memorandum of Agreement
Regents Endowment	Regents Special Endowment
ROG	Report of Giving
University	The University of New Mexico
UNM	The University of New Mexico
Winrock Endowment	Winrock Land Sale Endowment
[redacted] Endowment	Sandia Foundation Endowment, as established by [redacted]

EXECUTIVE SUMMARY

Prior to Fiscal Year (FY) 2009, the fundraising and development activities of the University of New Mexico (UNM) and the University of New Mexico Foundation, Inc. (Foundation) were integrated with, and embedded within the overall financial and management operations of the University of New Mexico (University). In FY 2009, at the request of the UNM President and with the approval of the UNM Board of Regents, the Foundation and the fundraising and development activities for UNM were operationally and financially separated from the University. These activities are now managed and accounted for by the Foundation. The Audit Committee of the UNM Board of Regents requested that UNM Internal Audit conduct a review of the operations of the Foundation.

ANALYSIS OF GOVERNING INSTRUMENTS

Internal Audit reviewed the Governing Instruments and Corporate Documents of the Foundation, including the Memorandum of Agreement (MOA) dated April 30, 2008 between the Foundation and UNM, the Consolidated Investment Policy (CIP), Articles of Incorporation, Corporate Bylaws, Treasury Operations Agreement, and the Foundation's Operating and Business Policies. Internal Audit observed minor findings of non-compliance with certain governing documents.

FINANCIAL ANALYSIS

Internal Audit compiled financial information on development activities conducted by the Foundation for FYs 2006-2008. The FYs 2006-2008 (pre-separation) analysis is compared with the operating expenses of the Foundation for FYs 2009-2011 (post-separation).

The Foundation is funded primarily from the Development Funding Allocation, short term interest on gift balances, unrestricted gifts to the Foundation, cost sharing agreements with UNM affiliate organizations, and institutional support from the University.

The Foundation undergoes an annual external audit of its financial statements, and annually files Form 990, Return of Organization Exempt From Income Tax (Form 990). Internal Audit analyzed the financial reports for FYs 2006-2011 and reconciled the net revenues less expenses on the Form 990 to the change in net assets on the audited financial statements.

FUNDRAISING ACTIVITIES

The Foundation is currently conducting the campaign *Changing Worlds: The Campaign for UNM.* Presented is an analysis of pledges and donations and balances of Pledges Receivable from the audited financial statements. The audited financial statements are prepared from the Foundation's general ledger using Generally Accepted Accounting Principles (GAAP). The campaign results are reported in the annual Report of Giving (ROG) using national standards for counting promulgated by the Council for Advancement and Support of Education (CASE). Total campaign results of $406.5 million, from inception of the campaign in FY 2007 through FY

2011, are reported in the FY 2011 ROG. The reconciliation in Exhibit 6 shows that on a GAAP basis, $175.3 million is recorded in the general ledger for the current campaign.

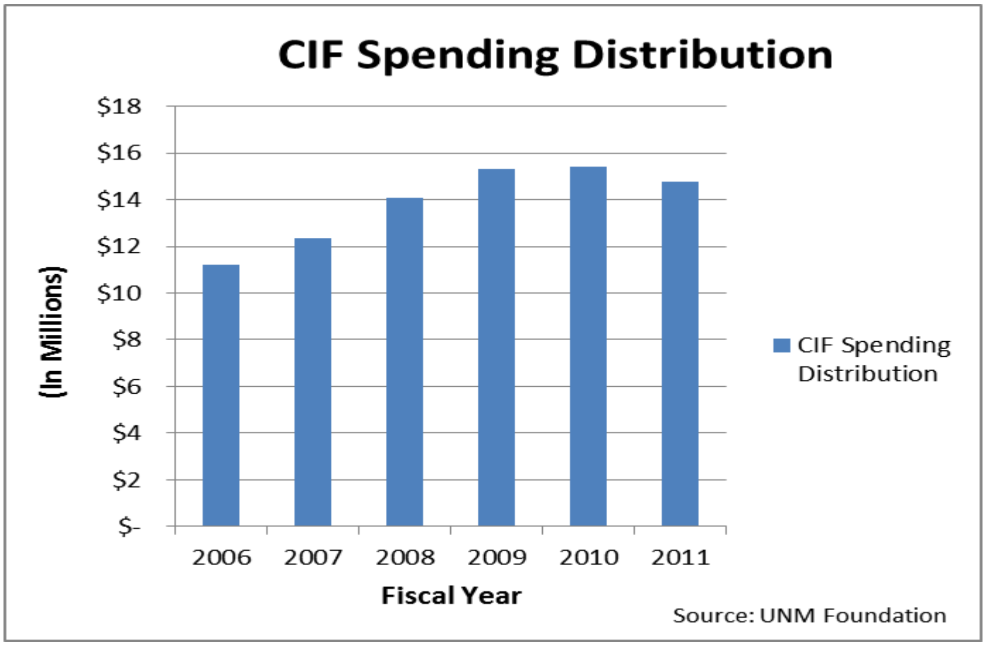
CONSOLIDATED INVESTMENT FUND

The Consolidated Investment Fund (CIF) includes the combined endowment assets of the University and the Foundation. In 1979, the UNM Board of Regents delegated oversight and management of the CIF to the Foundation's Investment Committee. The Investment Committee and the Foundation's Chief Financial Officer (CFO) work with an Investment Consultant and Investment Fund managers to actively manage the assets held in the CIF. The CIF is a unitized fund and is segregated between Foundation and UNM owned endowment assets, each reporting the value and number of units on their respective financial statements. For FY 2011, the UNM endowments had a market value of $192,584,392, while the Foundation endowments had a market value of $143,392,723. Altogether, the market value for the CIF for FY 2011 was $335,977,115. All the endowment funds have been donated for the benefit of the University.

The main endowments owned by UNM are the Regents Special Endowment (Regents Endowment), the Winrock Land Sale Endowment (Winrock Endowment), and the Sandia Foundation Endowment, as established by [redacted] ([redacted] Endowment). The Regents and Winrock Endowments are quasi-endowments and the [redacted] Endowment is a true endowment. The three funds had market values for FY 2011 as follows: Regents Endowment - $28,836,736, Winrock Endowment - $27,578,901, and [redacted] Endowment - $37,282,002.

The CIF incurs investment management fees for the fund custodian, the investment consultant, and the individual fund managers. Direct fees are investment management expenses paid directly out of the CIF. Indirect fees are investment management fees paid to fund managers of the CIF as a reduction in investment income and are reflected as a reduction of net asset value of the individual funds. For FY 2011, the direct fees were $959,926, and indirect fees were $2,147,531.

The Foundation annually calculates and distributes an endowed spending distribution to the University to fund scholarships, faculty, and program support. The endowed spending distribution is calculated according to the Consolidated Investment Policy (CIP) and distributed on a quarterly basis to approximately 1,500 endowment spending accounts throughout the University. The donor's intent is communicated to the departments, schools and colleges, and is verified by these areas prior to disbursement of the funds. The following graph shows the spending distribution for FYs 2006-2011.



Internal Audit reviewed the processes for verifying compliance with donor intent at certain UNM colleges and departments. Internal Audit did not note any instances of non-compliance. Internal Audit, working with the Foundation and the University, will implement a process for verifying that disbursements from the endowed spending distribution comply with donor intent.

In accordance with the applicable State of New Mexico statutes (Section 21-1-38, NMSA 1978; Sections 46-9A-2 through 46-9A-5, NMSA 1978), the UNM Board of Regents and the Foundation Board of Trustees have adopted a Consolidated Investment Policy for investing endowment funds. The statutes include provisions for establishing an Investment Advisory Committee comprised of individuals with special skills or expertise to manage and invest the CIF.

CONCLUSION

The Foundation has a sound governance framework in place to guide and assist in the fulfillment of its purpose. Internal Audit noted minor findings during the review of the Foundation. Following are the key recommendations made in the report.

Key Recommendations

1. The Foundation, working with the UNM President, should review the current MOA for appropriate amendments as necessary.

2. The Foundation should explain the basis of campaign counting used in the Annual Report of Giving (ROG), and how those nationally approved standards differ from Generally Accepted Accounting Principles (GAAP) used in the annual financial statements.

3. The Foundation, working with the UNM President, should adopt a business plan that considers appropriate funding of its operation, including resources needed for future capital campaigns.

INTRODUCTION

BACKGROUND

The University of New Mexico Foundation (Foundation) was formed as a separate legal entity in 1979. As a separate legal entity, the Foundation reports to its own Foundation Board of Trustees. It is organized as a non-profit corporation under Section 501(c)(3) of the Internal Revenue Code, and is required to file an annual tax return on Form 990. The Foundation is reported as a component unit of UNM in the University's financial statements.

The purpose of the Foundation is to support the University of New Mexico. The Foundation provides direct services to many of the University's other non-profit organizations. The services include acceptance and management of endowments, gift acknowledgements, and preparation of reports of giving. Other services include maintenance of the donor alumni database, electronic communication to donors and alumni, special events, and planned giving services. The Foundation is currently conducting the capital campaign *Changing Worlds: The Campaign for UNM*, which began in FY 2007.

The Foundation President reports to the Foundation's Board of Trustees. The Foundation President has direct reports of seven leadership positions. Currently, the Foundation has a staff of 84 employees, 17 of which are UNM employees.

The Foundation oversees and manages the CIF, which is comprised of endowment assets of the University and the Foundation. In 1979, the UNM Board of Regents delegated the management of UNM endowed assets to the Foundation's Investment Committee. Foundation revenues include support from the University, the Development Funding Allocation (DFA), short term interest on non-endowed gift balances and unexpended spending distribution balances, cost sharing reimbursements with affiliated organizations, and Foundation reserves.

Prior to FY 2009, the fundraising and development activity of the University and the Foundation were integrated with and embedded within the overall financial and management operations of the University. In FY 2009, operational and financial management of the Foundation and development activities for UNM were separated from the University at the request of the UNM President and with the approval of the UNM Board of Regents.

Transition Period – Operational Separation from UNM
The Foundation's transition to a separate operating organization began with the approval of a revision of the MOA (May 28, 2008) by the UNM Board of Regents and the Foundation Board of Trustees and was completed on June 30, 2010 with the establishment of the Treasury Operations Agreement between UNM and the Foundation.
The first operational change included the creation of Human Resource systems, benefit plans, and preparation for staffing of the organization. All UNM employees that worked on development and fundraising were invited to join the Foundation as employees. The first

employee was hired June 1, 2008, and the transfer of most of the UNM development employees was completed in January 2009.

The majority of the personnel, approximately 70 employees, accepted the offer and became Foundation employees. Approximately 25 (currently 17 remaining) employees chose to remain as UNM employees in order to retain service vested in the New Mexico Educational Retirement Board (ERB) retirement plan, and to receive the tuition remission benefit for family members of UNM employees. The Foundation provides tuition benefit for employees, but not for family members. And, although it has a 403(b) retirement plan, the Foundation does not participate in ERB.

A Foundation Board of Trustees' working group was appointed to work with Foundation legal counsel to develop the necessary policies and procedures for an operating organization. The final stage of the transition was the installment of the Treasury Operations Agreement between UNM and the Foundation, effective July 1, 2010.

PURPOSE

In April 2012, UNM's then President-elect retained consultants from the University of Florida to conduct a review of the Foundation's organizational structure and operations. The UNM Board of Regents' Audit Committee requested that Internal Audit review the Foundation's operations to complement the outside consultant's review.

SCOPE

The scope of the review was limited to compiling financial information on Foundation operations for FYs 2006-2011. Our review procedures included interviewing personnel, performing analytical procedures on financial data, and reviewing corporate documents. We also analyzed revenue and expense accounts, and reviewed the Consolidated Investment Fund, UNM endowments, and the Foundation's Annual Report of Giving. Internal Audit completed fieldwork on July 6, 2012.

OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

GOVERNING INSTRUMENTS

The Foundation operates within guidelines of its corporate documents and governing instruments. We reviewed the Articles of Incorporation, the Restated and Amended Bylaws (Bylaws), the Memorandum of Agreement with UNM, the Consolidated Investment Policy, and the Treasury Operations Agreement. We also tested the Foundation's compliance with the provisions of each document. The MOA makes numerous references to the "Development Office," which is what the Foundation was referred to prior to its separation from UNM. The MOA has a provision that conflicts with the Bylaws; the provision concerns the voting status of the UNM President and UNM Chief Financial Officer as members of the Foundation's Board of Trustees. Other than these minor inconsistencies, the Foundation appears to have a strong governance framework in place. Discussion of some of the relevant governance provisions of the corporate documents follows.

Articles of Incorporation, Bylaws and Form 1023

The Articles of Incorporation created the Foundation as a corporate entity and were filed with the New Mexico State Corporation Commission on June 4, 1979. In October 1979, the Foundation filed Form 1023, Application for Exemption, with the Internal Revenue Service. The Foundation received status as a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Articles of Incorporation state the purpose of the Foundation is to support the University; to receive and hold property given to the Foundation for the use and benefit of UNM, students and professors; invest, disburse and care for all moneys received; and, ensure the use of funds comply with donor's intent, or to such use as the Board of Trustees agree upon in the case of unrestricted gifts.

Form 1023 states the Foundation was organized for fundraising to support the University. Funds raised are for scholarships to students, the purchase of instructional equipment, the purchase of books and other printed material for the UNM libraries, the purchase of artifacts and works of art for UNM museums and galleries, the establishment of endowed chairs in the academic departments, and the funding of research projects to promote academic excellence.

The Bylaws, amended and restated on December 4, 2009, set forth the corporate roles and responsibilities of the Foundation. The Bylaws govern the establishment, composition and meeting of the Foundation Board of Trustees; defines the roles, terms and responsibilities of the officers; and, outlines the powers, responsibilities and meetings of the standing committees of the Foundation Board of Trustees. The standing committees of the Foundation Board of Trustees enumerated in the Bylaws include: an Executive Committee, an Audit Committee, a Development Committee, a Finance/Budget Committee, a Gift Acceptance Committee, an Investment Committee, and a Committee on Trustees.

The Foundation Board of Trustees is comprised of volunteer members of the community and includes prominent attorneys, certified public accountants, investment advisors, real estate professionals, and professionals in many disciplines relevant to Foundation operations.

Memorandum of Agreement with UNM

The Memorandum of Agreement (MOA) sets forth the operating agreement between the UNM Board of Regents and the Foundation. The MOA outlines the Foundation agreements including organization, function and budget for the Foundation, management of gifts and donations, the distribution and expenditure of funds, and reporting and accounting. The agreement also outlines the University's responsibilities, including University priorities, budget and financial support for the Foundation, University support services, and University compliance with gift restrictions. The MOA also includes operational considerations and a provision for termination of the agreement.

Following is the historical record of the MOA between the Foundation and the University:

- Originally executed on March 11, 1991.
- Amended and restated on October 9, 1997.
- Amended on June 11, 2002; including an Addendum concerning the Consolidated Investment Fund.
- Amended on April 30, 2008; including an Addendum concerning the Consolidated Investment Fund and the First Amendment to the April 30, 2008 MOA, signed December 8, 2008.

The April 30, 2008 MOA was executed by the Foundation on April 25, 2008, and by the University on May 28, 2008. It is the current MOA in effect. Key provisions are summarized below:

- Section 1.1.1 – The President of the University shall be included as a voting member of the Foundation's Board of Trustees.
- Section 1.1.2 – The University's Chief Financial Officer shall be included as a voting member of the Foundation's Board of Trustees.
- Section 1.1.3 – A member of the University of New Mexico Board of Regents shall be included as a voting member of the Foundation's Board of Trustees.
- Section 1.2 – The Foundation will have paid staff, including a president who will be responsible for expanding the fundraising activities and operations of the Foundation. Until the Foundation is fully staffed, the University will continue to provide staff to serve the administrative needs of the Foundation in order to conduct its business and fulfill its responsibilities to the University. The Foundation's president will report to the Executive Committee of the Foundation.

  This is a significant departure from the provision in the 2002 MOA which states the Foundation will have no paid staff, and that the University's Development Office will provide the staffing needs of the Foundation.

- Section 1.2.2 – The Foundation will provide an appropriate benefits package for the Foundation President and other employees it hires, including but not limited to retirement, deferred compensation, and health, dental, vision, disability and life insurance. Prior to FY 2009, all salaries and benefits of Foundation and development personnel were paid by the University.
- Section 1.8 – The Foundation will be responsible for overseeing the Foundation's staff operations in consultation with designated University officials. The Foundation will provide a portion of the financial resources for its operations from one or more of the following: interest earned on the Foundation's agency accounts, an allocation from the Consolidated Investment Fund - or from other sources with approval of the Foundation Board of Trustees, and the University's Chief Financial Officer.
- Section 2.2 – All short term interest earned on the Foundation's agency accounts within the University, with the exception of endowment income, will be retained by the Foundation. The Foundation may develop policies that would, at the discretion of the Foundation's Board of Trustees, distribute all or any portion of such income to gift funds on deposit with the Foundation. Any such income retained by the Foundation may be used to provide a portion of the financial resources necessary to operate the University's Development Office with the approval of the Foundation's Board of Trustees.
- Section 3.2 – To assure that the donor directive on the use of the gift is followed when disbursed through the University's general ledger system, the Foundation will be responsible for providing the University the appropriate information on donor-directed gift restrictions.
- Section 6.2 – The University will provide a portion of the staffing, office and meeting space, computing support and other related services for the Foundation. However, the University and Foundation will expeditiously renegotiate the form and extent of support provided by the University to the Foundation. The staffing level, the recruitment and hiring of staff, the staff compensation and all other personnel matters will be in compliance with general University policies. These policies are not applicable to employees hired by the Foundation.

  Prior to FY 2009, the staffing of the Development Office was funded through the University, and the personnel were subject to the University policies. The April 30, 2008 MOA added the provision that the University policies are not applicable to the Foundation employees, and after the transition to separate operations in 2009, the Foundation developed their own operating and personnel policies.
- Section 6.3 – The University will provide a portion of the financial resources necessary for the operation of the Foundation. The University agrees that an amount equal to the percentage of the market value of the Consolidated Investment Fund may also be allocated to the Foundation for the employment of its own staff and other operating costs. The annual amount of the allocation will

be mutually agreed upon by the University and the Foundation. This allocation will be incorporated into the total operating budget of the University's Development Office.

- Section 7.2 – In addition to the services provided by the University's Development Office, the University agrees to provide the Foundation with certain services for which no separate charges will be assessed. Such services will include, but not be limited to, business, financial, legal, and insurance services.

  The First Amendment to the MOA changed Section 7.2 to clarify that the Office of University Counsel would not provide legal services to the Foundation.

- Section 8.1 – As all gifts and income on gift funds are to be disbursed through the University general ledger system, the University agrees to assume the responsibility of monitoring the expenditures of income disbursements from both non-endowed gift accounts and endowed spending accounts to ensure that any and all donor-imposed restrictions are maintained.

Consolidated Investment Policy

The Consolidated Investment Policy (CIP) governs the investment of gifts and donations to the University or the Foundation. All endowment funds of the University and the Foundation are managed through the CIF, and participating endowment funds in the CIF receive units in the pooled fund. The CIP has been amended several times over the years, with the most recent revision in July, 2010. The more significant provisions of the CIP are summarized below:

- The CIP has a long-term investment philosophy. The objectives are to earn a return sufficient to preserve the purchasing power of the CIF, as well as to provide for current endowment spending needs. The CIP considers the risk level, return goals, and asset allocation models in achieving its objectives. The assets will be managed on a total return basis which includes interest, capital gains, dividends and distributions realized over a given evaluation period.
- Assets in the CIF shall be invested within the following maximum and minimum ranges for each asset class:

	Percent of Total Assets	
Asset Class	Minimum	Maximum
Domestic equity	10%	50%
International equity	10%	40%
Fixed Income/Cash	10%	50%
Illiquid real assets*	0%	0%
Private equity*	0%	0%
Marketable alternatives	5%	20%

- The CIP also contains certain restrictions on types of assets and categories of asset managers. The combined maximum allocation to domestic and international equities shall not exceed 70% at any point in time, and does not allow new commitments to either illiquid real assets or private equity investments. All actively managed accounts shall be limited to no more than 5% of total assets. The CIF asset allocations for FY 2011 are domestic equity - 20%, international equity - 21%, fixed income/cash - 22%, real assets - 10%, private equity - 10%, and marketable alternatives - 17%.

  * Although the CIF has investments in illiquid real assets and private equity, the policy's intent is to not allow for any "new" commitments to either illiquid real assets or private equity, which would result in no allocation to either asset class in the long term as these investments mature. However, the policy recognizes that existing commitments to these asset classes will require additional "capital calls" in the short term, resulting in some allocation to these asset classes. The policy was changed in July 2010 by the UNM Board of Regents to reflect a more conservative investment approach.

  Prior to fiscal year 2010, the Foundation committed to investments in real assets and private equity securities for $38,000,000 and $61,000,000, respectively. As of June 30, 2011, the remaining commitments on these investments were $14,467,847 and $26,362,424, respectively.

- The CIP requires a quarterly spending distribution based on a percentage of the average market value of the CIF over the previous 20 quarters. The spending distribution shall not exceed 6%, nor be less than 4% of the average market value. It is generally paid regardless of whether the fair market value of an individual account exceeds its historic gift value. This practice is consistent with the Uniform Prudent Management of Institutional Funds Act, and recognizes that not spending from an endowment is likely to be contrary to a donor's intent to provide current benefits for the designated purpose. The Investment Committee reviews the spending distribution requirements and sets the spending distribution at its first meeting of the calendar year.

- Development Funding Allocation (DFA): The UNM Board of Regents and the Foundation Board of Trustees have agreed that a fair and reasonable uniform basis point fee applicable to all endowment accounts is an appropriate means to assist the operations of the Foundation. The DFA does not provide support for any direct costs of investing and administering the CIF, such as investment consultant fees, custodial fees, and investment manager fees. These costs are assigned directly to the CIF. The DFA is subject to review and approval by the Foundation Board of Trustees and the UNM Board of Regents annually and at other intervals as required by the UNM Board of Regents.

- The CIP sets the authority and responsibilities of each of the parties responsible for managing the CIF, including the UNM Board of Regents, Foundation Board of Trustees, Investment Committee, Foundation Chief Financial Officer, Investment Consultant, Investment Managers, and the Investment Custodian.

- The Foundation Board of Trustees and the UNM Board of Regents must jointly approve the CIP, the DFA, and the engagement of an investment consultant.

Treasury Operations Agreement

The Treasury Operations Agreement sets forth the understanding between the Foundation and UNM concerning the management of gift monies received by the Foundation, short-term investment income on gift balances held by the University, the transfer of the endowed spending distribution and the Development Funding Allocation, and payment or reimbursement of expenses. The principal provisions of the Treasury Operations Agreement are set forth below.

