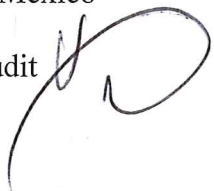




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**To:** Doug Brown, Chair, UNM Board of Regents' Audit and Compliance Committee  
Garnett Stokes, President, University of New Mexico

**From:** Victor Griego, Interim Director of Internal Audit 

**Date:** July 18, 2019

**Re:** Review of University of New Mexico Tax Reporting Responsibilities for FY 2018

UNM 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 [See Note 1](#)
- UNM Medical Group, Inc. [See Note 2](#)
- UNM Harwood Museum Alliance, Inc.
- Innovate ABQ, Inc.
- Carrie Tingley Hospital Foundation [See Note 3](#)
- New Mexico Consortium, Inc. (NMC, Inc.)

The summary of the tax survey responses for fiscal year ended June 30, 2018 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 1	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>	<u>Good Standing ?</u>
UNM Lobo Club	FP&M, LLC	501(c)(3) 509(a)(1)	No	Yes	No	Yes
Lobo Development Corp.	Moss Adams	501(c)(3) 509(a)(3)	No	Yes	Yes	Yes
Lobo Energy Inc.	Moss Adams	501(c)(3) 509(a)(3)	No	Yes	Yes	Yes
UNM Alumni Association	REDW, LLC	501(c)(3) 509(a)(3)	Yes 990-T filed	Yes	No	Yes
Robert O. Anderson Foundation	Moss Adams	501(c)(3) 509(a)(3)	No	Yes	No	Yes
UNM Foundation, Inc.	Moss Adams	501(c)(3) 509(a)(1)	Yes 990-T filed	Yes	No	Yes
STC.UNM	STC.UNM	501(c)(3) 509(a)(3)	Yes 990-T filed	Yes	Yes	Yes
UNM Sandoval Regional Medical Center	1	501(c)(3) 509(a)(2)	No	No <sup>1</sup>	Yes	Yes
UNM Medical Group	2	501(c)(3) 509(a)(2)	No	No <sup>2</sup>	Yes	Yes
UNM Harwood Museum Alliance, Inc.	Swinehart CPAs	501(c)(3)	No	Yes	No	Yes
Innovate ABQ, Inc.	Moss Adams	501(c)(3)	No	Yes	No	Yes
Carrie Tingley Hospital Foundation	3	501(c)(3)	No	Yes	No	Yes
New Mexico Consortium, Inc. (NMC, Inc.)	NMC, Inc.	501(c)(3)	No	Yes	No	Yes

**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:** As of the date of this memorandum, Internal Audit had yet to receive the most current Form 990 information from the Carrie Tingley Hospital Foundation (CTHF). In our communications with CTHF leadership, CTHF indicated that they had requested an extension to file beyond their filing deadline. This information will be presented separately when it is received from CTHF.

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.

Nine (9) UNM affiliated organizations have their Form 990 and Form 990-T (if applicable) prepared and submitted to the IRS by independent CPA firms. Two affiliated organizations (STC.UNM and NMC, Inc.) prepared and submitted their own 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, 2018:

FY 2018 Form 990 Summary						
	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	\$ 52,168,711	\$ 43,504,087	\$ 8,664,624	\$ 264,789,100	\$ 35,229,732	\$ 229,559,368
Alumni Association	\$ 1,190,025	\$ 1,068,058	\$ 121,967	\$ 8,916,945	\$ 63,273	\$ 8,853,672
STC.UNM	\$ 4,539,776	\$ 4,440,054	\$ 99,722	\$ 2,954,486	\$ 1,824,675	\$ 1,129,811
Lobo Energy	\$ 2,175,950	\$ 1,808,493	\$ 367,457	\$ 9,409,352	\$ 4,472,724	\$ 4,936,628
Robert O. Anderson	\$ 3,509,171	\$ 3,162,645	\$ 346,526	\$ 5,135,071	\$ 1,558,579	\$ 3,576,492
Lobo Development	\$ 3,595,284	\$ 1,852,468	\$ 1,742,816	\$ 21,379,782	\$ 15,081,134	\$ 6,298,648
Lobo Club	\$ 5,773,385	\$ 4,846,539	\$ 926,846	\$ 4,225,051	\$ 3,223,098	\$ 1,001,953
Carrie Tingley Hospital Foundation			\$ -			\$ -
Harwood Museum Alliance	\$ 127,281	\$ 98,377	\$ 28,904	\$ 127,000		\$ 127,000
Innovate ABQ, Inc	\$ 839,079	\$ 848,704	\$ (9,625)	\$ 8,182,900	\$ 117,320	\$ 8,065,580
NMC, Inc.	\$ 14,877,519	\$ 14,041,754	\$ 835,765	\$ 11,521,781	\$ 7,629,023	\$ 3,892,758

In addition to the University, three affiliated organizations reported Unrelated Business Income for the reporting period: UNM Alumni Association, UNM Foundation, and STC.UNM. Below is the summary for total unrelated business income, unrelated business taxable income, and total tax computation for UNM, the Alumni Association, UNM Foundation, and STC.UNM for the fiscal year ending June 30, 2018:

Summary for Unrelated Business Income					
	UNM	Alumni Association	UNM Foundation	STC.UNM	
Total Unrelated Business Income/(Loss)	\$ 712,945	\$ 12,325	\$ 449,224	\$ 16,406	
Unrelated Business Taxable Income/(Loss)	\$ 711,945	\$ 11,325	\$ -	\$ 15,406	
Total Tax Computation	\$ 196,165	\$ 2,035	\$ -	\$ 2,311	

The University was affected by changes to federal tax laws that were enacted during calendar year 2018. As a result, the University, Alumni Association, and STC.UNM all had net overpayments of taxes at the end of their respective reporting periods. Below is a summary of tax payments and tax credits deferred to future years:

<b>Summary for Tax Payments, Credits, and Refunds</b>				
	<b>Alumni</b>			
	<b>UNM</b>	<b>Association</b>	<b>STC.UNM</b>	
<b>Total Tax Computation</b>	\$ 196,165	\$ 2,035	\$ 2,311	
<b>Total Tax Payments and Credits</b>	\$ 638,704	\$ 2,200	\$ 2,461	
<b>Gross Tax Overpayment</b>	\$ 442,539	\$ 165	\$ 150	
<b>Credited to 2018 Estimated Tax</b>	\$ 50,000	\$ -	\$ -	
<b>Net Tax Overpayment (Refund)</b>	\$ 392,539	\$ 165	\$ 150	

**Conclusion**

Based on the IRS 990 returns received by UNM’s 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. Furthermore, our review of the New Mexico Secretary of State’s Corporations Division indicate that all UNM-affiliated domestic, non-profit corporations are in good standing.

cc: Marron Lee, Vice Chair, UNM Board of Regents’ Audit and Compliance Committee  
 Robert M. Doughty III, UNM Board of Regents’ Audit and Compliance Committee