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THE NEW MEXICO TECH RESEARCH FOUNDATION (A COMPONENT UNIT OF THE NEW MEXICO INSTITUTE OF MINING AND TECHNOLOGY)

FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

C O N T E N T S

The New Mexico Tech Research Foundation
(A Component Unit of The New Mexico Institute of Mining and Technology)

OFFICIAL ROSTER

June 30, 2017

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CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
The New Mexico Tech Research Foundation
and
Mr. Timothy Keller
New Mexico State Auditor

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of The New Mexico Tech Research Foundation (the Foundation), a Component Unit of The New Mexico Institute of Mining and Technology (the Institute), which comprise the statement of net position as of June 30, 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Foundation, as of June 30, 2017, and the respective changes in financial position and cash flows, thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

For the year ended June 30, 2017, Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 31, 2017, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting.

ATKINSON & CO., LTD

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 31, 2017

The New Mexico Tech Research Foundation
(A Component Unit of The New Mexico Institute of Mining and Technology)

STATEMENT OF NET POSITION

June 30, 2017

ASSETS	
Current assets:	
Cash and cash equivalents	$ 138,455
Notes receivable, current portion	205,667
Investments, restricted expendable	1,060,731
Investments, unrestricted	18,228,399
Total current assets	19,633,252
Noncurrent assets:	
Investments, restricted non-expendable	3,303,789
Capital assets, net of accumulated depreciation of $855,393	1,568,397
Notes receivable, less current portion	447,484
Intangible assets, net of accumulated amortization of $53,418	308,212
Total noncurrent assets	5,627,882
Total assets	$ 25,261,134
LIABILITIES AND NET POSITION	
Current liabilities:	
Accounts payable	$ 64,876
Cash overdraft	17,698
Due to New Mexico Tech	17,137
Total current liabilities	99,711
Long-term liabilities:	
Other liabilities	22,674
Total long-term liabilities	22,674
Total liabilities	122,385
NET POSITION	
Net investment in capital and intangible assets	1,876,609
Restricted, non-expendable	3,303,789
Restricted, expendable	1,060,731
Unrestricted	18,897,620
Total net position	25,138,749
Total liabilities and net position	$ 25,261,134

The accompanying notes are an integral part of this financial statement.

The New Mexico Tech Research Foundation
(A Component Unit of The New Mexico Institute of Mining and Technology)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2017

OPERATING REVENUES:	
Lease income	$ 90,150
Total operating revenues	90,150
OPERATING EXPENSES:	
Awards and scholarships	1,047,303
Support of New Mexico Institute of Mining and Technology	822,863
General and administrative expenses	263,704
Depreciation	59,932
Patent amortization	24,426
Total operating expenses	2,218,228
Operating loss	(2,128,078)
NON-OPERATING ACTIVITIES:	
Net unrealized gain on securities	2,060,592
Investment income	397,351
Contributions from donors	337,379
Interest income	31,387
Net non-operating activities	2,826,709
CHANGE IN NET POSITION	698,631
Net position, beginning of year	24,440,118
Net position, end of year	$ 25,138,749

The accompanying notes are an integral part of these financial statements.

The New Mexico Tech Research Foundation
(A Component Unit of The New Mexico Institute of Mining and Technology)

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Lease income	$ 90,150
Other expense	(313,235)
Payments to New Mexico Tech - Other support	(822,863)
Payments to New Mexico Tech - awards and scholarships	(1,047,303)
Net cash flows used in operating activities	(2,093,251)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of investments	5,706,578
Investment and interest income	428,738
Contributions received from donors	337,379
Proceeds from notes receivable	204,290
Other	492
Cash paid for patents	(155,650)
Reinvested investment income	(367,698)
Purchases of investments	(4,257,513)
Net cash flows provided by investing activities	1,896,616
NET DECREASE IN CASH AND CASH EQUIVALENTS	(196,635)
Cash and cash equivalents, beginning of year	335,090
Cash and cash equivalents, end of year	$ 138,455

The accompanying notes are an integral part of this financial statement.

The New Mexico Tech Research Foundation
(A Component Unit of The New Mexico Institute of Mining and Technology)

STATEMENT OF CASH FLOWS – CONTINUED

Year Ended June 30, 2017

Reconciliation of operating income to net cash used by operating activities:	
Operating loss	$ (2,128,078)
Adjustments to reconcile operating loss and net cash used in operating activities	
Depreciation and amortization	84,358
Changes in assets and liabilities	
Increase in overdraft	17,698
Decrease in accounts payable	(61,206)
Decrease in other liabilities	(5,668)
Decrease in due to New Mexico Tech	(355)
Net cash used in operating activities	$ (2,093,251)

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During 2017, investments were written up to fair market value in the amount of $2,060,592.

