



THE NEW MEXICO TECH RESEARCH FOUNDATION

**(A COMPONENT UNIT OF THE NEW MEXICO
INSTITUTE OF MINING AND TECHNOLOGY)**

FINANCIAL STATEMENTS

JUNE 30, 2011

MOSS ADAMS_{LLP}

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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(A COMPONENT UNIT OF THE NEW MEXICO INSTITUTE OF MINING AND
TECHNOLOGY)**

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**THE NEW MEXICO TECH RESEARCH FOUNDATION
(A COMPONENT UNIT OF NEW MEXICO TECH UNIVERSITY)**

Official Roster

June 30, 2011

| | |
|------------------|-------------------------------|
| W.D. Peterson | President |
| Daniel H. Lopez | Vice President-Secretary |
| Alex Thyssen | Treasurer-Assistant Secretary |
| James Reist | Assistant Secretary |
| Charlotte Lamont | Assistant Secretary |
| Holm Bursum III | Trustee |
| Ann Murphy Daily | Trustee |
| Abe Silver, Jr. | Trustee |
| Lonnie Marquez | Trustee |

Report of Independent Auditors

Board of Trustees
The New Mexico Tech Research Foundation
and
Mr. Hector H. Balderas
New Mexico State Auditor

We have audited the accompanying basic 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"), as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2011 and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Trustees
The New Mexico Tech Research Foundation
and
Mr. Hector H. Balderas
New Mexico State Auditor

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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* and should be considered in assessing the results of our audit.

For the year ended June 30, 2011, the Foundation has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements.

Mess Adams LLP

Albuquerque, New Mexico
November 4, 2011

THE NEW MEXICO TECH RESEARCH FOUNDATION
(A Component Unit of the New Mexico Institute of Mining and Technology)
BALANCE SHEET
June 30, 2011

ASSETS

| | |
|--|----------------------|
| Current Assets | |
| Cash and cash equivalents | \$ 380,228 |
| Current portion of notes receivable, less allowance for doubtful receivables of \$178,742 | 150,484 |
| Investments | 16,903,066 |
| Charitable remainder unitrust | 147,704 |
| | <hr/> |
| Total current assets | 17,581,482 |
| | |
| Noncurrent Assets | |
| Noncurrent portion of notes receivable | 1,475,451 |
| Capital assets, net | 1,467,817 |
| | <hr/> |
| Total noncurrent assets | 2,943,268 |
| | <hr/> |
| Total assets | \$ 20,524,750 |
| | <hr/> <hr/> |

LIABILITIES AND NET ASSETS

| | |
|---|----------------------|
| Current Liabilities | |
| Accounts payable | \$ 6,388 |
| Annuity payable | 855,768 |
| Unitrust payable | 44,846 |
| | <hr/> |
| Total current liabilities | 907,002 |
| | |
| Net Assets | |
| Invested in capital assets | 1,467,817 |
| Restricted, non-expendable | 1,673,818 |
| Unrestricted | 16,476,113 |
| | <hr/> |
| Total net assets | 19,617,748 |
| | <hr/> |
| Total liabilities and net assets | \$ 20,524,750 |
| | <hr/> <hr/> |

See Notes to Financial Statements.

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 ASSETS
Year Ended June 30, 2011

| | |
|--|----------------------|
| Operating revenues | |
| Lease income | \$ 90,150 |
| Other income | 10,647 |
| Total operating revenues | <u>100,797</u> |
| Operating Expenses | |
| Depreciation and amortization | 59,932 |
| General and administrative expenses | 283,594 |
| Distributions to the New Mexico Institute of Mining and Technology | 100,000 |
| Awards and scholarships | 725,878 |
| Total operating expenses | <u>1,169,404</u> |
| Operating loss | <u>(1,068,607)</u> |
| Nonoperating activities | |
| Interest/dividend income | 502,375 |
| Net unrealized gain on securities | 2,538,326 |
| Net realized gain on sale of capital asset | 14,522 |
| Contributions | 287,297 |
| Change in value of split-interest agreements | 33,713 |
| Net nonoperating activities | <u>3,376,233</u> |
| Change in net assets | 2,307,626 |
| Net assets, beginning of year | <u>17,310,122</u> |
| Net assets, end of year | <u>\$ 19,617,748</u> |

