



THE UNIVERSITY of
NEW MEXICO

Internal Audit Department
MSC05 3170
1 University of New Mexico
Albuquerque, NM 87131-0001
Located at: 1801 Roma NE
Phone:(505) 277-5016 Fax:(505) 277-2244

To: Tom Clifford, Chair, Audit and Compliance Committee
Chaouki Abdallah, Interim President, University of New Mexico

From: Manu Patel, Director of Internal Audit *Manu*

Date: August 21, 2017

Re: Review of University of New Mexico Tax Reporting Responsibilities for FY 2016

Internal Audit collected information on the tax reporting responsibilities for the University of New Mexico and affiliated organizations. These organizations were approved by the UNM Board of Regents pursuant to Regent's Policy 7.17, University-Affiliated 501(c) Organizations. The collected information includes the type of exempt organization, Form 990 filing requirements, and whether the entity was formed under the University Research Park Act. Form 990 is an annual information return that is required to be filed with the IRS by most organizations exempt from income tax under section 501(a).

Internal Audit received tax reporting information from the University of New Mexico and the affiliated organizations as follows:

- UNM Lobo Club
- Lobo Development Corporation
- Lobo Energy, Inc.
- UNM Alumni Association
- Robert O. Anderson Foundation
- UNM Foundation, Inc.
- STC.UNM
- UNM Sandoval Regional Medical Center
- UNM Medical Group, Inc.
- UNM Harwood Museum Alliance, Inc.
- Innovative ABQ, Inc.
- Carrie Tingley Hospital Foundation
- NMC, Inc.

The summary of the tax survey responses for fiscal year ended June 30, 2016 are presented below:

<u>Organization</u>	<u>Return Prepared By</u>	<u>Organization</u>	<u>Unrelated Income Tax</u>	<u>Form 990-T</u>	<u>Research Park Act</u>
University of New Mexico	KPMG	Governmental	511(a)(2)(B)	Yes	N/A
<u>Affiliated Organization</u>	<u>Return Prepared By</u>	<u>Organization</u>	<u>Unrelated Income Tax</u>	<u>File Form 990</u>	<u>Research Park Act</u>
UNM Lobo Club	Pulakos CPAs	501(c)(3) 509(a)(1)	No	Yes	No
Lobo Development Corp.	Moss Adams	501(c)(3) 509(a)(3)	No	Yes	Yes
Lobo Energy Inc.	Moss Adams	501(c)(3) 509(a)(3)	No	Yes	Yes
UNM Alumni Association	KPMG	501(c)(3) 509(a)(3)	Yes 990-T filed	Yes	No
Robert O. Anderson Foundation	Moss Adams	501(c)(3) 509(a)(3)	No	Yes	No
UNM Foundation, Inc.	BDO USA	501(c)(3) 509(a)(1)	Yes 990-T filed	Yes	No
STC.UNM	STC.UNM	501(c)(3) 509(a)(3)	No	Yes	Yes
UNM Sandoval Regional Medical Center	¹	501(c)(3) 509(a)(2)	No	No ¹	Yes
UNM Medical Group	²	501(c)(3) 509(a)(2)	No	No ²	Yes
UNM Harwood Museum Alliance, Inc.	UNM Harwood Museum	501(c)(3)	No	Yes ³	No
Innovate ABQ, Inc.	Moss Adams	501(c)(3)	No	Yes	No
Carrie Tingley Hospital Foundation	Loftis Group, LLC	501(c)(3)	No	Yes	No
NMC, Inc.	NMC, Inc.	501(c)(3)	No	Yes	No

Note 1: UNM Sandoval Regional Medical Center (UNM SRMC) and their independent tax firm, Moss Adams, filed Form 8940 on November 4, 2014 requesting UNM SRMC be reclassified from an organization described in IRC section 509(a)(3) to a publicly supported organization described in IRC section 509(a)(2), and confirmation that UNM SMRC did not have to file Form 990. Internal Audit received the IRS final determination ruling regarding the UNM SMRC's reclassification and exclusion from filing Form 990. The IRS approved the UNM SMRC's reclassification to a public charity status as described in section 509(a)(2) and UNM SMRC is not required to file Form 990.

Note 2: UNM Medical Group and their independent tax firm, KPMG, filed Form 8940 on June 5, 2013 requesting UNM Medical Group be reclassified from an organization described in IRC section 509(a)(3) to a publicly supported organization described in IRC section 509(a)(2) and confirmation that UNM Medical Group did not have to file Form 990. Internal Audit received the IRS final determination ruling regarding the UNM Medical Group's reclassification and exclusion from filing Form 990 on August 14, 2013. The IRS approved the UNM Medical Group's reclassification to a public charity status as described in section 509(a)(2) and UNM Medical Group is not required to file Form 990.

Note 3: The UNM Harwood Museum Alliance, Inc. prepared and filed FY16 Form 990-EZ. The end of year net assets for FY 2016 was \$14,942.

