



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

THE NEW MEXICO TECH RESEARCH FOUNDATION
(A component unit of the New Mexico Institute
of Mining and Technology)

June 30, 2018

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

OFFICIAL ROSTER (Unaudited)

June 30, 2018

Joanna DeBrine	President
Jerry A. Armijo	Vice President
Dr. Stephen Wells	Treasurer
Jeffrey Corey	Secretary
Colleen Foster	Executive Director
Charlotte Lamont	Assistant Secretary
James Reist	Assistant Secretary
Holm Bursum III	Trustee
Dr. Cleve McDaniel	Trustee
Clinton Marrs	Trustee
Borden Putnam III	Trustee
Dr. Raul Deju	Trustee
William W. Daily	Trustee
W.D. Peterson	Trustee

Report of Independent Auditors

To the Board of Directors
The New Mexico Tech Research Foundation
and
Mr. Wayne Johnson
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements 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, 2018, 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, which collectively comprise the Foundation's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Auditor's 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 financial position of the Foundation, as of June 30, 2018, and the changes in its financial position and its cash flows 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, 2018, 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 16, 2018, 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 and compliance.

Mess Adams LLP

Albuquerque, New Mexico
October 16, 2018

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The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Statement of Net Position
June 30, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,790,792
Promises to give, net of discounts, current portion	455,682
Notes receivable, current portion	194,279
Investments, restricted expendable	1,336,805
Investments, unrestricted	<u>18,133,683</u>

Total current assets 21,911,241

NONCURRENT ASSETS

Investments, restricted non-expendable	3,915,847
Promises to give, net of discounts, less current portion	477,327
Notes receivable, less current portion	264,593
Capital assets, net of accumulated depreciation of \$915,326	<u>1,508,465</u>

Total noncurrent assets 6,166,232

Total assets \$ 28,077,473

LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable	\$ 5,502
Due to the Institute	<u>1,386,734</u>

Total current liabilities 1,392,236

NONCURRENT LIABILITIES

Other liabilities	<u>17,006</u>
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Total liabilities 1,409,242

NET POSITION

Net investment in capital assets	1,508,465
Restricted, nonexpendable	3,915,847
Restricted, expendable	2,769,814
Unrestricted	<u>18,474,105</u>

Total net position 26,668,231

Total liabilities and net position \$ 28,077,473

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, 2018

OPERATING REVENUES	
Donations and promises to give, net of discounts of \$66,991	\$ 1,840,554
Lease income	90,150
	<hr/>
Total operating revenues	1,930,704
OPERATING EXPENSES	
Awards and scholarships	936,096
Support of the Institute	756,126
General and administrative expenses	468,334
Donation of patents to affiliate	276,711
Depreciation	59,932
Patent amortization	9,525
	<hr/>
Total operating expenses	2,506,724
Operating loss	(576,020)
NONOPERATING REVENUES	
Net unrealized gain on investments	1,482,321
Investment income	600,252
Interest income	22,840
Other	89
	<hr/>
Total nonoperating revenues	2,105,502
CHANGE IN NET POSITION	1,529,482
NET POSITION, beginning of year	25,138,749
	<hr/>
NET POSITION, end of year	<u>\$ 26,668,231</u>

The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Statement of Cash Flows
June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Contributions received from donors	\$ 907,545
Lease income	82,638
Other expense	(546,235)
Payments to the Institute - other support	(185,326)
Payments to the Institute - awards and scholarships	(112,650)
	<hr/>
Net cash provided by operating activities	145,972
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales of investments	1,879,700
Investment and interest income	623,092
Reinvested investment income	(578,783)
Purchases of investments	(612,012)
Proceeds from notes receivable	194,279
Other	89
	<hr/>
Net cash provided by investing activities	1,506,365
	<hr/>
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,652,337
CASH AND CASH EQUIVALENTS, beginning of year	138,455
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CASH AND CASH EQUIVALENTS, end of year	\$ 1,790,792
	<hr/> <hr/>

The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Statement of Cash Flows
June 30, 2018

Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating loss	\$ (576,020)
Adjustments to reconcile operating loss and net cash provided by operating activities	
Depreciation and amortization	69,457
Loss on disposal of patents	21,976
Transfer of patents to NM Tech University Research Park Corporation	276,711
Changes in assets and liabilities	
Increase in promises to give	(933,009)
Decrease in overdraft	(17,698)
Decrease in accounts payable	(59,374)
Decrease in other liabilities	(5,668)
Increase in due to the Institute	<u>1,369,597</u>
Net cash provided by operating activities	<u>\$ 145,972</u>

SUPPLEMENTAL NONCASH DISCLOSURES

Patents transferred to NM Tech University Research Park Corporation	<u><u>\$ 276,711</u></u>
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The New Mexico Tech Research Foundation (A Component Unit of the New Mexico Institute of Mining and Technology)

Notes to Financial Statements

Note 1 – Description of Business

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.

Note 2 – Summary of Significant Accounting Policies

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 (US GAAP).

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.