- All endowment gifts are deposited into the Foundation's bank account. The Foundation records and acknowledges the gifts, and transfers the funds to the custodian of the CIF.
- Non-endowment gifts are deposited into the Foundation's bank account. The Foundation records and acknowledges the gifts. All non-endowed gifts, with the exception of gifts received for the benefit of the Foundation and the UNM Hospitals, are transferred to the University's bank account.
- All investment income on unexpended non-endowment gift balances is transferred to the Foundation's bank account for use in its normal course of business.
- All investment income on unexpended endowment spending distributions is transferred to the Foundation's bank account for use in its normal course of business. Once the spending distribution is transferred to UNM, the funds are no longer part of the CIF endowments, and short term interest income is allocable to the Foundation.
- The Endowment spending distribution is transferred directly from the CIF to the University's bank account on a quarterly basis.
- The Development Funding Allocation is transferred directly from the CIF to the Foundation's bank account for use in its normal course of business. All transfers are reported to the University Controller's Office.
- The Foundation administers payroll and employee benefit programs for its employees which are paid from the Foundation's bank account. The University administers payroll and employee benefit programs for UNM employees assigned to the Foundation and they are paid from the University's bank account.

- All expenditures from non-endowed gift funds for the benefit of the University or its affiliated organizations, with the exception of UNM Hospitals, are disbursed through the University's general ledger and bank account. Expenditures from non-endowed gift funds for the benefit of UNM Hospitals are disbursed through the UNM Hospital's bank account.

Foundation Operations and Business Policies

The Foundation has developed and adopted internal operating and business policies to govern its day-to-day operations. The policies are segregated into four sections: Governance Policies, Employment Policies, Gift Policies, and Fiscal & Business Policies. Foundation management and in-house counsel worked with a Foundation Board of Trustees' working group to develop necessary policies for the Foundation. The policies were implemented in early 2009.

Governance – Section 1 of the Foundation's policies is Governance. It covers the responsibilities of the Foundation's Board of Trustees, responsibilities of the President, conflict of interest policy, Foundation records and record retention policy, harassment policy, and code of conduct policy. In addition, governance policies contain guidance on operations of the seven standing Committees of the Foundation's Board of Trustees.

Employment Policies – The Foundation has policies on hiring and recruiting, terms of employment, equal opportunity and diversity, educational benefits policy, and a whistleblower policy. In addition, there is a review of compensation policy, which covers chief executives, officers, and key employees. The Executive Committee of the Foundation Board of Trustees sets the compensation for covered employees using criteria set forth in the policy.

Gift Policies – The Foundation has two gift policies: 1) planned giving policy, and 2) gift acceptance policy, which are mandated by section 1.5 of the MOA.

> *Planned Giving* – Planned gifts are gifts by trust, will or charitable remainder trusts, charitable lead trusts, charitable annuities, life insurance or retirement plans. The Foundation is authorized to solicit and accept planned gifts, but is not allowed to provide legal advice or accounting advice to donors. If the gift is in any form other than cash, check, electronic transfer, or securities, the gift must be approved by the Gift Acceptance Committee.
>
> *Gift Acceptance Policy* – This policy governs acceptance of endowed and restricted gifts, establishes the Gift Acceptance Committee, and sets forth criteria for acceptance of personal property, real property, and intangible property.

Fiscal & Business Policies – These policies govern Foundation debts and disbursements, preparation of the Foundation's operating budget, policy on political lobbying, insurance, and support of other charitable organizations, and reimbursement for cell phone use, business travel and entertainment.

Compliance with Governing Instruments

The Foundation appears to be in compliance with the governing instruments except for the following:

- The MOA has been modified numerous times since its inception and contains references to old organizational structures that changed after the separation from UNM. References to the Development Office should be revised, and the MOA should refer to the Foundation by its proper legal name.

- The Consolidated Investment Fund has two actively managed accounts exceeding 5% of total assets for two consecutive quarters in FY 2011. The two actively managed investment funds were 5.2% and 5.6% of total assets. Under the CIP, actively managed accounts are limited to no more than 5% of total assets.

- The MOA and the Bylaws have inconsistent provisions regarding the voting and membership of University officials on the Foundation Board of Trustees. According to the MOA section 1.1.1 and 1.1.2, both the University's President and Chief Financial Officer shall be included as voting members of the Foundation Board of Trustees. The Bylaws, Article 5, Section 5.2.2 list the UNM President as a non-voting member. Neither the UNM President or Chief Financial Officer are currently voting members of the Foundation Board of Trustees.

- The Bylaws, Article V, section 5.2.2 indicate that the President of the University's Alumni Association shall serve as a non-voting member of the Foundation Board of Trustees. The President of the University Alumni Association is not currently a member of the Foundation Board of Trustees.

Recommendation 1

The University and the Foundation should review the issues noted above, and either amend the appropriate instrument, or conform existing practice to the documented corporate policy.

Response from the President and CEO of the University of New Mexico Foundation

Action Items: Compliance with Governing Instruments
Targeted Completion Date: *12/31/2012 pending approval by governing bodies.*
Assigned to: *Bullet 1, 3, 4: Interim Senior Associate University Counsel is reviewing the MOA. Bullet 2: Foundation staff liaison to the Investment Committee will report on the Investment Committee's actions. All changes noted above will be completed when UNM Board of Regents and UNMF Board of Trustees approve.*

Corrective Action Planned: We concur. *Bullet 1, 3, 4: The University and the Foundation have already begun the process of reviewing the MOA and the Bylaws to ensure conformity. Bullet 2: The Foundation's Investment Committee will review the CIP provision regarding a 5% maximum allocation to actively managed accounts and consider amending the CIP to allow for minor, temporary deviations due to normal quarter-to-quarter changes in market valuations.*

FINANCIAL ANALYSIS

Audited Financial Statements and Income Tax Returns

The Foundation is required to have an annual independent audit of its financial statements, and file a federal tax return on Form 990. The financial statements are prepared using GAAP promulgated by the Governmental Accounting Standards Board (GASB). The independent accounting firm issued an unqualified opinion on the financial statements in each of the FYs 2006-2011, attesting that the financial statements are fairly presented according to GAAP. The financial statements and Form 990 both use the accrual method of accounting; however, there are significant differences in the information presented on each report due to differing accounting principles, rules, regulations and purposes of each report. The purpose of the financial statements is to present fairly the financial position, results of operations, and cash flows of the organization according to GAAP. Form 990 is an annual information return required to be filed with the Internal Revenue Service, and solicits information verifying compliance with rules for tax-exempt organizations. Other differences between the financial statements and Form 990 are presented below:

Information included in the Form 990 but not required for audited financial statements:

- Information on officers, directors and compensation.
- Description of mission and program services.
- Reconciliation of differences in revenue recognition and changes in net assets between Form 990 and audited financial statements.
- Responses to questions regarding compliance with various tax and legal requirements.
- Analysis of income-producing activities.
- Ownership information on taxable subsidiaries.
- Certain revenues or gains, and expenses or losses, may be recognized differently on Form 990 than they are for audited financial statements.

Information presented in audited financial statements but not on Form 990:

- Independent Auditor's qualified or unqualified opinion.
- Summary of accounting principles used to prepare the statements.
- Notes to financial statements.
- Cash flow statement.
- Amounts, timing and conditions associated with restricted funds.
- Certain revenues or gains, and expenses or losses, may be recognized for financial statement purposes but not on Form 990.

The tax accounting principles used to prepare Form 990 differ from the GAAP used in audited financial statements. Exhibit 1 shows the reconciliation of Form 990 with the audited financial statements for FYs 2006-2011. The main reconciling item is unrealized Gain (Loss) on Investments, which is not recognized in income for tax purposes but is recognized under GAAP for audited financial statements.

Analysis of Foundation Operations for FYs 2006-2011

Methodology and Limitations of Analysis

For FYs 2006-2008, the audited financial statements and Form 990 included only development activity in Banner indexes for the Foundation and the Office of Vice President for Institutional Advancement. Although the reports accurately reflect the activity of the Foundation, they do not present a complete financial picture of development and fundraising activity prior to FY 2009. Significant development activity and fundraising for these prior years was integrated and embedded within the University's operations. The University directly paid many costs associated with development activity and fundraising as part of normal operations of UNM departments, schools, and colleges. Such development and fundraising costs include:

- Costs associated with development offices that are embedded in the schools and colleges.
    - Salaries and benefits of development directors and officers.
    - Travel, office supplies and other development costs.

In addition, administrative costs in support of development activities were also incurred by the University, including:

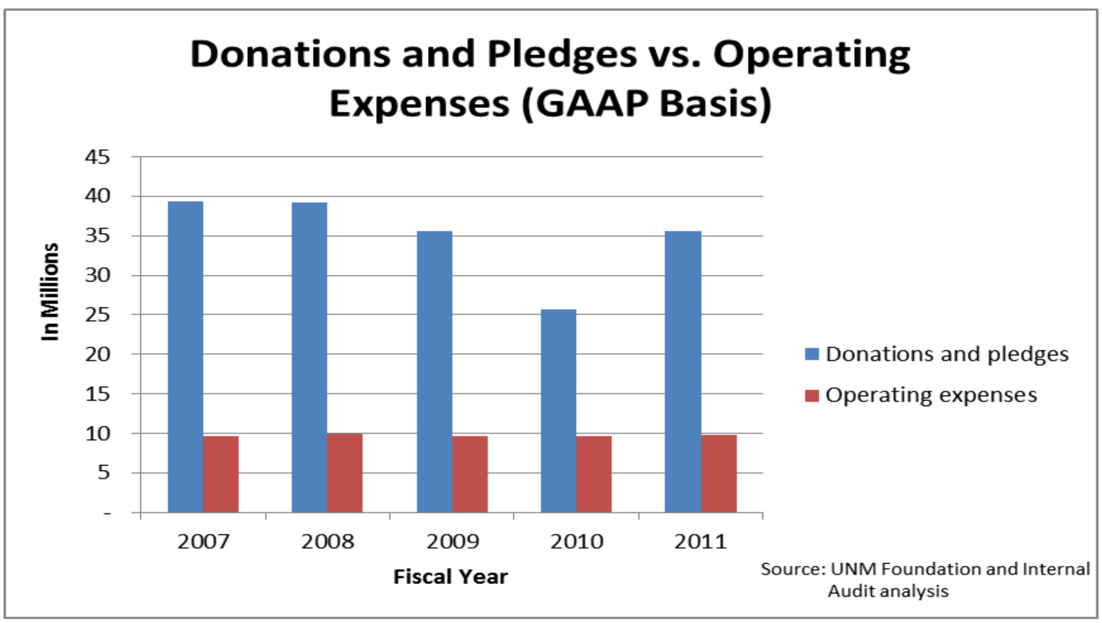
- Cost of administrative services in support of development activity.
    - Legal services provided to the Foundation by the Office of University Counsel.
    - Human Resources, Information Technology, and Accounting services provided by UNM.
- Facilities costs, such as rent on office space, utilities, maintenance, and other overhead not allocated to the development activity.

Prior to FY 2009, UNM attempted to recover the cost of administrative expenses associated with development by charging certain development units a fee for administrative services. An administrative fee was charged to UNM organizations with development activity if the unit was not funded by I&G revenues. If UNM organizations with development activity were funded through I&G revenue they were not charged the administrative fee. We considered the administrative fee in compiling the estimated operating costs of the development activity for FYs 2006-2008; however, the full impact may not be reflected in the analysis.