During 2017, the Foundation transferred the investment account balance of $2,165,028 in the New York Life Investments to the past President of the Institute as these amounts were being held for his benefit until retirement.

The accompanying notes are an integral part of this financial statement.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The New Mexico Tech Research Foundation (the Foundation), a Component Unit of The New Mexico Institute of Mining and Technology (the Institute), is a New Mexico not-for-profit foundation located in Socorro, New Mexico. The Foundation is organized to assist the Institute by making funds available to pursue inventions, copyrights and other intellectual properties, institutional support and scholarships. The Foundation has no component units.

2. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for governmental entities. The significant accounting policies are reported in Note A and includes adoption of significant accounting standards as described below.

The Foundation implemented Government Accounting Standards Board (GASB) Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which codifies preexisting authoritative guidance from all sources into GASB standards and edits such standards for the government environment as appropriate. It further eliminates the election for proprietary fund and business type reporting entities to apply certain Financial Accounting Standards guidance after November 30, 1989.

The Foundation recently implemented Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurements and Application*, which establishes fair value standards for certain investments held by governmental entities and which requires certain assets and liabilities to be measured at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

3. Revenue and Cost Recognition

The Foundation's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred.

Operating revenues and contributions are those received by the Foundation for events and activities that relate directly to the Foundation and operating expenses are those incurred for events and activities that relate to administration, scholarships and awards for students. Revenues, expenses, gains and losses from investments are considered non-operating.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

4. Net Position

Unrestricted net position represents resources whose use is not limited or restricted by donors. Unrestricted net position has arisen from exchange transactions, receipt of unrestricted contributions, and expirations of existing restrictions. Restricted expendable contributions are recorded as unrestricted to the extent the restrictions expire in the same reporting period.

Restricted expendable net position represents resources whose use is limited by donors for the support of the academic activities of the Institute faculty and/or students. Such restrictions are legally enforceable or contractually obligated to spend in accordance with imposed restrictions by third parties. Restricted expendable net position is released from restriction as the purpose restrictions are met.

Restricted nonexpendable assets represent those that cannot be expended based on donor restriction. Nonexpendable restricted net position consists of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. When both restricted and unrestricted funds are available, restricted funds are expended first.

Net investment in capital assets and intangible assets is intended to reflect the portion of net position which is associated with non-liquid, capital assets. There is no related debt.

Deferred outflows of resources consumed and deferred inflows of resources received and available are elements of the Statement of Net Position for reporting the residual balances. There were no deferred outflows or inflows of resources to separately report at June 30, 2017.

5. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Foundation considers cash on hand, cash held in banks and highly liquid instruments with original maturities of three months or less to be cash and cash equivalents.

6. Notes Receivable

Notes receivable are stated at net realizable value. Management reviews the collectability of its notes receivable and, if necessary, records an allowance for its estimate of uncollectible accounts. Bad debt history and current facts and circumstances are the primary basis for this estimate. When an account is deemed uncollectible, it is charged off against the allowance. There is no allowance for doubtful accounts deemed necessary at June 30, 2017.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Investments

The Board of Trustees has the sole authority and responsibility to make changes to the Foundation's investment policies. There were no significant changes to investment policy during the year. In conformity with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Chapter 46, Article 9A 1-10 NMSA 1978), the Foundation primarily invests through The New Mexico State Investment Council's (SIC) investment funds or in various mutual funds held and managed by a national brokerage firm.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet in accordance with GASB 72. Mutual funds are based on the Foundation's pro-rata share of unit value of the mutual funds. Investment transactions are recorded on the trade date basis. Dividends are recognized as income when declared. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) are reported as increases or decreases in net position on the statement of revenues, expenses and changes in net position.

The Foundation has no limitations on the types of investments or deposits it can make within the scope of its investment policy. The following are the target allocations for the investments:

Asset Class	Long-Term Target	Allowable Range
Fixed Income	30%	25-50%
Equity	70%	50-75%

Due to the nature of investments, it is reasonable that changes in the value of investments will occur in the near future and changes could materially affect the amounts reported. The determination of fair values includes, among other things, published market prices, prices obtained from pricing services, and prices quoted by independent brokers at current exchange rates.

