



**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, 2014

atkinson

PRECISE. PERSONAL. PROACTIVE.

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

OFFICIAL ROSTER

June 30, 2014

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



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. Hector H. Balderas
New Mexico State Auditor

Report on Financial Statements

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 (Institute), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Foundation's basic 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 auditor's 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation, as of June 30, 2014, 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.

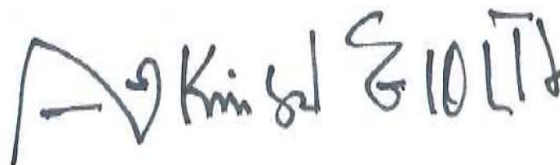
Other Matters

Required Supplementary Information

For the year ended June 30, 2014, 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 November 14, 2014 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.

A handwritten signature in black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish on the left side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 14, 2014

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

STATEMENT OF NET POSITION

June 30, 2014

ASSETS

Current assets:

Cash and cash equivalents	\$ 333,910
Due from New Mexico Tech	700,000
Current portion of notes receivable	<u>168,438</u>

Total current assets 1,202,348

Noncurrent assets:

Noncurrent portion of notes receivable	981,551
Investments	23,071,241
Charitable remainder unitrust	124,827
Capital assets, net	<u>1,738,084</u>

Total noncurrent assets 25,915,703

Total assets \$ 27,118,051

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	\$ 5,412
Due to New Mexico Tech	806,931
Charitable remainder unitrust payable	<u>11,147</u>

Total current liabilities 823,490

Long-term liabilities:

Annuity payable	<u>1,620,637</u>
-----------------	------------------

Total long-term liabilities 1,620,637

Total liabilities 2,444,127

NET POSITION

Net investment in capital and intangible assets	1,738,084
Restricted, non-expendable	2,247,401
Unrestricted	<u>20,688,439</u>

Total net position 24,673,924

Total liabilities and net position \$ 27,118,051

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, 2014

OPERATING REVENUES:	
Lease income	\$ 97,041
Royalty income	43,581
	<hr/>
Total operating revenues	140,622
OPERATING EXPENSES:	
Awards and scholarships	797,898
General and administrative expenses	372,388
Retainage annuity insurance premium	153,000
Depreciation	59,932
	<hr/>
Total operating expenses	1,383,218
	<hr/>
Operating loss	(1,242,596)
NONOPERATING ACTIVITIES:	
Net unrealized gain on securities	3,891,820
Contributions	1,005,396
Interest/dividend income	157,952
Change in value of split-interest agreements	36,565
	<hr/>
Net non-operating activities	5,091,733
	<hr/>
CHANGE IN NET POSITION	3,849,137
Net position, beginning of year	20,824,787
	<hr/>
Net position, end of year	<u>\$ 24,673,924</u>

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

Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Lease income	\$ 97,041
Royalty income	43,581
Payments to New Mexico Tech - awards and scholarships	(797,898)
Other payments	<u>126,375</u>
Net cash flows used in operating activities	(530,901)
CASH FLOWS FROM INVESTMENT ACTIVITIES	
Proceeds from sales of investments, net	233,642
Purchases of land and building held for investment	(460,063)
Cash received on investment income	157,952
Cash received from note receivable	254,118
Contributions received from donors	1,124,624
Purchases of equity and fixed income investments	<u>(1,177,266)</u>
Net cash flows provided by investing activities	<u>133,007</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(397,894)
Cash and cash equivalents, beginning of year	<u>731,804</u>
Cash and cash equivalents, end of year	<u><u>\$ 333,910</u></u>
Reconciliation of operating income to net cash used by operating activities:	
Operating loss	\$ (1,242,596)
Adjustments to reconcile operating loss and net cash used in operating activities	
Depreciation and amortization expense	59,932
Changes in assets and liabilities	
Charitable remainder unitrust	7,678
Accounts payable	773,983
Other liabilities	<u>(129,898)</u>
Net cash used in operating activities	<u><u>\$ (530,901)</u></u>

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, 2014

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During 2014, investments were written up to fair market value by \$3,891,820.

The Foundation accrued a receivable due from the Institute in the amount of \$700,000 in anticipation of a distribution the Foundation receives each year (normally in June) from the State Investment Council as of June 30, 2014 for the purpose of funding scholarships. The receivable was collected by the Foundation in July 2014.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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 summarized below.