See Notes to 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, 2011

| | |
|---|--------------------------|
| Cash Flows From Operating Activities | |
| Lease income | \$ 90,150 |
| Contributions | 287,297 |
| Investments | 10,647 |
| Payments to New Mexico Tech - awards and scholarships | (1,553,683) |
| Other payments | (619,194) |
| Net cash used by operating activities | <u>(1,784,783)</u> |
| | |
| Cash Flows From Investing Activities | |
| Proceeds from sales of investments, net | 1,144,554 |
| Cash received on investment income | 502,375 |
| Cash received from note receivable | 161,711 |
| Net cash provided by investing activities | <u>1,808,640</u> |
| | |
| Net increase in cash and cash equivalents | 23,857 |
| | |
| Cash and cash equivalents, beginning of year | <u>356,371</u> |
| | |
| Cash and cash equivalents, end of year | <u><u>\$ 380,228</u></u> |

See Notes to Financial Statements.

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, 2011

| | |
|--|-------------------------------------|
| Reconciliation of operating loss to net cash used by operating activities | |
| Operating (loss) | \$ (1,068,607) |
| Adjustments to reconcile operating (loss) to net cash used by operating activities | |
| Depreciation and amortization expense | 59,932 |
| Gain on sale of capital asset | (14,522) |
| Patent impairment | - |
| Changes in assets and liabilities | |
| Charitable remainder unitrust | (33,713) |
| Due to New Mexico Institute of Mining and Technology | (725,000) |
| Accounts payable | (2,873) |
| | <hr/> |
| Net cash used by operating activities | <u><u>\$ (1,784,783)</u></u> |

See Notes to Financial Statements.

THE NEW MEXICO TECH RESEARCH FOUNDATION
(A Component Unit of the New Mexico Institute of Mining and Technology)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 corporation located in Socorro, New Mexico. The Foundation is organized to assist the New Mexico Institute of Mining and Technology by making available funds to pursue inventions, copyrights and other intellectual properties, institutional support and scholarships. The Foundation has no component units.

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 summarized below.

As a proprietary fund, the Foundation's financial statements are reported using a flow of 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 expenses are those incurred by the Foundation and events and activities that relate directly to the Foundation and events and activities that relate to scholarships and awards for students. Revenues from investments are considered nonoperating.

Accounting Standards. As a component unit of the Institute, the Foundation follows proprietary fund accounting as set forth in Statement No. 20 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. Under the provisions of that standard, the Institute has elected not to apply Statements on Financial Accounting Standards issued by the Financial Accounting Standards Board after November 1989.

Net Assets. Unrestricted net assets represent resources whose use is not limited or restricted by donors. Unrestricted net assets have 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 assets represent 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. Restricted expendable net assets

THE NEW MEXICO TECH RESEARCH FOUNDATION
(A Component Unit of the New Mexico Institute of Mining and Technology)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

are released from restriction as their purpose restrictions are met. Restricted non-expendable assets represent those that cannot be expended based on donor restriction. When both restricted and unrestricted funds are available, restricted funds are expended first.

Invested in capital assets is intended to reflect the portion of net assets which are associated with non-liquid, capital assets.

Cash and Cash Equivalents. For the 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.

Notes Receivable. 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. An allowance of \$178,742 was recorded at June 30, 2011.

Investments. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) are reported as increases or decreases in unrestricted net assets. The Foundation has no limitations on the types of investments or deposits it can make.

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. The Foundation's funds are combined with those of several other funds of the Institute. Income is allocated based on the proportionate market value of the investment of each participating fund.

Charitable Remainder Unitrust. Charitable remainder unitrust assets are the result of an agreement between donors and the Foundation in which the trust was established by the donors and administered by the Foundation. The Foundation is required to pay a fixed percentage of the fair market value of the trust's assets each year to a designated beneficiary during the beneficiary's lifetime. The trust assets were measured at the fair value when received. A corresponding liability is measured at the present value of expected future cash flows to be paid to the beneficiary.