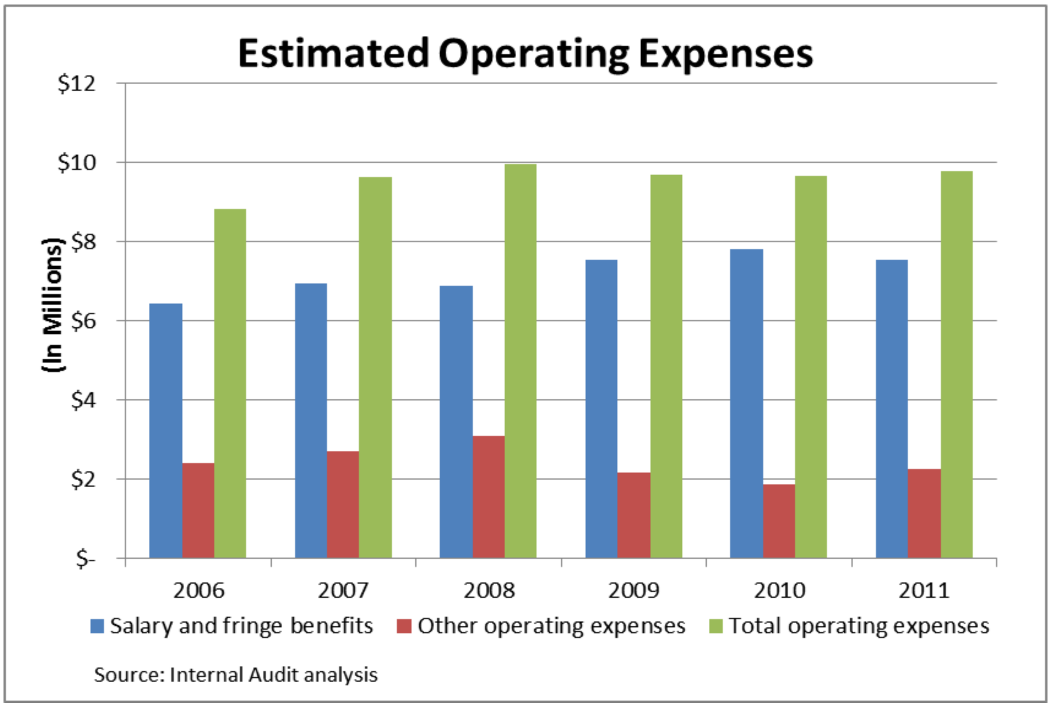
The analysis of operating costs for FYs 2006-2008 is estimated, based on the following methodology:

- Identification of development activities that were embedded throughout various UNM departments, schools and colleges.
- Determination of which departments were not included in the Foundation's financial reporting.
- Identification of University employees and departments engaged in development activities:
    - Compiled lists of employees engaged in development and fundraising.
    - Compiled Banner indexes of all departments engaged in development and fundraising.
- Estimated operating costs were calculated based on relevant salary and fringe benefits and other operating expenses for each employee and department.

Operating costs for FYs 2006-2008 are estimates based on the above methodology (see Exhibit 10), while the costs for FYs 2009-2011 reflect actual costs on the Foundation's books, adjusted for benefits of UNM employees assigned to the Foundation. The funding source of the operating costs was derived from analysis of Foundation records and Banner indexes. The DFA and short term interest are actual revenues. The other revenues for FYs 2009-2011 are actual revenues and for FYs 2006-2008 they are estimated. The Instructional & General (I&G) funding is estimated for FYs 2006-2008, and I&G for FYs 2009-2011 is actual, adjusted for benefits of UNM employees assigned to the Foundation. Pledges and donations (GAAP Basis) and operating expenses are shown in the following graph. The graph corresponds with the current campaign; therefore, FY 2006 is not included.



The analysis of UNM development and fundraising costs, including the Foundation, for FYs 2006-2011 is presented in Exhibit 2. The estimated cost for FYs 2006-2008 is based on the aforementioned methodology, and the costs for FYs 2009-2011 reflect actual development and fundraising costs as accounted for by the Foundation. The analysis also shows the estimated number of employees engaged in development and fundraising for FYs 2006-2008, and actual employees of the Foundation for FYs 2009-2011. The number of employees of the Foundation for FYs 2009-2011 includes 17 UNM employees that are permanently assigned to the Foundation. The total operating expenses of the Foundation are presented in the graph below.



As part of the transition to separate operations, UNM employees that were engaged in development and fundraising activity were given the option to remain as UNM employees or become Foundation employees. Approximately 25 (17 currently remain) employees chose to remain as UNM employees, primarily so they could retain years of service vested in the ERB retirement plan, and to receive the tuition remission benefit for family members of UNM employees.

Payroll for these employees is processed through the UNM payroll and benefits system and the cost is allocated to a Foundation agency account that is set up in Banner. The rent on the Foundation's office space is also charged to the agency account and is funded by support from the University. For FYs 2009-2011, the University transferred I&G funds to the agency account to pay for the cost of the employees and the rent. Employee benefits are not assessed against the agency account. In FYs 2009-2011, benefits for the UNM employees assigned to the Foundation were paid out of UNM's benefits pool. The cost of the UNM employees (with the exception of the benefits) is recorded on the Foundation's books, and the funding is recorded as direct support revenue from the University. All other Foundation employees' salaries and benefits are paid directly by the Foundation.

The analysis included a comparison of the Foundation's employee benefits to the University's, including employer payroll taxes, unemployment, and worker's compensation. The Foundation offers a 403(b) retirement plan, group insurance, incentive compensation, UNM ticket discounts, employee tuition remission, and auto and phone allowances. The University's employee benefits include the New Mexico ERB plan, group insurance, sick leave, tuition remission (employee and family), retiree benefits program, employee health program, and employee counseling and referral services. There are differences in the types of benefits offered, with UNM's benefits running approximately 31% of payroll and the Foundation's at approximately 25% of payroll.

UNM Foundation Funding Sources

The Foundation and the University are interdependent organizations relying on each other for funding of various activities. 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 the endowment spending distribution.

The fundraising and administrative costs of the Foundation are funded through the DFA, short term interest on non-endowment gift balances and unexpended spending distribution balances, unrestricted gifts to the Foundation, cost sharing agreements with UNM affiliated organizations, institutional support from the University, and when required, reserve fund balances.

Development Funding Allocation (DFA) – By joint approval of the UNM Board of Regents and the Foundation Board of Trustees, the Foundation charges the CIF a fee which is used in funding Foundation operations. The UNM Board of Regents has increased the rate several times over the past couple of years. The meeting minutes of the UNM Board of Regents and the Foundation Board of Trustees indicate the increases occurred at the following dates.

Prior to 2006	90 basis points
April 2006	98 basis points
November 2007	110 basis points
June 2008	115 basis points
May 2009	185 basis points

In November 2007, the DFA increased from 98 basis points to 110 basis points in anticipation of costs associated with implementation of the *Changing Worlds: The Campaign for UNM*. The decrease in the value of the CIF from the 2008 economic downturn adversely affected the DFA funding to the Foundation, and coupled with decreases in institutional support necessitated further increases in DFA basis points. Exhibit 3 shows the historical amount charged for FYs

2006-2011, along with the impact of a hypothetical decrease to 150 basis points for FYs 2010-2011. The DFA currently provides the majority of funding for Foundation operations; therefore, any decrease in the DFA would have to be made up from other sources.

Short Term Interest Allocation – The University holds approximately $50 million in unexpended non-endowment gifts and unexpended spending distributions. Under provisions of the MOA and the Treasury Operations Agreement, short-term interest monies earned on these balances are allocated to the Foundation for use in operations. Short-term interest transferred to the Foundation for use in operations for FYs 2006-2011 is shown in Exhibit 2.

Institutional Support – This includes transfers of funds from the University to the Foundation, or payment of certain Foundation expenses by transfer of funds to Agency accounts set up by the University for the benefit of the Foundation. It also includes I&G or Auxiliary funds deposited in agency accounts for payment of Foundation costs (primarily to pay the costs of the UNM employees assigned to the Foundation and rent on the Foundation building).

Unrestricted Gifts to the Foundation – Gifts that are not designated by the donor for a specific use. Such gifts support the Foundation by agreement with the UNM Board of Regents.

Cost Sharing Agreements – Agreements with certain UNM affiliate organizations such as UNM Athletics and UNM Hospital to reimburse the Foundation for costs associated with fundraising. The reimbursements are mostly for personnel costs (salaries and benefits), Health Sciences Center (HSC) expenses for cultivation of relationships, and billings for expenses related to *Children's Miracle Network* campaigns.

Net Asset Fund Balance Reserves – On occasion, the Foundation has used reserve fund balances to help pay for operations. When Foundation operations were separated from UNM in 2009, it was anticipated that the Foundation would occasionally use reserves to fund operations.

From FYs 2006-2008, University funding provided the largest amount of revenue to the Foundation budget. However, given the impact of economic conditions on University funds over the intervening years, the DFA has become the largest source of revenue for FYs 2009-2011. See Exhibit 2.

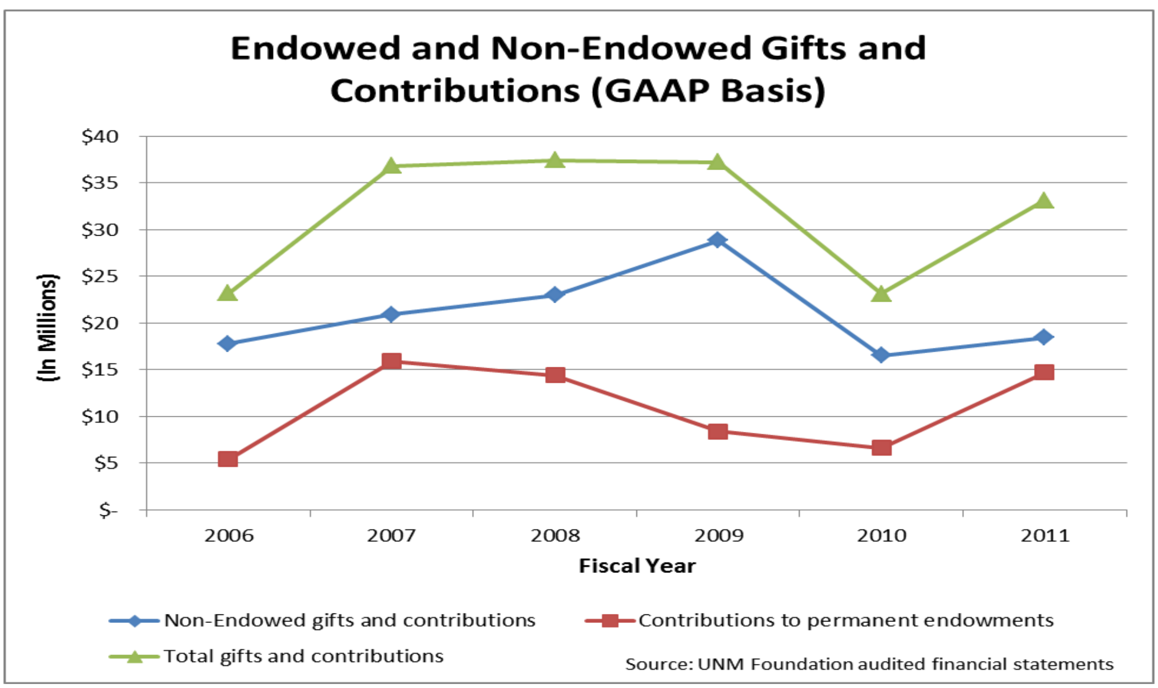
FUNDRAISING AND DEVLOPMENT ACTIVITIES

In FY 2007, the Foundation began the fundraising campaign *Changing Worlds: The Campaign for UNM*. The goal is to raise $675 million during the campaign that is scheduled to end in FY 2014 in conjunction with the University's 125th anniversary. The campaign focuses on donor support needed in four areas: Student Success and Opportunity; Faculty Support and Research; Campus Programs; and Capital Projects and Facilities. Exhibit 6 shows the reconciliation of the campaign totals and the Foundation's general ledger for FYs 2007-2011. For the *Changing Worlds* campaign as of June 30, 2011, the Foundation reported $406.5 million in donations and pledges in the Annual Report of Giving (CASE basis), and recorded $175.3 million in donations and pledges in the audited financial statements (GAAP basis).