The Foundation has an agreement with the Institute for investment of the majority of the Foundation's funds. The majority of investments of the Foundation are held by the New Mexico State Investment Council (SIC). The Foundation's funds are combined with those of several other funds of SIC. Income is allocated based on the proportionate market value of the investment of each participating fund.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Investments – Continued

Information relating to SIC's use of derivatives is not made available to the Foundation. For GASB 40 disclosure information related to the investments held at SIC, the reader should refer to the separate audit report and required supplementary information of SIC for the fiscal year ended June 30, 2017. That report may be obtained by writing to State Investment Council, 41 Plaza la Prensa, Santa Fe, New Mexico 87507. The report is also available on the SIC website at www.sic.state.nm.us.

Net appreciation/depreciation on donor restricted endowments and related investment income are recorded as an increase in restricted, expendable net position until the amount is expended in accordance with donor specifications.

8. Private Equity Investments

The private equity investment represents ownership in a closely held business, which is not publicly traded. This investment is recorded under the equity method of accounting in accordance with GASB 62 as the Foundation owns between 20% and 50% of the businesses and is able to exercise some level of control.

The Foundation's investment strategy for private equity investments is to directly invest in select technology as well as research and development companies that support incubation to commercialization for such business activities associated with the Institute, which in turn operate with the objective of obtaining long-term growth and return on investment to the Foundation.

Private equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. The only private equity investment that is owned by the Foundation had previously been fully impaired and continues to have a recorded fair value of $0 at June 30, 2017.

9. Capital Assets

The Foundation records tangible and intangible capital assets purchased at cost, and donations at their estimated fair value on the date of donation. The building, which is the only depreciable asset, is being depreciated using a straight-line method over a twenty-seven and a half year estimated useful life. The Foundation capitalizes property and equipment purchases with a cost over $5,000.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Patents

The Foundation capitalizes the costs associated with the acquisition of patents, and amortizes these costs using the straight-line method over the twenty-year estimated useful life of the patents. Costs incurred to maintain and defend patents are expensed as incurred. The Foundation reviews the remaining useful life on the patents on an annual basis. All patents pending approval are held and not amortized until patent approval is final. If approval is denied, the reported cost to date of patent application is written off at that time.

Patent related legal fees of $39,809, that were not related to patent approvals, were expensed as incurred during the year ended June 30, 2017.

11. Classification of Revenues

The Foundation has classified its revenues as either operating or nonoperating according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions such as lease income on the Foundation's capital assets. Revenue on contracts and grants are recognized to the extent that the underlying exchange transaction has occurred. Unrestricted donations are operating items, as they are not financing or investing activities.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as restricted gifts and contributions, including additions to endowment and other revenue sources that are consistently applied as nonoperating revenues by GASB Statement No. 9 *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as investment income. Gifts and contributions are recognized when all applicable eligibility requirements have been met.

When both restricted and unrestricted resources are available for use, generally it is the Foundation's policy to use the restricted resources first.

Contributions of donated noncash assets are recorded at their fair values in the period received.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Endowments

The endowment spending policy is in alignment with the long-term endowment management philosophy of the Foundation, which is to preserve the permanent viability of the endowment. The Foundation supports vital scholarship and other programs from the earnings of its endowment. These programs are in concert with provisions established by the donors of the endowment. Net appreciation/depreciation on donor-restricted endowments and related investment income are recorded as an increase in restricted, expendable net position and are available for expenditure in accordance with donor specifications and in accordance with the State of New Mexico Uniform Prudent Management of Institutional Funds Act. (46-9A 1-10 NMSA 1978).

13. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant estimates used in preparing these financial statements include the estimated useful life of capital and intangible assets and valuation of investments.

14. Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, and has been classified by the Internal Revenue Service as a public charity. The Foundation is exempt from income taxation on its normal activities. The Foundation is classified as a supporting organization of the Institute and not a private foundation.

The Foundation applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. There were no uncertain tax positions taken by the Foundation for the year ended June 30, 2017. The Foundation's policy is to classify income tax penalties and interest, when applicable, according to their natural classification. There were no income tax penalties or interest for the year ended June 30, 2017. Under the statute of limitations, the Foundation's tax returns are no longer subject to examination by tax authorities for years prior to 2014.

15. Subsequent Events

Subsequent events have been evaluated through October 31, 2017, the date at which the financials were available for issuance, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2017. Management believes there are no material subsequent events which have arisen that would require adjustment or disclosure.