UNM income generated in the exercise of its essential government functions is excluded from income tax under Internal Revenue Code (IRC) section 115. However, IRC section 511(a)(2)(B) imposes income tax on the unrelated income activities of state colleges and universities. Accordingly, the University of New Mexico files Form 990-T to report the income and pay the tax associated with its unrelated business activities. This may include bookstore sales, Student Union food sales, telecommunication services, catering and facility rental services.

Eight UNM affiliated organizations have their Form 990 and Form 990-T (if applicable) prepared and submitted to the IRS by independent CPA firms. The remaining three affiliated organizations (STC.UNM, NMC, Inc. and UNM Harwood Alliance, Inc.) prepared and submitted their Form 990 to the IRS.

509(a) Classifications

Section 509(a)(1) primarily includes churches, schools, hospitals, and other organizations that receive their public support primarily from gifts, grants and contributions from a broad group of people.

Section 509(a)(2) classification is for organizations that receive few grants, but normally receive their fees from services. The organization must normally receive more than one-third of its support from permitted sources such as gross receipts, grants, contributions, or fees, and not more than one-third from gross investment and unrelated business taxable income.

Section 509(a)(3) classification is used for university endowment funds or organizations that provide essential services for hospital systems. A supporting organization must also be organized and operated exclusively to support specified supported organizations. It must have a relationship with the supported organization to ensure it is responsive to the needs or demands of the supported organization and involved in operations. To qualify as a public charity under 509(a)(3), an organization must be classified as a Type I - supporting organization that is under direct control of the supported organization, Type II - a supporting organization that is under common control with the supported organization, or Type III - supporting organization that is not necessarily related to the supported organization(s).

Research Park and Economic Development Act

The University Research Park and Economic Development Act was enacted by the State of New Mexico to promote public welfare, prosperity, and economic development within New Mexico. The University of New Mexico uses the Research Park and Economic Development Act to further forge links between business and industrial communities and government through the development of research parks on University real property.

Form 990 and 990-T Summaries

Below is the summary of revenues, expenses, assets, liabilities, and net assets for UNM affiliated organizations filing Form 990 for fiscal year ended June 30, 2016:

FY 2016 Form 990 Summary (\$ in millions)						
	Change in Net Assets			Net Assets, End of Year		
	Total Revenue	Total Expenses	Change in Net Assets	Total Assets	Total Liabilities	Net Assets
UNM Foundation	\$ 42.96	\$ 41.51	\$ 1.45	\$ 206.46	\$ 12.48	\$ 193.98
Alumni Association	\$ 0.78	\$ 1.06	\$ (0.28)	\$ 8.95	\$ 0.10	\$ 8.85
STC.UNM	\$ 5.02	\$ 4.65	\$ 0.37	\$ 2.79	\$ 1.94	\$ 0.84
Lobo Energy	\$ 2.18	\$ 2.15	\$ 0.03	\$ 10.41	\$ 6.44	\$ 3.98
Robert O. Anderson	\$ 3.27	\$ 3.10	\$ 0.17	\$ 4.38	\$ 1.86	\$ 2.52
Lobo Development	\$ 2.90	\$ 2.02	\$ 0.88	\$ 17.72	\$ 15.09	\$ 2.63
Lobo Club	\$ 3.35	\$ 3.31	\$ 0.03	\$ 3.78	\$ 3.75	\$ 0.04
Carrie Tingley Hospital Foundation	\$ 0.90	\$ 1.17	\$ (0.27)	\$ 3.92	\$ 0.03	\$ 3.89
Harwood Museum Alliance	\$ 0.07	\$ 0.09	\$ (0.02)	\$ 0.02	\$ 0.01	\$ 0.01
Innovate ABQ, Inc	\$ 7.24	\$ 0.27	\$ 6.97	\$ 6.97	\$ 0.00	\$ 6.97
NMC, Inc.	\$ 9.25	\$ 9.66	\$ (0.41)	\$ 10.78	\$ 7.47	\$ 3.32

Note: Carrie Tingley Hospital Foundation operates on a calendar year basis. The numbers in the above table shows amounts for the calendar year 2016

Below is the summary for total unrelated business income, unrelated business taxable income, and total tax computation for UNM, the Alumni Association, and UNM Foundation for June 30, 2016:

Summary for Unrelated Business Income (\$ in Millions)			
	UNM	Alumni Association	UNM Foundation
Total Unrelated Business Income/(Loss)	\$ 1.53	\$ 0.01	\$ (0.59)
Unrelated Business Taxable Income/(Loss)	\$ 0.40	\$ 0.01	\$ (0.66)
Total Tax Computation	\$ 0.01	\$ 0.00	\$ -

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Conclusion

Based on the IRS 990 returns received by Internal Audit department, all of the affiliated organizations file Form 990 and are current in their filing requirements; UNM Sandoval Regional Medical Group and UNM Medical Group received an IRS final determination ruling that excluded them from filing Form 990.

cc: Alex O. Romero, Vice Chair, Audit and Compliance Committee
Brad Hosmer, Regent, Audit and Compliance Committee