Donations Process

The Foundation is authorized to accept all gifts made to or for the benefit of the University in the form of cash, checks, electronic funds transfers, credit or debit card transactions, and securities. The Gift Acceptance Committee of the Foundation, established pursuant to the joint Gift Acceptance Policy, reviews all other gifts. When the Foundation receives a gift, the donor's intended use of the gift is documented in an executed gift agreement signed by an authorized individual for the Foundation, the donor, and the appropriate University official. All donors are advised to secure guidance from independent legal and/or tax counsel in all matters pertaining to the planned gift to the University, including tax requirements.

Donations are posted daily to the Foundation's accounting system, where a separate general ledger account is created for each restricted purpose. All donations received in UNM departments are forwarded to the Foundation for processing. Once the Foundation receives the necessary paperwork for donations, a journal voucher is prepared to record the deposit, and an entry is made into the gift processing system. All non-endowed gifts, with the exception of gifts received for the benefit of the Foundation and the UNM Hospitals are transferred to the University's bank account in accordance with the Treasury Operations Agreement. The following graph shows the trends in endowed and non-endowed gifts and contributions on the Foundation's financial statements for FYs 2006-2011 prepared in accordance with Generally Accepted Accounting Principles (GAAP).



Pledges Receivable

Pledges receivable are recorded as revenue only when the initial pledge is greater than $5,000 and when a signed "Statement in Intent of Gift Support" is received from the donor. The statement must specify the frequency and amount of payment that is expected to be paid by the donor. The pledge is also recorded in the Foundation's gift processing system. The pledges receivable are reported net of allowances and discounts. The contributions to permanent endowments include donations and pledges to endowments.

The Foundation monitors and reconciles the pledge activity with the general ledger and the gift processing system on a monthly basis. The Foundation takes steps to ensure that pledges are paid when scheduled in the pledge agreement. Steps include mailed reminders prior to pledge due dates for all pledges, as well as holding on-going meetings with development officers for larger pledges. An initial pledge reserve of 5% is established for all pledges. Pledges are reviewed individually twice a year to determine if the pledge reserve should be increased, or if a pledge should be written off. See Exhibit 4 for a 5-year analysis (FYs 2007-2011) of pledges receivable, including collections and write-offs.

Report of Giving Analysis

Each year, the Foundation produces its Annual Report of Giving, which is a celebration of the Foundation's success in fundraising for the year. The report highlights the fundraising efforts and progress toward fundraising goals. Exhibit 5 shows the total donations and contributions for FYs 2006-2011. A key measurement of success and effectiveness in fundraising is the "cost of raising one dollar" calculation. For 2011, the Foundation's cost to raise one dollar was 12 cents. The cost to raise one dollar is considered to be efficient and effective fundraising if it is under 20 cents. Also reporting in the Annual Report of Giving, and presented in Exhibit 5 for FYs 2006-2011, are the total market value and returns for the Consolidated Investment Fund, and the spending distributions that the Foundation transfers to UNM for scholarships, faculty and program support.

The fundraising campaign uses a different set of rules for counting gifts and pledges than are used for accounting under Generally Accepted Accounting Principles (GAAP). For *Changing Worlds: The Campaign for UNM,* the Foundation uses the national standards promulgated by the Council for Advancement and Support of Education (CASE). CASE is a professional association serving educational institutions and the advancement professionals who work on their behalf in alumni relations, communications, development, marketing and allied areas. CASE helps its members build stronger relationships with their alumni and donors, raise funds for campus projects, produce recruitment materials, market their institutions to prospective students, diversify the profession, and foster public support of education. The Foundation tracks the fundraising campaign totals with specialized gift tracking software, and uses the same gift counting rules when the Foundation is not actively engaged in a capital campaign. Although the Foundation Board of Trustees has approved the use of the CASE campaign counting rules, it has not explained the campaign counting basis used in its Annual Report of Giving.

The following are the differences between the CASE campaign counting rules and revenue recognition under GAAP.

Gift - Bequest – Bequests can be counted for the campaign when pledged if they meet certain criteria, but cannot be recorded as revenue on the financial statements until realized. Bequests realized and recorded as revenue in the current fiscal year for the financial statements are sometimes counted in a prior fiscal year in the campaign.

Gift - Cash (Reported Gifts) – Certain contributions made to UNM are not recorded on the Foundation financial statements. Examples include grants received and accounted for at UNM's Contracts and Grants Department, and contributions given directly to KNME, KUNM, the Lobo Club, and the Anderson Foundation. These contributions are counted for the campaign but are not shown as revenue on the Foundation's financial statements.

Gift - In-Kind (Reported Gifts) – In-kind gifts are contributions of equipment or services. The in-kind gifts are received directly by UNM and the Foundation does not take title to the equipment. Therefore, the donated assets are not recorded as revenue for the Foundation's financial statements, but are included in the campaign total.

Pledge - Annual – Annual pledges greater than $5,000 are recorded on the Foundation's financial statements when pledged. Annual pledges under $5,000 are recorded on the Foundation's financial statements when received. Annual pledges are counted in the campaign total when pledged if they meet CASE criteria.

Pledge - Bequest – Bequest pledges are recorded on the Foundation's financial statements when realized, not when pledged. Bequest pledges are counted in the campaign total when pledged if they meet CASE criteria.

Pledge - Major – For revenue recognition under GAAP, pledges must be for a specified amount greater than $5,000, and be accompanied by a written and signed pledge agreement that includes a payment schedule. Pledges that are greater than the $5,000 threshold, but do not meet the other criteria, are not recorded in the financial statements until received. Under the CASE standards, such pledges are counted in the campaign total when pledged.

Recommendation 2

The Foundation should explain the campaign counting standards in the Annual Report of Giving and also discuss differences to amounts reported in the GAAP financial statements.

Response from the President and CEO of the University of New Mexico Foundation

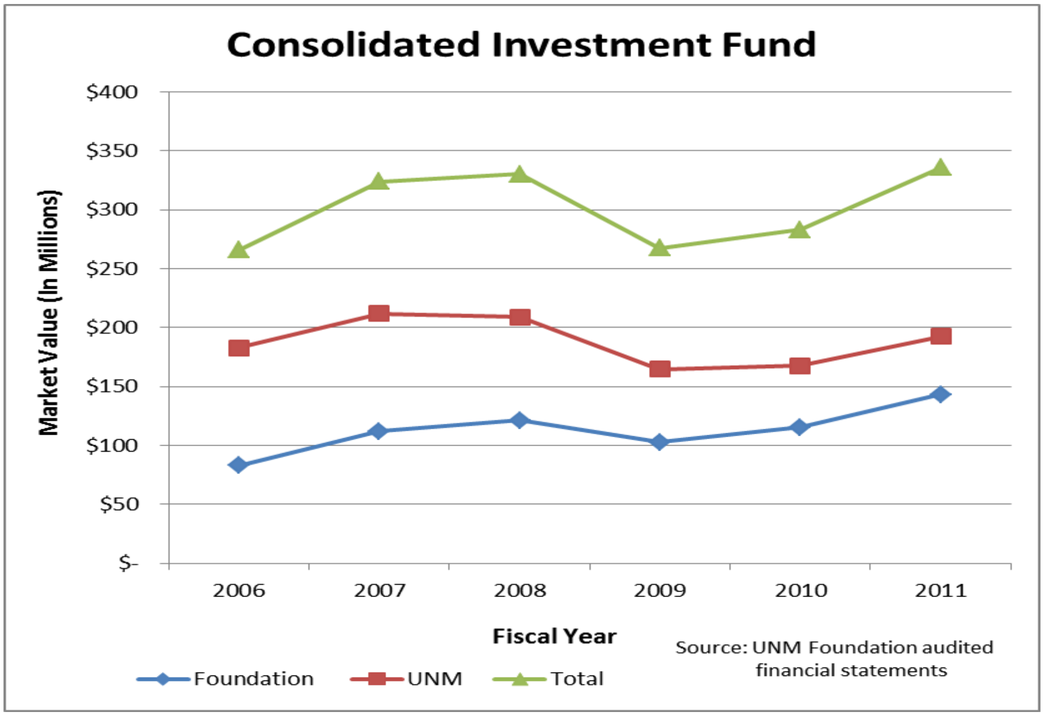
Action Items: Report of Giving Analysis
Targeted Completion Date: *11/30/2012 (corresponding with next Annual Report of Giving).*
Assigned to: *Foundation Senior Director of Marketing/Communication*
Corrective Action Planned: *We concur. A narrative and table will be included in the Annual Report of Giving explaining the differences.*

CONSOLIDATED INVESTMENT FUND

The UNM Board of Regents delegated authority to the UNM Foundation Investment Committee to oversee and manage the endowment assets of the University and the Foundation. The pooled assets are combined for investment purposes and operated as a unitized pool known as the Consolidated Investment Fund. The CIF is managed in accordance with the Consolidated Investment Policy, which is approved by both the UNM Foundation Board of Trustees and the UNM Board of Regents.

The endowments in the CIF are split between University Endowments and Foundation Endowments. The UNM Board of Regents designated all endowments received prior to 1979 as owned by the University, and all endowments received subsequent to 1979 as owned by the Foundation, even though the University is the beneficiary of all endowments. Some endowments established after 1979 are still designated as owned by UNM, including quasi-endowments established by the UNM Board of Regents with University funds. Based on this designation, the CIF investments are split between the University and the Foundation in the annual audited financial statements.

For FY 2011, the CIF contained 1,342,175 units with a market value of $335,977,115. The UNM designated endowments consisted of 769,344 units with a market value of $192,584,392, and the Foundation had 572,831 units with a market value of $143,392,723. Exhibit 7 shows the activity of the CIF for FYs 2006-2011, including investment income, distributions to UNM, additions to principal, and the total asset allocation of the CIF. The following graph provides the market values of the Consolidated Investment Fund.



<u>Investment Fund Management</u>

Under the terms of the MOA and CIP, the UNM Board of Regents delegated the management of the CIF to the Investment Committee of the Foundation Board of Trustees. The Investment Committee has fiduciary responsibility for directing and monitoring the investment of the CIF, and is authorized to retain and solicit recommendations of qualified professionals, including the CFO, Investment Consultant, and Investment Managers. The Investment Committee works with the institutional investment consultant to structure the portfolio and hire independent investment managers. The investment managers are responsible for specific asset categories and management styles.

In accordance with the applicable State of New Mexico statues (Section 21-1-38, NMSA 1978; Sections 46-9A-2 through 46-9A-5, NMSA 1978), the UNM Board of Regents has adopted a Consolidated Investment Policy for investing its endowments. The statutes include provisions for establishing an Investment Advisory Committee comprised of individuals with special skills or expertise to manage and invest the CIF.

The Foundation's Investment Committee has 17 members and is comprised of individuals from the local professional community, including three investment professionals, two Certified Public Accountants, two attorneys, a banker, and two corporate Chief Executive Officers. The Investment Committee also has one UNM Board of Regents member, two UNM finance officials, and four Foundation staff members, including the Foundation President and the Foundation Chief Financial Officer.

Investment Fees

The Foundation and the CIF incur investment management fees in the normal course of business, including custodial fees charged by the financial institution holding the CIF investments, consulting and advisory fees to the Investment Consultant, and investment management fees to the individual fund managers. The investment fees are either direct or indirect. Direct fees are paid by the Foundation from its bank account, and indirect fees are paid to individual fund managers from the revenues of the fund. Direct fees include amounts paid to the CIF custodian (Northern Trust), the Investment Consultant (currently Hewitt), and a few of the individual fund managers. The bulk of the investment fees are indirect fees paid to the individual managers of the funds that make up the CIF.