NOTE B – CASH AND CASH EQUIVALENTS

1. Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. The Foundation has a deposit policy for custodial credit risk and collateral requirements. As of June 30, 2017, the Foundation's deposits were exposed to custodial credit risk as follows:

	First State Bank	Wells Fargo	Total
Total of deposits in the bank	$ 79,918	$ 38,455	$ 118,373
FDIC coverage	(79,918)	(38,455)	(118,373)
Total uninsured funds	$ -	$ -	$ -
Custodial credit risk-deposits			
Account balance			$ 118,373
FDIC insured			(118,373)
Uninsured and uncollateralized			$ -
Total deposits			$ 118,373
Add: CD			100,000
Total Deposits			$ 218,373

The Foundation infrequently has uninsured and uncollateralized deposits not in compliance with State law. This is generally due to year-end outstanding checks that generally clear the bank account in a short period of time.

Deposit Classification in the financial statements at June 30, 2017 follows:

Name of Depository	Account Name	Bank Account Type	Bank Balance	Reconciling Items	Financial Statement Balance
First State Bank	Certificate	CD	$ 100,000	$ -	$ 100,000
Wells Fargo	Checking	Cash	38,455	-	38,455
Cash and cash equivalents			$ 138,455	$ -	$ 138,455
First State Bank	Checking	Cash	$ 78,531	$ (97,616)	$ (19,085)
First State Bank	Savings	Cash	1,387	-	1,387
Cash overdraft			$ 79,918	$ (97,616)	$ (17,698)

NOTE C – INVESTMENTS

A summary of investments at June 30, 2017, are as follows:

Investments	Ratings	Fair Value
Investments held with the New Mexico State Investment Council (SIC) pooled funds:		
Large Cap Index Fund	Not Rated	$ 13,410,190
Core Plus Bonds Pool	Not Rated	9,182,729
Total investments		$ 22,592,919

SIC provides investment services in accordance with its policies and statutory requirements NMSA Section 6-8-9.

Interest Rate Risk: Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2017, the Foundation had fixed income and bond type investments subject to interest rate risk.

Credit Risk: Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2017, none of the above investments were subject to credit risk.

NOTE D – FAIR VALUE OF INVESTMENTS

U.S. generally accepted accounting principles establish a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.

NOTE D – FAIR VALUE OF INVESTMENTS – CONTINUED

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2017.

The investment portfolio is comprised of pooled investments with the SIC and is recorded in the financial statements at fair value. The corresponding unrealized gain or loss in the fair value in relation to cost is accounted for as a separate item in the statement of revenues, expenses, and changes in net position.

During 2017, the Foundation used the net asset value provided by the SIC as an approximation of the fair value of SIC investments. These investments are classified within Level 2 of the fair value hierarchy. This approach has not changed from previous periods.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE D – FAIR VALUE OF INVESTMENTS – CONTINUED

The following table presents the fair value measurements of assets and liabilities at June 30, 2017:

		Fair Value Measurements Using			
	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
At June 30, 2017					
Investments held with the New Mexico State Investment Council (SIC) pooled funds:					
Large Cap Index Fund	$ 13,410,190	$ -	$ 13,410,190	$ -	
Core Plus Bonds Pool	9,182,729	-	9,182,729	-	
Investment in Srypto, Inc. common stock	-	-	-	-	*
	$ 22,592,919	$ -	$ 22,592,919	$ -	

*Investment in Srypto, Inc. was fully impaired.

NOTE E – NOTES RECEIVABLE

The Foundation funded the construction of a building for a company which leases land from New Mexico Institute of Mining and Technology. The Foundation has a related note receivable of $465,202 of which $193,000 is reported as a current asset and $272,202 is a noncurrent asset. The note bears a variable rate of interest based on Wall Street Journal Prime (currently 4.00%), is payable monthly over 15 years, and is secured by the building.

The Foundation also has a note receivable in the amount of $147,119, of which $3,100 is reported as a current asset and $144,019 is a noncurrent asset. The real estate sold is the underlying collateral for the note receivable. The note bears a 6% interest rate and is payable monthly over 36 months with the remaining balance due at maturity.