The Foundation implemented Government Accounting Standards Board (GASB) Statement No. 62 during the year ended June 30, 2013, "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.

During 2013, the Foundation implemented Government Accounting Standards Board Statement No. 63 "Financial Reporting of Deferred Outflows or Resources, Deferred Inflows of Resources, and Net Position" (GASB 63). GASB 63 introduced a fundamental change to the reporting of elements that make up a statement of financial position.

Deferred outflows of resources consumed and deferred inflows of resources received and available as they are now included in the elements that make up a statement of financial position and GASB 63 introduces the term **net position** for reporting the residual of all elements in a statement of financial position. The statement of financial position of the Foundation at June 30, 2014 conforms to the presentation requirements of GASB 63.

The Foundation implemented Governmental Accounting Standards Board Statement No. 65 "Items Previously Reported as Assets and Liabilities" (GASB 65) changes the classification of various financial statement balance including several more common type transactions to deferred outflows and inflows of resources for the year ended June 30, 2014. GASB 65 is applicable for years beginning after December 15, 2012 (FY 14). There were no deferred outflows or inflows of resources to separately report at June 30, 2014.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 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 from investments are considered non-operating.

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. Restricted expendable net position is released from restriction as their purpose restrictions are met. Restricted nonexpendable 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 position which is associated with non-liquid, capital assets.

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, 2014 as the notes are secured by real estate.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. 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. Mutual funds are based on the Foundation's pro-rata share of unit value of the mutual funds. 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 position. 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. The insurance annuity is invested in underlying fixed income bond and index funds valued at fair value at June 30, 2014.

The New Mexico State Investment Council's (SIC) investments are stated at fair value in accordance with GASB Statement No. 31, with increases or decreases in fair value recognized in the statement of changes in net assets at the end of each month. Investment transactions are recorded on the trade date. Dividends are recognized as income when declared. Current fair value of investments may fluctuate markedly from what is recorded at June 30 each year. The investments function similar to mutual funds and are secured by purchased financial securities. The SIC issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. 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's website at www.sic.state.nm.us.

8. 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 and are valued at fair value on an annual basis. A corresponding liability is measured at the present value of expected future cash flows to be paid to the beneficiary.

9. 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 years estimated useful life. The Foundation capitalizes property and equipment purchases with a cost over \$5,000.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

10. Amortization

The Foundation amortizes patents using a straight-line method over the fifteen-year estimated useful 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 its largest patent did not have any remaining useful life. As a result, the entire remaining balance of that patent was written-off and fully amortized as of June 30, 2010. All other patents pending held have yet to be amortized at June 30, 2014 until patent approval is final. If approval is denied, the reported cost to date of patent application will be written off.

11. 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 depreciation, insurance annuity and alternative investments.

12. 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 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, 2014. 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, 2014. Under the statute of limitations, the Foundation's tax returns are no longer subject to examination by tax authorities for years prior to 2011.

13. Subsequent Events

Subsequent events have been evaluated through November 14, 2014, the date at which the financials were available for issuance, to determine whether such events should be recorded or disclosed in the consolidated financial statements for the year ended June 30, 2014. Except for the contingent liability disclosed in Note I, management believes there are no other material subsequent events which have arisen that would require adjustment or disclosure.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE B – CASH AND BANK DEPOSITS

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 does not have a deposit policy for custodial credit risk and does not require collateral. As of June 30, 2014, the Foundation's deposits were exposed to custodial credit risk as follows:

	First State Bank	Wells Fargo	Bank of America	Total
Total of deposits in the bank FDIC coverage	\$ 283,212 (250,000)	\$ 10,479 (10,479)	\$ 5,855 (5,855)	\$ 299,546 (266,334)
Total uninsured funds	\$ 33,212	\$ -	\$ -	\$ 33,212
Custodial credit risk-deposits				
Account balance			\$ 299,546	
FDIC insured			(266,334)	
Uninsured and uncollateralized			\$ 33,212	
Total deposits			\$ 299,546	
Add: Money market			44,863	
Total Deposits			\$ 344,409	

Deposit classification in the financial statements at June 30, 2014 follows:

Name of Depository	Account Name	Bank Account Type	Bank Balance	Reconciling Items	Financial Statement Balance
First State Bank	Checking	Cash	\$ 183,028	\$ (10,499)	\$ 172,529
First State Bank	Savings	Cash	184	-	184
First State Bank	Certificate	CD	100,000	-	100,000
Bank of America	Checking	Cash	5,855	-	5,855
Wells Fargo	Checking	Cash	10,479	-	10,479
Merrill Lynch	Investment	Money Market	44,863	-	44,863
			\$ 344,409	\$ (10,499)	\$ 333,910

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE C – INVESTMENTS

A summary of investments at June 30, 2014 are as follows:

Investments	Ratings	Fair Value
Held at Merrill Lynch investment account		
Equity securities	Not Rated	\$ 2,178,214
Alternative investments	Not Rated	502,990
Mutual funds	Not Rated	359,090
		3,040,294
Investments not subject to categorization		
New Mexico State Investment Council (NMSIC) pooled funds		
Fixed income securities		2,626,248
Equity securities		16,484,062
Accrued NMSIC distribution pass-through from the Institute		(700,000)
		18,410,310
Insurance annuity investments at New York Life		1,620,637
Total investments		\$ 23,071,241

Investments not subject to categorization are principally held at the New Mexico State Investment Council which provides investment services in accordance with its policies and statutory requirements NMSA Section 6-8-9. NMSIC issues a separate, publicly available financial report that includes financial statements and required supplementary information. Information relating to NMSIC's use of derivatives is not made available to the Foundation. For additional GASB 40 disclosure information related to the above investments held at NMSIC, the reader should refer to the separate audit report of the New Mexico State Investment Council for the fiscal year ended June 30, 2014.

NOTE D – 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 \$993,912 of which \$165,776 is current and \$828,136 is noncurrent. The note bears a variable rate of interest based on Wall Street Journal Prime (currently 3.25%), and is payable monthly over 15 years and is secured by the building.

The Foundation also has a note receivable in the amount of \$156,077, of which \$2,662 is current and \$153,415 is noncurrent. 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 remaining balance due at maturity.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE E – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and building held for investment	\$ 153,150	\$ 460,063	\$ -	\$ 613,213
Artwork	130,500	-	-	130,500
	<u>283,650</u>	<u>460,063</u>	<u>-</u>	<u>743,713</u>
Total capital assets not being depreciated				
	<u>283,650</u>	<u>460,063</u>	<u>-</u>	<u>743,713</u>
Capital assets being depreciated				
Building	1,648,127	-	-	1,648,127
Patents	21,842	-	-	21,842
	<u>1,669,969</u>	<u>-</u>	<u>-</u>	<u>1,669,969</u>
Accumulated depreciation				
Building	(615,666)	(59,932)	-	(675,598)
Patents	-	-	-	-
	<u>(615,666)</u>	<u>(59,932)</u>	<u>-</u>	<u>(675,598)</u>
Capital assets, net	<u>\$ 1,337,953</u>	<u>\$ 400,131</u>	<u>\$ -</u>	<u>\$ 1,738,084</u>

NOTE F – 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 value of \$1,620,637 which is the Annuity payable at June 30, 2014. The insurance annuity was acquired to benefit the president of the Institute. The Foundation's annual contribution to the insurance annuity was \$153,000 in 2014.

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 expired in June, 2014 and was renewed after year end. Lease revenues were \$97,041 for 2014.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE F – RELATED PARTY TRANSACTIONS AND DONATED SERVICES – CONTINUED

The Foundation has a receivable of \$700,000 from the Institute for a distribution it received from the State Investment Council in July 2014. The purpose of the distribution is to fund annual scholarships. The amount was collected by the Foundation in July 2014.

During 2013, the Foundation made a short-term loan to CAaNES, LLC, a related party through direct ownership by the New Mexico Tech Research Park Corporation, a component unit of the Institute. The purpose of the loan was to cover operating costs. The balance owed was \$91,150 at June 30, 2013 bearing interest at 4.25%. The principal plus interest of \$2,562 was repaid by CAaNES, LLC to the Foundation during the year ended June 30, 2014.