The fees to the individual fund managers vary depending upon the type of investment and level of management provided. Passively managed funds have the lowest fees. The next highest fees are paid to actively managed funds, while alternative investment funds have the highest fees since they require more intensive management. For FY 2011, fees for the individually managed funds in the CIF ranged from a low of .20% (20 basis points) for a large capitalization stock fund, to 1.35% (135 basis points) for a marketable alternative investment fund. For FY 2011, the investment fees for the Investment Consultant were $383,477 (.12% or 12 basis points) of the weighted average value of the CIF. The total weighted average fees to the fund managers were $2.5 million (.72% or 72 basis points), and the total portfolio weighted average fees were $3.1 million (.84% or 84 basis points). The fees categories and amounts paid by the Foundation are common for all institutional funds of this type.

UNM Endowments

There are three primary UNM endowment funds that are managed by the Foundation's Investment Committee within the Consolidated Investment Fund: the Regents Endowment, the Winrock Endowment, and the [redacted] Endowment. The Regents Endowment includes the Mesa del Sol property sale, which added $8,045,923 in proceeds to that endowment in FY 2006. As of June 30, 2012, it has a balance of $5,372,448. The [redacted] Endowment is a true endowment. The Regents and Winrock Endowments are quasi-endowments, and the UNM Board of Regents may expend the principal and income at their discretion. Exhibit 8 presents the three main UNM endowments for FYs 2006-2011, showing the change in market value, yield, and spending distribution of each fund. The market value of the UNM Endowment totaled $192.6 million (57% of the $336 million CIF) as of June 30, 2011.

The market value of each endowment experienced losses in FYs 2008 and 2009, primarily from the economic downturn. The poor economic conditions had the biggest impact on the endowments in FY 2009, as they suffered losses ranging from $6.5 million (Winrock Endowment) to $8 million ([redacted] Endowment). These investment losses resulted in market value decreases in the Endowments ranging from $8.3 million (Winrock Endowment) to $9.9 million (Regents Endowment). In addition to investment losses, the development funding allocation and spending distributions also contribute to decreases in the endowments. In FYs

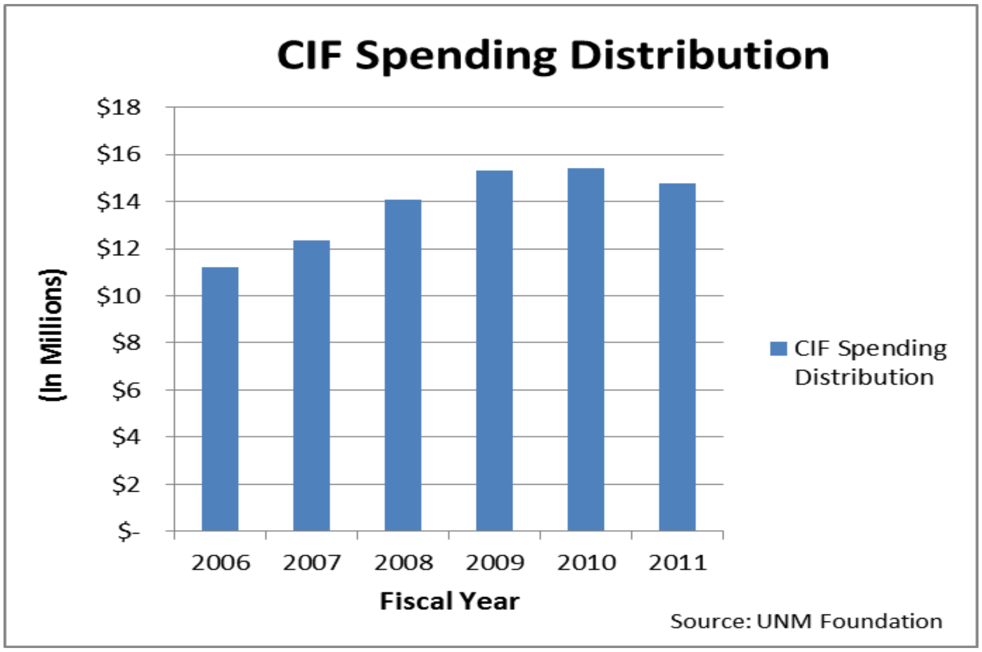
2010 and 2011, investment earnings began to rebound as the economic market conditions improved, resulting in significant increases in market values of the endowments over the last two years. The spending distribution for the three main UNM endowment funds is included in Exhibit 8.

Spending Distribution

The CIP establishes the endowment spending distribution policy. The Foundation's Investment Committee determines the spending rate at its first meeting of the calendar year in order to allow for timely communication to UNM beneficiaries in advance of UNM's annual budget process. The CIP provides that the spending rate shall not exceed 6% nor be less than 4%. In accordance with the Uniform Prudent Management of Institutional Funds Act, the Investment Committee considers a number of items, including but not limited to:

- The net rate of return earned by the CIF in each of the five most recent fiscal years.
- The net real (after adjusting for inflation as measured by the CPI-U) rate of return earned by the CIF in each of the five most recent fiscal years.
- Payout rates established by other University endowments.
- Other resources available to the University, and any unusual or extraordinary circumstances impacting these resources (tuition revenues, State appropriations, etc.).
- The spending distribution in effect at the time of deliberations.
- General economic conditions.
- The expected total return of the CIF per the most recent asset allocation study.

The spending distribution is calculated using the approved spending rate applied to average market value of the CIF for the past 20 quarters. The Consolidated Investment Policy was amended in 2010 to increase the averaging period from 12 quarters to 20 quarters to smooth out the effect of the economic downturn. The spending distribution rates set by the Investment Committee were 4.86% for FY 2006 and 4.65% for FYs 2007 – 2011. For FY 2012 it is 4.50%. The spending distribution is made quarterly to approximately 1,500 spending accounts throughout UNM. The final distribution for the year is trued up to reflect spending distribution rate approved by the Investment Committee. Any unexpended spending distribution balances are invested by UNM on a continual basis, and the short term interest earned on the balances is allocated to the Foundation for use in operation. The Foundation provides donor intent information to UNM departments, colleges and schools, and to the UNM General Accounting department, each of which are responsible for ensuring that spending from endowed accounts complies with donor intent. The spending distribution for FYs 2006-2011 for the combined Consolidated Investment Fund is shown in the following graph, and the annual totals are presented as a line item in Exhibit 7.



Supplemental Operating and Investment Expenses Data

The Foundation has two different but related functions: fundraising and development efforts in the support of the University, and fiduciary duties related to its stewardship of the Consolidated Investment Fund. The majority of the salaries, fringe benefits, and other operating expenses are incurred in the Foundation's fundraising operations. Investment management fees are associated with the stewardship aspect of the Foundation's management of the CIF.

A supplementary analysis is presented in Exhibit 9, showing total estimated operating expenses and investment management fees. Investment expenses are not paid from the Foundation's operating budget and are presented in the audited financial statements as non-operating expenses. Investment fees are expenses of the Consolidated Investment Fund and are reported as a reduction of investment income. In addition, investment returns are reported net of investment management fees, which is standard for the industry. The value of the CIF for FY 2011 was $335,977,115, with $192,584,392 designated as endowments owned by UNM (57%), and $143,392,723 designated as endowments owned by the Foundation (43%). The total investment expenses for FY 2011 were $3.1 million, of which $1.8 million could be attributed to the UNM endowments and $1.3 million to the Foundation endowments. Exhibit 9 is provided for informational purposes only.

Tracking Donor Intent

The Foundation transfers endowment spending distributions to approximately 1,500 endowment spending accounts at the University on a quarterly basis. Endowment spending accounts are primarily for scholarships, faculty support, and program support. Scholarship endowments have specific requirements, as students must meet certain eligibility requirements in order to be awarded a scholarship from endowed funds. Departments typically have committees that review student applications and determine which students may be awarded scholarships based on specific eligibility factors.

Faculty support and program support endowments have a broader purpose. Expenditures from faculty support endowments can be for any job-related purpose. Expenditures from program support endowments can be for any purpose that is for the benefit of the department. The departments selected for review each have an approval process for disbursements from endowed accounts. Each department also has procedures in place to track available endowment balances and spending activity.

Internal Audit selected three colleges/schools within the University on which to perform a review for donor intent compliance on disbursements from endowed spending accounts. We judgmentally selected a sample of transactions from each department and completed test work to ensure compliance. We did not note any instances of non-compliance. Internal Audit will work with the Foundation and the University to implement a process for verifying endowed spending distribution expenditures comply with donor intent. The process will be designed to test UNM colleges and departments on an annual rotation.

Foundation Business Plan

As noted previously, prior to FY 2009, UNM Foundation operations and development activities were integrated with and embedded within UNM operations. The University did not prepare a business plan or cost analysis prior to implementing the separation of the development activities and Foundation operations from UNM operations.

A high-level strategy, business plan and cost analysis should address the following:

- Funding sources of future Foundation operations, including contingency planning should funding sources evaporate or prove inadequate.
- Detailed analysis of how Foundation operations would be paid for/supported by the institution.
    - Cost analysis of development activities and Foundation operations prior to separation from UNM.
    - Five-year forecast of development activities and administrative costs subsequent to separation.
- Resources needed, including employees, IT resources, and professional services (legal, benefit contractors, etc.).
- Fundraising campaign resources, staffing, marketing and other costs related to fundraising, and annual targets for gifts, donations, and pledges.

Recommendation 3

The Foundation should work with the UNM President to prepare a business plan in anticipation of upcoming fundraising campaigns. The plan should include forecasts for future administrative and fundraising costs, revenue sources to pay for such costs, and annual targets for the fundraising campaign.

Response from the President and CEO of the University of New Mexico Foundation

Action Items: Foundation Business Plan
Targeted Completion Date: *As required by the UNM President's decision to initiate a new campaign.*
Assigned to: *UNM Foundation President and CEO*
Corrective Action Planned: *We concur. The Foundation will work with the UNM President to prepare a business plan in anticipation of future fundraising campaigns.*

APPROVALS

Manilal Patel, CPA
Director, Internal Audit Department

Approved for Publication

Chair, Audit Committee

UNM Foundation
Reconciliation of Changes in Net Assets - Form 990 to Audited Financial Statements
Fiscal Years Ended June 30, 2006 - 2011

	Pre-Separation			Post Separation		
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
Total revenue on form 990	$43,204,649	$51,312,648	$53,537,179	$43,165,150	$31,147,880	$44,141,717
Expenses and transfers						
Non-endowed gifts and spending distribution to UNM	20,627,196	23,262,131	32,183,259	22,871,171	26,807,949	25,344,455
Other transfers **(3)**	-	-	-	-	-	28,102,461
*General and administrative expenses per form 990	4,303,840	4,978,275	5,757,506	8,801,698	9,699,341	10,174,197
Total expenses and transfers on form 990	24,931,036	28,240,406	37,940,765	31,672,869	36,507,290	63,621,113
Excess or (deficit) for the year on form 990	18,273,613	23,072,242	15,596,414	11,492,281	(5,359,410)	(19,479,396)
Adjustments & reconciling items						
Unrealized gain (loss) on investments - form 990 **(2)**	(5,099,516)	10,097,899	(7,786,375)	(21,788,781)	10,179,706	18,939,438
Actuarial adjustment for annuities payable	(292,210)	(110,900)	(174,656)	(208,015)	372,590	164,798
Unrelated business income book tax adjustment				(109,162)	(44,225)	
Total adjustments	(5,391,726)	9,986,999	(7,961,031)	(22,105,958)	10,508,071	19,104,236
Change in net assets per audited financial statements (1)	**12,881,887**	**33,059,241**	**7,635,383**	**(10,613,677)**	**5,148,661**	**(375,160)**

*Reconciliation of G&A expenses						
Total G&A expenses per financial statements	3,939,371	4,586,956	5,259,189	8,354,242	9,393,340	9,517,512
Rent and fundraising expenses not on form 990	-	(9,118)	(4,993)	(48,697)	(28,278)	(56,559)
Invest exp and pymts to annuitants on form 990	364,469	400,437	503,310	496,153	334,279	713,244
General and administrative expenses per form 990	4,303,840	4,978,275	5,757,506	8,801,698	9,699,341	10,174,197

Note 1: This schedule reconciles the Surplus or (Deficit) on the Form 990 with the Change in Net Assets on the Audited Financial Statements. Unrealized Gain (Loss) on investments are not recognized for tax purposes but are included in the audited financial statements. Actuarial adjustment for annuities payable is included on the audited financial statements but not recognized in income on the Form 990.