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 and nonexchange transactions such as gifts and contributions. Revenue on contracts and grants are recognized to the extent that the underlying exchange transaction has occurred.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions, including other revenue sources that are consistently applied as nonoperating revenues, 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.

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies (continued)

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 is intended to reflect the portion of net position which is associated with nonliquid, 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. There were no deferred outflows or inflows of resources to separately report at June 30, 2018.

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.

Promises to Give

Promises to give, which are nonendowed, are recognized as increases in assets and nonoperating revenues upon receipt of a signed commitment, so long as collectability is probable, and when all applicable eligibility requirements are met. An allowance for doubtful promises to give is recorded when the promise is recorded. The allowance is based on loss experience and other factors that management considers necessary in estimating losses on promises to give. Noncurrent promises to give are discounted at 4.75%, which is the U.S. prime rate in effect coinciding with the date of the promise. All promises to give are for nonendowed donations. No allowance for doubtful accounts related to such promises was deemed necessary at June 30, 2018.

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies (continued)

Notes Receivable

Notes receivable are stated at net realizable value. Management reviews the collectability of 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, 2018

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 its 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%	30-50%
Equity	70%	50-75%

Due to the nature of the investments, it is reasonable that changes in the value of investments will occur in the near future and 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. Income is allocated based on the proportionate market value of the investment of each participating fund.

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies (continued)

Information relating to the SIC's use of derivatives is not made available to the Foundation. For GASB 40 disclosure information related to the investments held at the SIC, the reader should refer to the separate audit report and required supplementary information of the SIC for the fiscal year ended June 30, 2018. That report may be obtained by writing to the 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.

Private Equity Investments

The private equity investments represent 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 business 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, 2018.

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 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.

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

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 of 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 the patent application is written off at that time.

Due to the Institute

This liability represents funds approved by the Board during the fiscal year to support the Institute that were distributed after June 30, 2018.

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).

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.

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 New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies (continued)

Subsequent Events

Subsequent events have been evaluated through October 16, 2018, 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, 2018. Management believes there are no material subsequent events which have arisen that would require adjustment or disclosure.

Note 3 – Cash and Cash Equivalents

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 does not have a deposit policy for custodial credit risk. As of June 30, 2018, the Foundation's deposits were exposed to custodial credit risk as follows:

	First State Bank	Wells Fargo	Total
Total of deposits in the bank	\$ 1,753,896	\$ 38,467	\$ 1,792,363
FDIC coverage	(250,000)	(38,467)	(288,467)
Total uninsured and uncollateralized funds	<u>\$ 1,503,896</u>	<u>\$ -</u>	<u>\$ 1,503,896</u>

Deposit classification in the financial statements at June 30, 2018 follows:

Name of Depository	Account Name	Bank Account Type	Bank Balance	Reconciling Items	Financial Statement Balance
First State Bank	Checking	Cash	\$ 1,752,307	\$ (1,571)	\$ 1,750,736
First State Bank	Savings	Cash	1,589	-	1,589
Wells Fargo	Checking	Cash	38,467	-	38,467
Cash and cash equivalents			<u>\$ 1,792,363</u>	<u>\$ (1,571)</u>	<u>\$ 1,790,792</u>

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Notes to Financial Statements**

Note 4 – Investments

A summary of investments at June 30, 2018, 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	\$ 14,808,161
Core Plus Bonds Pool	Not rated	<u>8,578,174</u>
Total investments		<u>\$ 23,386,335</u>

The SIC provides investment services in accordance with its policies and statutory requirements of NMSA 1978 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, 2018, 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, 2018, none of the above investments were subject to credit risk.

Note 5 – 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.

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.

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Notes to Financial Statements**

Note 5 – Fair Value of Investments (continued)

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.

The 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, 2018.

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 2018, 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.

The following table presents the fair value measurements of assets and liabilities at June 30, 2018:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments held with the New Mexico State Investment Council (SIC) pooled funds:				
Large Cap Index Fund	\$ 14,808,161	\$ -	\$ 14,808,161	\$ -
Core Plus Bonds Pool	8,578,174	-	8,578,174	-
	<u>\$ 23,386,335</u>	<u>\$ -</u>	<u>\$ 23,386,335</u>	<u>\$ -</u>

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Notes to Financial Statements**

Note 6 – Promises to Give

Promises to give consist of the following at June 30, 2018:

Amounts receivable in less than one year	\$ 500,000
Amounts receivable in more than one year	<u>500,000</u>
Total promises to give	1,000,000
Discounts to net present value	<u>(66,991)</u>
Promises to give, net	933,009
Less current portion	<u>(455,682)</u>
Noncurrent portion	<u><u>\$ 477,327</u></u>

Note 7 – Notes Receivable

The Foundation funded the construction of a building for a company which leases land from the Institute. The Foundation has a related note receivable of \$282,420 of which \$182,783 is reported as a current asset and \$99,637 is a noncurrent asset. The note bears a variable rate of interest based on Wall Street Journal Prime (currently 5%), is payable monthly over 15 years (maturing in 2020), and is secured by the building.