THE NEW MEXICO TECH RESEARCH FOUNDATION
(A Component Unit of the New Mexico Institute of Mining and Technology)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

Capital Assets. The Foundation records tangible and intangible capital assets purchased at cost; and donations at their estimated fair value. The building is being depreciated using a straight-line method over a twenty-seven and a half year estimated useful life. The patent is being amortized over fifteen years. The Foundation capitalizes property and equipment purchases with a cost over \$500.

Amortization. The Foundation amortizes patents using a straight-line method over the fifteen-year estimated life of the patents. Foundation reviews the remaining useful life on the patent on an annual basis. Based on the annual analysis performed in 2010, Foundation concluded that one of its large patent does not have any remaining useful life. As a result, the entire remaining balance of that patent was written-off as of June 30, 2010.

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.

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 engaged in no material unrelated activities and therefore no provision for income taxes has been made. The Foundation is a supporting organization of the Institute and not a private foundation.

NOTE 2. CASH AND BANK DEPOSITS

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 and does not require collateral. As of June 30, 2011, the Foundation’s deposits were exposed to custodial credit risk as follows:

| | First State | Wells Fargo | Bank of America | Total |
|-------------------------------|------------------|------------------|--------------------|------------------|
| Total of deposits in the bank | \$ 221,430 | 118,324 | 73,829 | 413,583 |
| FDIC coverage | <u>(221,430)</u> | <u>(118,324)</u> | <u>(73,829)</u> | <u>(413,583)</u> |
| Total uninsured funds | <u>\$ -</u> | <u>-</u> | <u>-</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
June 30, 2011

NOTE 2. CASH AND BANK DEPOSITS (CONTINUED)

| | |
|--------------------------------|-------------------|
| Custodial credit risk-deposits | |
| Account balance | \$ 413,583 |
| FDIC insured | <u>413,583</u> |
| Uninsured and uncollateralized | <u>\$ -</u> |
| Total deposits | \$ 413,583 |
| Add: Money market | <u>28,845</u> |
| Total deposits | <u>\$ 442,428</u> |

Deposit classification in the financial statements at June 30, 2011 follows:

| Name of Depository | Account Name | Bank Account Type | Bank Balance | Reconciling Items | Financial Statement Balance |
|--------------------|--------------|-------------------|-------------------|-------------------|-----------------------------|
| First State Bank | Checking | Cash | \$ 121,253 | 45,800 | 167,053 |
| First State Bank | Savings | Cash | 177 | - | 177 |
| First State Bank | Certificate | CD | 100,000 | - | 100,000 |
| Bank of America | Checking | Cash | 73,829 | - | 73,829 |
| Wells Fargo | Checking | Cash | 118,324 | (108,000) | 10,324 |
| Merrill Lynch | Investment | Money Market | 28,845 | - | 28,845 |
| | | | <u>\$ 442,428</u> | <u>(62,200)</u> | <u>380,228</u> |

NOTE 3. INVESTMENTS

None of the Foundation's investments are exposed to custodial credit risks as they are all registered. A summary of the investments at June 30, 2011 are as follows:

| Investments | Ratings | Fair Value |
|---|-----------|----------------------|
| Held at Merrill Lynch investment account | | |
| Equity securities | Not Rated | \$ 151,316 |
| Mutual funds | Not Rated | <u>1,373,598</u> |
| | | <u>1,524,914</u> |
| Investments not subject to categorization | | |
| State Investment Council pooled funds | | |
| Fixed income securities | | 4,616,653 |
| Equity securities | | <u>9,905,731</u> |
| | | <u>14,522,384</u> |
| Insurance annuity | | <u>855,768</u> |
| Total investments | | <u>\$ 16,903,066</u> |

THE NEW MEXICO TECH RESEARCH FOUNDATION
(A Component Unit of the New Mexico Institute of Mining and Technology)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 4. 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 note receivable for the amount of the loan of \$1,461,715 of which \$150,484 is current and \$1,311,231 is noncurrent. The note bears a variable rate of interest based on Wall Street Journal Prime (currently 3.25%), is payable monthly over 15 years and is secured by the building. The Foundation sold a building at a gain of \$14,522 during July 2010. The Foundation also recorded a note receivable in the amount of \$168,000 in connection with the sale. The note bears a 6% interest rate and is payable monthly over 36 months with remaining balance due at maturity. The outstanding balance at June 30, 2011 was \$164,220.