The Foundation received a $50,000 unsecured note receivable from RiskSense as part of the purchase of certain patent rights. The note has a balance of $40,830, with $9,567 reported as a current asset and $31,263 reported as a noncurrent asset. The note is dated August 31, 2015, and has a variable rate of interest based on Wall Street Journal Prime (currently 4.00%) plus one percent. The note will be repaid with five annual payments, the first of which was paid during 2017 and the second of which is due on or before August 31, 2017.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE F – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and building held for investment	$ 645,163	$ -	$ -	$ 645,163
Artwork	130,500	-	-	130,500
Total capital assets not being depreciated	775,663	-	-	775,663
Capital assets being depreciated				
Building	1,648,127	-	-	1,648,127
Accumulated depreciation				
Building	(795,461)	(59,932)	-	(855,393)
Capital assets, net	$ 1,628,329	$ (59,932)	$ -	$ 1,568,397

The Foundation will not obtain the benefits of ownership of the land and building held for investment until after the grantors' passing, in accordance with the life estate agreement. The agreement stipulates that the grantors maintain the benefits of the property and incur costs related to maintenance of the property. The Foundation does not have right of use of the property during the grantors' lifetime. As a result, the house, land, and parking lot are all real estate held for investment not subject to depreciation.

NOTE G – INTANGIBLE ASSETS

Identifiable intangible assets consist of the following at June 30, 2017:

	Beginning Balance	Increases	Decreases	Ending Balance
Amortized patents				
Cost	$ 85,545	$ 109,153	$ -	$ 194,698
Less accumulated amortization	(28,992)	(24,426)	-	(53,418)
	56,553	84,727	-	141,280
Unamortized patents				
Cost	120,927	46,005	-	166,932
	$ 177,480	$ 130,732	$ -	$ 308,212

NOTE G – INTANGIBLE ASSETS – CONTINUED

Estimated aggregate amortization expense for each of the five years succeeding June 30, 2017, is as follows:

2018	$ 13,320
2019	13,320
2020	13,320
2021	13,320
2022	13,320
Thereafter	74,680
	$ 141,280

Amortization expense charged to earnings was $24,426 for the year ended June 30, 2017. The pending patents (unamortized patents) will be amortized upon patent application acceptance or immediately expensed upon refusal of the patent application. Eighteen patents have been approved and management is amortizing the values over the life of the patents of twenty years. Management anticipates the approval of all patents pending.

NOTE H – RELATED PARTY TRANSACTIONS AND DONATED SERVICES

The Institute provides the Foundation's office space in exchange for property management services provided to the Institute by the Foundation. These transactions are not recorded in the Foundation's financial statements, as they are not significant and the value is not subject to reasonable estimation. The Institute charged $0 to the Foundation for accounting and management services during the year ended June 30, 2017.

The Foundation owned an insurance annuity through New York Life with a fair value of $2,165,028 as of June 30, 2016, as deferred compensation for employment retention with the Institute. The insurance annuity was acquired to benefit the past President of the Institute. The President of the Institute retired on June 30, 2016, and the ownership of this insurance annuity was transferred to the past President in July of 2016.

Certain of the Foundation's board members are also officers of the Institute.

The Foundation leases an apartment building to the Institute. The lease is classified as an operating lease on a month-to-month basis. Lease revenues were $90,150 for 2017.

NOTE H – RELATED PARTY TRANSACTIONS AND DONATED SERVICES – CONTINUED

The Foundation funded $1,047,303 in scholarships and awards which were provided through the Institute during the year ended June 30, 2017. The funding for these scholarships comes primarily from assets held by the Foundation from which the Institute is entitled to 4.5% of the income, but has no title to the assets themselves. However, income earned on such assets upon which the Institute has claim is recorded in the accompanying basic financial statements.

The Foundation provided other support in the amount of $822,863 to the Institute during 2017, which included $162,974 in stock donations which were liquidated and the proceeds transferred to the Institute during 2017.

NOTE I – RISK MANAGEMENT

The Foundation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions and natural disasters. The Foundation is insured under the Institute's Risk Management Program for liability and casualty insurance, and through a private carrier for director and officer liability insurance. There have been no significant reductions in coverage from prior years.

NOTE J – DONOR RESTRICTED ENDOWMENTS

The Foundation solicits contributions to support the activities of the Institute. Contributions received may be unrestricted, restricted for a certain time or for a certain purpose, or restricted in perpetuity. Amounts which are restricted in perpetuity are classified as restricted, non-expendable on the statement of net position, and were $3,303,789 at June 30, 2017.