Note 2: The Unrealized Gain (Loss) represents only the gain or loss on the UNM Foundation's investment assets and does not include the realized gain or loss on the UNM Endowments managed by the Foundation in the Consolidated Investment Fund.

Note 3: Other Transfers to UNM for 2011 was due to the separation of the Foundation's treasury functions from UNM based on the treasury operating agreement dated July 1, 2010. As a result of the agreement, unexpended funds on deposit with UNM, but previously reflected as assets on the Foundation's financial statements, were recorded as distributions to the University during the year ended June 30, 2011.

Exhibit 1

UNM Foundation
Estimated
Operating Revenues and Expenses Analysis
Fiscal Years Ended June 30, 2006 - 2011

	Pre-Separation			Post Separation		
Estimated revenues by funding source	2006	2007	2008	2009	2010	2011
Short-term interest	$ 466,853	$ 913,197	$ 2,555,885	$ 1,334,619	$ 807,805	$ 852,179
Development funding allocation	2,228,191	2,814,982	3,636,725	3,246,093	5,353,803	5,726,764
Instruction and general	5,566,308	5,281,594	3,064,639	4,183,289	1,486,255	2,349,984
Other	576,352	634,756	702,090	920,321	2,015,477	858,585
Total revenues	8,837,704	9,644,529	9,959,339	9,684,322	9,663,340	9,787,512
Estimated expenses						
Salary and fringe benefits	$ 6,432,284	$ 6,948,475	$ 6,878,245	$ 7,529,751	$ 7,807,015	$ 7,533,371
Other operating expenses	2,405,420	2,696,054	3,081,094	2,154,571	1,856,325	2,254,141
Total operating expenses	$ 8,837,704	$ 9,644,529	$ 9,959,339	$ 9,684,322	$ 9,663,340	$ 9,787,512
Estimated FTE's	95	96	94	95	92	84

Note: FYs 2006 - 2008 include estimated revenues and expenses for all of the University's development activities prior to the separation. Other revenues primarily consist of miscellaneous program income, cost sharing sources, and fund balance reserves.

FY 2009 was the post-separation transition year, and expenses in UNM accounts only include activity for the first quarter of the year, after which development costs are accounted for by the Foundation. Total operating expenses per financial statements for FYs 2010 and 2011 were adjusted for estimated employee benefits (approximately $270,000) of UNM employees working for the Foundation.

Exhibit 2

UNM Foundation
Schedule of Development Funding Allocation
Fiscal Years Ended June 30, 2006 - 2011

Fiscal Year	CIF (in millions)	Actual DFA	Basis Points	DFA per Basis Point	DFA @ 150 Basis Points	Difference
2006	$266.1	$2,228,191	90	$24,757.68	N/A	
2007	$323.1	$2,814,982	98	$28,724.31	N/A	
2008	$330.5	$3,636,725	110	$33,061.14	N/A	
2009	$258.9	$3,246,093	115	$28,226.90	N/A	
2010	$283.2	$5,353,803	185	$28,939.48	$4,340,921	$1,012,882
2011	$336.0	$5,726,764	185	$30,955.48	$4,643,322	$1,083,442

Exhibit 3

UNM Foundation
Pledges Receivable Analysis
Fiscal Years Ended June 30, 2007 - 2011

	Pre-Separation		Post Separation			5-Year Pledge
	2007	2008	2009	2010	2011	Activity
Pledges receivable, beginning of year	$ 4,558,179	$ 4,194,192	$ 5,004,002	$ 7,870,318	$ 7,080,794	$ 4,558,179
New Pledges	-	3,260,000	4,970,000	967,900	1,688,000	10,885,900
Sub-total	$ 4,558,179	$ 7,454,192	$ 9,974,002	$ 8,838,218	$ 8,768,794	$ 15,444,079
Collections	(277,987)	(2,365,140)	(2,103,684)	(1,757,423)	(1,771,500)	(8,275,735)
Write-offs	(86,000)	(85,050)	-	-	(3,420,037)	(3,591,087)
Pledges receivable, end of year	$ 4,194,192	$ 5,004,002	$ 7,870,318	$ 7,080,794	$ 3,577,257	$ 3,577,257
Allowance and discounts	(566,622)	(402,993)	(448,773)	(2,276,809)	(908,427)	(908,427)
Pledges receivable, net of allowance and discounts	$ 3,627,570	$ 4,601,009	$ 7,421,545	$ 4,803,985	$ 2,668,830	$ 2,668,830

Collections to pledge ratio, total	54%
Write-off to pledge ratio, total	23%

Note 1: The above schedule presents a five year pledge receivable roll forward for fiscal years 2007-2011 including beginning of year pledges receivable, new pledges, collections and allowances and discounts. The ending pledges receivable, net of allowances and discount balances are reported in the audited financial statements for each year. The pledges receivable and collection percentages do not include pledges under $5,000 that are not recognized under Generally Accepted Accounting Principles (GAAP). Collections for the 5-year period are are 54% of total pledges, which include outstanding balances and new pledges, while write-offs were 23% of the total pledges.

Note 2: The Foundation recognizes non-endowed pledges as revenue upon receipt of a signed pledge commitment if collection is deemed probable and when all applicable eligibility requirements are met. Endowed pledges are recognized as revenue when the following eligibility requirements are met:

- Pledge must be greater than $5,000
- Pledge is supported by written and signed pledge agreement
- Pledge amount must be specified in the pledge agreement
- A payment schedule must be specified in the pledge agreement
- Pledge must be for a non-endowed fund
- If the pledge is conditional, all of the conditions of the pledge must be met
- If the donor will receive something in return, the present value of the cost of goods/services given to donor must be determinable and deducted from total pledge to determine net present value
- Pledge must be for cash. Pledge services will not be recorded as receivable, but will be recorded as in-kind revenue when services are received.

Exhibit 4

UNM Foundation
Report of Giving Financial Highlights Analysis
Fiscal Years Ended June 30, 2006 - 2011

	Pre-Separation			Post Separation		
	2006	2007	2008	2009	2010	2011
Total donations and contributions	$ 48,600,000	$ 72,500,000	$ 85,500,000	$ 90,100,000	$ 75,100,000	$ 83,000,000
Number of donors	18,000	19,750	20,330	16,700	17,000	17,000
Operating costs	$ 8,800,000	$ 9,600,000	$ 10,000,000	$ 9,700,000	$ 9,700,000	$ 9,800,000
Cost to raise $1	$0.18	$0.13	$0.12	$0.11	$0.13	$0.12
CIF market value	$ 266,100,000	$ 323,100,000	$ 330,500,000	$ 258,900,000	$ 283,200,000	$ 336,000,000
Rate of return	11.90%	19.90%	0.70%	-20.50%	10.40%	19.00%
CIF spending distribution	$ 11,100,000	$ 12,300,000	$ 14,100,000	$ 15,200,000	$ 15,400,000	$ 14,900,000
Distribution rate	4.86%	4.65%	4.65%	4.65%	4.65%	4.65%
Development Funding Allocation	$ 2,200,000	$ 2,800,000	$ 3,600,000	$ 3,200,000	$ 5,400,000	$ 5,700,000
DFA Rate	0.90%	0.98%	1.10%	1.15%	1.85%	1.85%

Note: The **o**perating costs from Exhibit 2 and the DFA from Exhihit 3 are rounded to the nearest $100,000.

Note: The low rates of return in FY's 2008 and 2009 are due to the economic downturn, which had a significant impact on the market during those years.

Note: The cost to raise one dollar is a common benchmark used to evaluate an organization's fundraising effectiveness. It is calculated by dividing operating costs by total donations and contributions.

Exhibit 5

UNM Foundation
Campaign to Financial Statements Reconciliation (CASE to GAAP)
Fiscal Years Ended June 30, 2007 - 2011

	Pre-Separation		Post-Separation			
	2007	2008	2009	2010	2011	Total
DONATIONS & PLEDGES UPLOADED TO GENERAL LEDGER (1)						
Gift - Annuity	$ 123,666	$ 99,483	$ 59,876	$ 69,077	$ 90,371	$ 442,473
Gift - Bequest	6,404,674	5,832,306	6,372,524	4,540,314	16,782,513	39,932,331
Gift - Cash/Cash Equivalents	30,795,827	29,473,905	27,019,607	20,121,501	17,086,905	124,497,746
Gift - In-Kind	-	702,060	550,000	-	-	1,252,060
Pledge - Major	1,983,000	3,093,500	1,576,250	906,400	1,643,000	9,202,150
Totals	$ 39,307,167	$ 39,201,253	$ 35,578,258	$ 25,637,292	$ 35,602,789	$ 175,326,759
DONATIONS & PLEDGES NOT UPLOADED TO GENERAL LEDGER (2)						
Gift - Annuity	$ -	$ -	$ -	$ -	$ -	$ -
Gift - Bequest (3)	(3,546)	-	(242,423)	(1,033,437)	(10,775,383)	(12,054,789)
Gift - Cash (Reported Gifts)	16,004,743	13,130,193	16,034,228	21,921,557	20,570,514	87,661,234
Gift - In-Kind	4,874,462	3,714,309	8,253,410	4,496,109	4,393,701	25,731,992
Pledge - Annual	325,100	299,270	126,450	79,750	26,505	857,075
Pledge - Bequest	-	21,545,860	19,057,489	20,670,765	23,797,500	85,071,614
Pledge - Major	12,123,949	7,664,830	11,238,530	3,348,801	9,518,055	43,894,165
Totals	$ 33,324,709	$ 46,354,462	$ 54,467,684	$ 49,483,544	$ 47,530,892	$ 231,161,291
TOTAL DONATIONS & PLEDGES (CAMPAIGN TOTALS)	$ 72,631,876	$ 85,555,715	$ 90,045,942	$ 75,120,836	$ 83,133,681	$ 406,488,050

(1) Donations and pledges uploaded to the general ledger are accounted for under Generally Accepted Accounting Principles (GAAP).

(2) Total donations and pledges not uploaded to the general ledger are not included in financial statements under GAAP, but are counted in the campaign totals under CASE counting standards.

(3) An adjustment is made when pledge bequests counted under CASE rules are subsequetly realized under GAAP; the result is a negative balance.