NOTE 5. CAPITAL ASSETS

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|-----------------|------------------|--------------------|
| Capital assets not being depreciated | | | | |
| Land | \$163,150 | - | - | 163,150 |
| Other | <u>130,501</u> | - | - | <u>130,501</u> |
| Total capital assets not being depreciated | <u>293,651</u> | - | - | <u>293,651</u> |
| Capital assets being depreciated | | | | |
| Building 1,648,127 | 1,826,801 | - | (178,674) | |
| Patents | 8,021,841 | - | - | 8,021,841 |
| Accumulated depreciation | | | | |
| Building | (435,870) | (59,932) | - | (495,802) |
| Accumulated amortization patents | <u>(8,000,000)</u> | - | - | <u>(8,000,000)</u> |
| Capital assets being Depreciated, net | <u>\$ 1,412,772</u> | <u>(59,932)</u> | <u>(178,674)</u> | |
| <u>1,174,166</u> | | | | |
| Capital assets, net | <u>\$ 1,706,423</u> | <u>(59,932)</u> | <u>(178,674)</u> | |
| <u>1,467,817</u> | | | | |

THE NEW MEXICO TECH RESEARCH FOUNDATION
(A Component Unit of the New Mexico Institute of Mining and Technology)
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6. 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 Foundation owns an insurance annuity through New York Life with a fair market value of \$855,768 at June 30, 2011. The insurance annuity was acquired to benefit the president of the Institute. The Foundation's annual contribution to the insurance annuity was \$100,000 in 2011.

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, and expires in June 2013. Lease revenues were \$90,150 for 2011.

NOTE 7. 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 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 the prior year and settlements have not exceeded coverage in the past three years.

NOTE 8. DONOR RESTRICTED ENDOWMENTS

The endowment spending policy is in concert 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 earning of its endowment. These programs are in concert with provisions established by donors of the endowment.

Net appreciation/depreciation on donor restricted endowments and related investment income are recorded as an increase in net assets until the amount is expended in accordance with donor specifications and in accordance with the State of New Mexico Uniform Management of Institutional Funds Act (Chapter 46, Article 9, NMSA 1978). During the current year, donor-restricted endowments had net appreciation of \$251,294 and investment income of \$49,735.

**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. Hector H. Balderas
New Mexico State Auditor

We have audited the basic financial statements of the New Mexico Tech Research Foundation (the Foundation), a component unit of the New Mexico Institute of Mining and Technology as of and for the year ended June 30, 2011, and have issued our report thereon dated November 4, 2011. 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.

Internal Control Over Financial Reporting

Management of the foundation is responsible for planning and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

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.

Board of Trustees
The New Mexico Tech Research Foundation
and
Mr. Hector H. Balderas
New Mexico State Auditor

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Board of Trustees and the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Mess Adams LLP

Albuquerque, New Mexico
November 4, 2011

THE NEW MEXICO TECH RESEARCH FOUNDATION
(A Component Unit of the New Mexico Institute of Mining and Technology)
SUMMARY OF PRIOR YEAR AUDIT FINDINGS
June 30, 2011

None

THE NEW MEXICO TECH RESEARCH FOUNDATION
(A Component Unit of the New Mexico Institute of Mining and Technology)
SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2011

None

THE NEW MEXICO TECH RESEARCH FOUNDATION
(A Component Unit of the New Mexico Institute of Mining and Technology)
EXIT CONFERENCE
June 30, 2011

The contents of this report were discussed on October 19, 2011. The following individuals were in attendance.

The New Mexico Tech Research Foundation:

| | |
|----------------|-------------------------------|
| Alex Thyssen | Treasurer-Assistant Secretary |
| Lonnie Marquez | Trustee |

Moss Adams LLP:

| | |
|---------------|---------|
| Larry Carmony | Partner |
|---------------|---------|

The financial statements were prepared with the assistance of Moss Adams LLP.