The Foundation also has a note receivable in the amount of \$145,190, of which \$1,929 is reported as a current asset and \$143,261 is a noncurrent asset. The real estate sold is the underlying collateral for the note receivable. The note bears a 6% annual interest rate and is payable in monthly installments of \$1,007 until paid in full.

The Foundation received a \$50,000 unsecured note receivable from RiskSense, a related party, as part of the purchase of certain patent rights. The note has a balance of \$31,262, with \$9,567 reported as a current asset and \$21,695 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 5%) plus one percent. The note will be repaid with five annual payments with the three remaining installments due on or before September 6, 2018, 2019 and 2020, respectively.

The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Notes to Financial Statements

Note 7 - Notes Receivable (continued)

Future principal and interest payments to be received related to notes receivable are as follows for the years ending June 30:

2019	\$	219,059
2020		120,281
2021		23,424
2022		12,087
2023		12,087
2024-2028		60,435
2029-2033		60,435
2034-2038		60,435
2039-2041		25,179
		25,179
Total	\$	593,422

Note 8 – Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and building held for investment	\$ 645,164	\$ -	\$ -	\$ 645,164
Artwork	130,500	-	-	130,500
Total capital assets not being depreciated	775,664	-	-	775,664
Capital assets being depreciated				
Building	1,648,127	-	-	1,648,127
Accumulated depreciation				
Building	(855,394)	(59,932)	-	(915,326)
Capital assets, net	\$ 1,568,397	\$ (59,932)	\$ -	\$ 1,508,465

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.

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Notes to Financial Statements**

Note 9 – Intangible Assets

Intangible assets consist of the following at June 30, 2018:

	Beginning Balance	Increases	Decreases	Transfers Out	Ending Balance
Amortized patents					
Cost	\$ 194,698	\$ -	\$ -	\$ (194,698)	\$ -
Less accumulated amortization	(53,418)	(9,525)	-	62,943	-
	<u>141,280</u>	<u>(9,525)</u>	<u>-</u>	<u>(131,755)</u>	<u>-</u>
Unamortized patents					
Cost	<u>166,932</u>	<u>-</u>	<u>-</u>	<u>(166,932)</u>	<u>-</u>
	<u>\$ 308,212</u>	<u>\$ (9,525)</u>	<u>\$ -</u>	<u>\$ (298,687)</u>	<u>\$ -</u>

Note 10 – 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, 2018.

Several of the Foundation's board members are also officers of the Institute. One of the Foundation's board members is also a board member of RiskSense.

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 2018.

The Foundation funded \$112,650 in scholarships and awards which were provided through the Institute during the year ended June 30, 2018. 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 \$185,326 to the Institute during 2018, which included \$75,608 in stock donations which were liquidated and the proceeds transferred to the Institute during 2018.

Patents with a net cost of \$276,711 were transferred to the New Mexico Tech University Research Park Corporation, a related party, during the year ended June 30, 2018.

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
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Notes to Financial Statements**

Note 11 – 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 12 – 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, nonexpendable on the statement of net position, and were \$3,915,847 at June 30, 2018.

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, nonexpendable 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 \$396,588.

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, nonexpendable 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 \$4,794 from restricted, expendable net position to restricted, nonexpendable to cover certain donor endowments, whose fair value was less than the original value (under water) of the contribution to the endowment.

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

Notes to Financial Statements

Note 12 – Donor Restricted Endowments (continued)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate income from the restricted, nonexpendable 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.

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 New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Notes to Financial Statements

Note 12 – Donor Restricted Endowments (continued)

The following is a summary of endowments at June 30, 2018:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Restricted, nonexpendable	\$ 3,303,789	\$ 612,058	\$ -	\$ 3,915,847
Restricted, expendable	<u>1,060,731</u>	<u>405,670</u>	<u>(129,596)</u>	<u>1,336,805</u>
	<u>\$ 4,364,520</u>	<u>\$ 1,017,728</u>	<u>\$ (129,596)</u>	<u>\$ 5,252,652</u>

Report of Independent Auditors 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. Wayne Johnson
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 net position as of June 30, 2018, and the related statement of revenues, expenses, and changes in net position and statement of cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated October 16, 2018.

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.

Mess Adams LLP

Albuquerque, New Mexico
October 16, 2018

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Schedule of Findings
June 30, 2018**

No matters were reported.

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Summary Schedule of Prior Audit Findings
June 30, 2018**

No matters were reported.

**The New Mexico Tech Research Foundation
(A Component Unit of the New Mexico Institute of
Mining and Technology)
Exit Conference
June 30, 2018**

An exit conference was held on October 16, 2018. During the meeting, the contents of this report were discussed with the following individuals:

The New Mexico Tech Research Foundation:

Joanna DeBrine	President
Jerry Armijo	Vice President
Colleen Foster	Executive Director
Jenny Ma	Accountant

Moss Adams LLP:

Lisa Todd	Partner
Corrine Zajac-Clarkson	Senior Manager
Michael McGinley	Manager

The Foundation is responsible for the contents of the financial statements. Moss Adams LLP assisted with the preparation of the financial statements.