Exhibit 6

UNM Foundation
Consolidated Investment Fund
Fiscal Years Ended June 30, 2006 - 2011

	Pre-Seperation			Post Seperation			
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**6 - Year Summary as of 06/30/2011**
BEGINNING MARKET VALUE:	$ 234,796,410	$ 266,102,429	$ 323,071,904	$ 330,514,043	$ 258,857,967	$ 283,246,167	$ 234,796,410
Adjustments to beginning balance							
ADJUSTED BEGINNING MARKET VALUE:	234,796,410	266,102,429	323,071,904	330,514,043	258,857,967	283,246,167	234,796,410
INVESTMENT INCOME/EXPENSES:							
DIVIDENDS/INTEREST	6,702,284	6,645,903	7,188,357	5,377,155	4,520,647	4,888,958	35,323,304
INVESTMENT MANAGEMENT EXPENSES (2)	(941,556)	(1,135,738)	(1,197,233)	(932,160)	(928,062)	(959,926)	(6,094,675)
NET CURRENT YIELD	5,760,728	5,510,165	5,991,124	4,444,995	3,592,585	3,929,032	29,228,629
Current Yield %	2.45%	2.07%	1.85%	1.34%	1.39%	1.39%	
REALIZED GAIN/(LOSS)	39,832,741	17,532,888	14,806,754	(12,733,705)	(2,260,188)	5,928,825	63,107,315
UNREALIZED GAIN/(LOSS)	(17,031,981)	29,181,866	(18,507,109)	(58,287,041)	25,957,463	43,877,467	5,190,665
NET INVESTMENT INCOME	28,561,488	52,224,919	2,290,769	(66,575,751)	27,289,860	53,735,324	97,526,609
Net Investment Return %	12.16%	19.63%	0.71%	-20.14%	10.54%	18.97%	
DISTRIBUTION TO UNM	11,194,108	12,328,534	14,085,493	15,294,369	15,409,388	14,755,529	83,067,422
Spending Distribution %	4.86%	4.65%	4.65%	4.65%	4.65%	4.65%	
DEVELOPMENT FUNDING ALLOCATION	2,228,191	2,814,982	3,636,725	3,246,093	5,353,803	5,726,764	23,006,558
Development Funding Basis Points	0.90%	0.98%	1.10%	1.15%	1.85%	1.85%	
NET CHANGE	15,139,189	37,081,404	(15,431,449)	(85,116,214)	6,526,669	33,253,031	(8,547,370)
UNADJUSTED MARKET VALUE	249,935,599	303,183,833	307,640,455	245,397,829	265,384,636	316,499,198	226,249,040
WITHDRAWALS FROM PRINCIPAL	(4,062,710)	(240,265)	(555,313)	(1,100,669)	(175,890)	(317,463)	(6,452,310)
ADDITIONS TO PRINCIPAL	20,229,540	20,128,337	23,428,901	14,560,807	18,037,421	19,795,380	116,180,385
NET ADDITIONS TO PRINCIPAL	16,166,830	19,888,071	22,873,588	13,460,138	17,861,531	19,477,917	109,728,075
ENDING MARKET VALUE	$ 266,102,429	$ 323,071,904	$ 330,514,043	$ 258,857,967	$ 283,246,167	$ 335,977,115	$ 335,977,115

	Pre-Seperation						Post Seperation					
CIF Asset Allocation (1)	**2006**		**2007**		**2008**		**2009**		**2010**		**2011**	
Marketable alternatives	$ 37,254,000	14%	$ 61,389,000	19%	$ 66,100,000	20%	$ 56,958,000	22%	$ 62,020,800	22%	$ 55,440,000	17%
Fixed income and cash	47,898,000	18%	58,158,000	18%	62,795,000	19%	59,547,000	23%	65,985,600	23%	72,576,000	22%
International equity	74,508,000	28%	87,237,000	27%	69,405,000	21%	54,369,000	21%	50,976,000	18%	71,232,000	21%
U.S. equity	71,847,000	27%	77,544,000	24%	69,405,000	21%	49,191,000	19%	51,259,200	18%	67,200,000	20%
Real assets (3)	31,932,000	12%	32,310,000	10%	42,965,000	13%	20,712,000	8%	25,488,000	9%	34,944,000	10%
Private equity (3)	2,661,000	1%	6,462,000	2%	19,830,000	6%	18,123,000	7%	27,470,400	10%	34,608,000	10%
ENDING MARKET VALUE	$ 266,100,000	100%	$ 323,100,000	100%	$ 330,500,000	100%	$ 258,900,000	100%	$ 283,200,000	100%	$ 336,000,000	100%

(1) The CIF allocation represents approximate values based on the CIF asset allocation, rounded to the nearest whole percent, in the Foundation's Annual Report of Giving.

(2) The investment management expenses are direct investment fees paid by the Foundation. Indirect investment management fees are netted with investment revenue.

(3) Prior to fiscal year 2010, the Foundation committed to investments in real assets and private equity securities for $38,000,000 and $61,000,000, respectively. As of June 30, 2011, the remaining commitment on these investments were $14,467,847 and $26,362,424.

Exhibit 7

UNM Foundation
Primary UNM Endowments
Fiscal Years Ended June 30, 2006 - 2011

	Pre-Separation			Post Separation		
Regents Endowment	2006	2007	2008	2009	2010	2011
Market value, end of year	$32,325,235	$36,674,360	$35,018,525	$25,165,952	$25,889,070	$ 28,836,764
$ change		4,349,125	(1,655,835)	(9,852,573)	723,118	2,947,694
% change		13.45%	-4.51%	-28.14%	2.87%	11.39%
Investment earnings	$ 2,789,695	$ 6,123,941	$ 284,643	$ (7,060,716)	$ 2,659,659	$ 4,759,412
Yield	9.48%	17.75%	0.79%	-23.46%	10.42%	17.39%
Spending distribution	$ (1,170,486)	$ (1,445,081)	$ (1,542,062)	$ (1,576,006)	$ (1,431,065)	$ (1,304,603)

	Pre-Separation			Post Separation		
Winrock Endowment	2006	2007	2008	2009	2010	2011
Market value, end of year	$29,879,837	$33,899,952	$32,369,380	$24,076,065	$24,767,866	$ 27,587,901
$ change		4,020,115	(1,530,572)	(8,293,315)	691,801	2,820,035
% change		13.45%	-4.51%	-25.62%	2.87%	11.39%
Investment earnings	$ 3,359,665	$ 5,660,666	$ 263,110	$ (6,526,574)	$ 2,544,475	$ 4,553,291
Yield	11.59%	17.75%	0.79%	-23.13%	10.42%	17.39%
Spending distribution	$ (1,311,277)	$ (1,335,761)	$ (1,425,406)	$ (1,456,782)	$ (1,369,089)	$ (1,248,103)

	Pre-Separation			Post Separation		
[redacted] **Endowment**	2006	2007	2008	2009	2010	2011
Market value, end of year	$34,085,743	$40,007,783	$39,456,138	$30,698,789	$32,422,374	$ 37,282,002
$ change		5,922,040	(551,645)	(8,757,349)	1,723,585	4,859,628
% change		17.37%	-1.38%	-22.20%	5.61%	14.99%
Investment earnings	$ 3,784,368	$ 6,566,424	$ 283,085	$ (7,962,327)	$ 3,238,163	$ 6,040,036
Yield	11.65%	17.72%	0.71%	-22.70%	10.26%	17.33%
Spending distribution	$ (1,482,578)	$ (1,550,463)	$ (1,714,852)	$ (1,806,341)	$ (1,768,603)	$ (1,661,606)

	% of CIF	$ Amount
Regents, Winro[redacted]Endowments	28%	$93,706,667
Other UNM Endowments	29%	$98,877,725
Total UNM Endowments	57%	$192,584,392
UNM Foundation Endowments	43%	$143,392,723
Total Endowments (CIF) as of June 30, 2011	100%	$335,977,115

Note: The above endowments are the three largest of the UNM owned endowed funds in the Consolidated Investment Fund. These three funds make up 28% of the Consolidated Investment Fund.

Note: The for FY 2006, the Regent's Endowment includes the Mesa Del Sol property sale, which added $8,045,923 from the sales proceeds to the Endowment, and a $2,000,000 withdrawl for the Anderson School of Management student investment program. The 2006 yield on the Regents Endowment is affected by the unusual additions and withdrawls from the fund.

UNM Foundation
Schedule of Estimated Investment and Operating Expenses
Fiscal Years Ended June 30, 2009 - 2011

	2009(4)	2010	2011
Investment expenses:			
Fund manager direct fees	$ 418,187	$ 332,198	$ 303,683
Custodial fees	231,121	255,624	272,766
Consulting fees	282,852	340,240	383,477
Total direct fees paid by Foundation **(2)**	$ 932,160	$ 928,062	$ 959,926
Total indirect fees to fund managers **(3)**	3,709,627	3,944,135	2,147,531
Total investment expenses (1)	$ 4,641,787	$ 4,872,197	$ 3,107,457
Operating expenses:			
Salary and fringe benefits	$ 7,529,751	$ 7,807,015	$ 7,533,371
Other operating expenses	2,154,571	1,856,325	2,254,141
Total operating expenses	9,684,322	9,663,340	9,787,512
Total estimated operating and investment expenses	$ 14,326,109	$ 14,535,537	$ 12,894,969
Total weighted average fee for CIF	1.46%	1.51%	0.72%
Investment consulting fees	0.10%	0.12%	0.12%
Portfolio weighted total of management fees	1.56%	1.63%	0.84%

(1) Investment expenses are not paid from the Foundation's operating budget and are presented in the audited financial statements as non-operating expenses. Investment fees are expenses of the the Consolidated Investment Fund and are reported as a reduction of investment income. The above supplemental schedule is presented for additional analysis only.

(2) Direct fees are investment manager fees that are paid directly out of the CIF, and represent fees paid to the Investment Consultant, the Consolidated Investment Fund custodian, and certain individual fund managers.

(3) Indirect fees are investment management fees to individual fund managers that are paid out of the Consolidated Investment Fund as a reduction of Investment Income and result in a reduction of net asset value of the fund. Note: this is a common fee arrangement for investment management industry.

(4) Fee information on indirect fund manager fees was available only for FY 2010 & 2011. Fee information for 2009 is as of September 2009.In addition, the Investment Consultant provided a fee schedle for calendar year ended December 31, 2008 with total fees of $4,063,559; however, there is no break out for direct and indirect fees for this period , and no fee analysis was prepared for any prior periods.

UNM Foundation
Estimated Costs by Schools and Colleges
Fiscal Years Ended June 30, 2006 - 2009

	Pre-Separation			Post-Separation
	2006	2007	2008	2009 (1)
Expenses reported in 990	4,303,840	4,978,275	5,757,506	8,801,698
Expenses included in UNM accounts				
Institutional Advancement **(2)**	896,808	946,669	995,504	270,000
Library Development	156,767	41,130	33,128	1,600
School of Medicine Development	408,768	451,982	604,312	106,500
Cancer Treatment Research Center Development	591,697	940,659	905,494	117,218
Health Sciences Center Development	589,346	491,998	411,957	96,843
School of Engineering Development	218,177	339,768	443,511	117,963
College of Education Development	54,978	275,539	219,308	22,308
Nursing Development	92,240	64,431	65,148	9,272
College of Fine Arts Development	100,507	104,144	122,361	26,826
College of Arts and Sciences Development	115,338	144,443	111,514	20,312
Athletics Development	89,599	113,400	44,329	7,640
Anderson School of Management Development	279,221	335,001	245,267	61,317
Other UNM Departments	940,418	417,090	-	24,825
Total expenses included in UNM accounts	4,533,864	4,666,254	4,201,833	882,624
Total operating expenses	8,837,704	9,644,529	9,959,339	9,684,322

(1) FY 2009 was the post-separation transition year, and expenses in UNM accounts only include activity for the first quarter of the year, after which development costs are accounted for by the Foundation.

(2) These expenses include employee benefits which were not reported in the Foundation's audited financial statements. The UNM employee benefits were reported as part of the employee benefit pool within UNM's audited financial statements.

Exhibit 10