Net appreciation/depreciation on donor restricted endowments and related investment income are recorded as an increase or decrease in restricted, expendable net position until the amount is expended in accordance with donor specifications. The investment policy is in accordance with the State of New Mexico Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Chapter 46, Article 9A 1-10 NMSA 1978). The investment income, including realized gains, from the restricted, non-expendable net position as well as balance of the unrestricted net position is generally available for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. During the current year, donor-restricted endowments had investment gains of $419,379.

NOTE J – DONOR RESTRICTED ENDOWMENTS – CONTINUED

The Board of Trustees of the Foundation has interpreted the UPMIFA as requiring the preservation of the fair value of the original contribution as of the contribution date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as restricted, non-expendable net position (a) the original value of contribution to the endowment, (b) the original value of subsequent contribution to the endowment, (c) accumulations to the endowment made in accordance with the direction of the applicable donor agreement at the time the contribution is added to the fund. During the current year, the Foundation reclassified $26,826 from restricted, expendable net position to restricted, non-expendable to cover certain donor endowments, whose fair value was less than the original value (under water) of the contribution to the endowment.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate income from the restricted, non-expendable endowment funds:

1. The duration and preservation of the various funds,
2. The purpose of the donor-restricted funds,
3. General economic conditions,
4. The possible effect of inflation and deflation,
5. The expected total return from income and the appreciation of investments,
6. Other resources of the Foundation,
7. The Foundations investment policies.

Spending Policy – The Foundation has available for distribution in any given year, all amounts in the unrestricted net position. However, the actual number of scholarships given out may be limited by the number of qualified applicants for the various scholarships. The decisions to award scholarships depends on the scholarship, with some being decided by the Board of Trustees, and others being decided by the Institute. The Foundation also may provide general support to the Institute by way of supporting fundraising and promotional activities.

Return Objectives and Risk Parameters – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a consistent stream of funding for scholarships and related activities, while seeking to maintain the purchasing power of the endowment assets and minimizing their exposure to significant market fluctuations. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period.

NOTE J – DONOR RESTRICTED ENDOWMENTS – CONTINUED

Endowment Composition by Type of Fund – All funds in the Endowment are donor-restricted for the use of providing scholarships and support activities for the Institute.

Strategies Employed for Achieving Objectives – To satisfy its long-term objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation investments are either held by the New Mexico State Investment Council, or in a variety of mutual funds to achieve its long-term return objectives within prudent risk constraints.

The following is a summary of endowments at June 30, 2017:

	Beginning Balance	Increases	Decreases	Ending Balance
Restricted, non-expendable	$ 3,391,072	$ 13,000	$ (100,283)	$ 3,303,789
Restricted, expendable	605,036	475,524	(19,829)	1,060,731
	$ 3,996,108	$ 488,524	$ (120,112)	$ 4,364,520

SUPPLEMENTARY INFORMATION

atkinson
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
The New Mexico Tech Research Foundation
and
Mr. Timothy Keller
New Mexico State Auditor

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The New Mexico Tech Research Foundation (the Foundation), a Component Unit of The New Mexico Institute of Mining and Technology, which comprise the Statement of Financial Position as of June 30, 2017, and the related Statements of Net Position, Revenues, Expenses, and Changes in Net Position and Cash Flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ATKINSON & CO., LTD

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 31, 2017

The New Mexico Tech Research Foundation
(A Component Unit of The New Mexico Institute of Mining and Technology)

SUMMARY OF AUDIT FINDINGS

Year Ended June 30, 2017

Prior Year Finding Description

Findings – Financial Statement Audit

2016-001 Financial Close and Reporting – Lack of Segregation of Duties (Significant Deficiency) – Resolved

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

None

Current Year Finding Description

Findings – Financial Statement Audit

None

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

None

FINANCIAL STATEMENT PREPARATION AND EXIT CONFERENCE

June 30, 2017

The basic financial statements have been prepared by Atkinson & Co., Ltd. with the assistance of the Foundation. The content in this report is the responsibility of the Foundation.

* * * * *

An Exit Conference was held on October 25, 2017, and attended by the following:

For The New Mexico Tech Research Foundation:

Jerry Armijo	Vice-President
Jenny Ma	Accountant
Dr. Stephen Wells	Treasurer (via phone)
Dr. Cleve McDaniel	Trustee

For Atkinson & Co., Ltd.:

Clarke Cagle, CPA, CCIFP, CGFM	Audit Shareholder
Sarah Brack, CPA, CGFM, CGMA	Audit Manager

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