NOTE G – 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 H – DONOR RESTRICTED ENDOWMENTS

The Foundation solicits contributions to support the activities of the Institute. Contributions received may be unrestricted or restricted in perpetuity or over certain time for the benefit of the Institute. The amount of donor-restricted funds at June 30, 2014 was \$2,247,401. Income investment from donor restricted assets is generally available for scholarships or other unrestricted purposes.

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 the earnings of its endowment consistent with donor provisions.

Net appreciation/depreciation on donor restricted endowments and related investment income are recorded as an increase in 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 (Chapter 46, Article 9A 1-10 NMSA 1978). During the current year, donor-restricted endowments had investment income of \$350,158.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2014

NOTE I – CONTINGENT LIABILITY

During the year ended June 30, 2014, NM Tech Research Foundation was a defendant in a lawsuit involving a dispute with a business partner. The complaint claims failure by the Foundation to provide or disclose technical information related to the licensing of patent to allow the licensee to commercialize the patent, and failure to create a legal entity with an operating agreement. Subsequent to July 1, 2014, the Foundation agreed to pay \$475,000 to settle the matter in full. \$150,000 was covered by liability insurance. The matter was settled on October 7, 2014.

At June 30, 2014, it was not probable or reasonably possible to determine whether such a liability or amount of liability existed, as such, a loss contingency accrual was not determined necessary.

SUPPLEMENTARY INFORMATION



CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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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. Hector H. Balderas
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 as of and for the year ended June 30, 2014, and have issued our report thereon dated November 14, 2014.

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. We identified a certain deficiency in internal control over financial reporting, described as item 2014-001 in the accompanying schedule of findings and responses that we consider to be significant deficiency in internal control over financial reporting.

Compliance and Other Matters

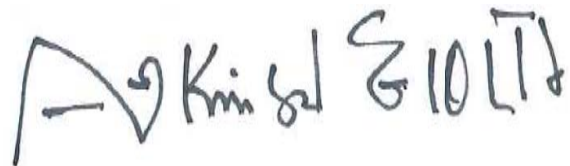
As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

The Foundation's Response to Finding

The Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Foundation's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

A handwritten signature in blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a smaller 'K'.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
November 14, 2014

SUMMARY OF AUDIT FINDINGS

Year Ended June 30, 2014

Prior Year Finding Description

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

None

Findings – Financial Statement Audit

2013-001 Net Position Classifications (Significant Deficiency) – Resolved

Current Year Finding Description

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

None

Findings – Financial Statement Audit

2014-001 Financial Close and Reporting (Significant Deficiency)

SCHEDULE OF FINDING AND RESPONSE

June 30, 2014

CURRENT YEAR FINDING – CONTINUED

2014-001 FINANCIAL CLOSE AND REPORTING (SIGNIFICANT DEFICIENCY)

CONDITION

The following errors were noted during substantial audit testwork over endowment investments and compensated absences:

- Endowment investments included contributions for \$1,124,624 which was erroneously recorded in net position instead of contribution revenue.
- Expenses were overstated as of July 1, 2014 in the amount of \$791,633 due to posting FY13 closing audit entries to the incorrect fiscal year.
- Due from the Institute in the amount of \$700,000 was not recorded at June 30, 2014.
- Outstanding checks include \$5,024 of a stale dated check greater than one year old.
- The bank reconciliation omitted a June disbursement in the amount of \$4,295 which was cleared in July 2014.
- Uninsured and uncollateralized funds of \$33,212 exceeded FDIC coverage at June 30, 2014.

CRITERIA

Good accounting practices require regular and systematic reconciliations of significant asset and liability accounts.

CAUSE

Due to turnover within the accounting department at year end, as well as limited staffing and training, inadequate reconciliation and review of donor contributions activity, posting year-end audit adjustments, and other annual adjustments.

EFFECT

Beginning net position was overstated by \$1,794,467 and scholarship related expenditure accounts were misstated in the current year.

RECOMMENDATION

We recommend that procedures over the recording of contributions received, year-end audit entries, and other monthly reconciliations be reviewed and strengthened to include a reconciliation of revenue accounts and expenditure accounts, and a thorough review of investments and net asset schedules, reconciliations, and journal entries prepared.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

The Foundation management is in the process of converting its accounting system within the Banner Programs of the university. Management and staff will work with the university accounting staff to adjust the ending balances in the new accounting system now and in the future. As the books are closed, foundation staff will seek approval of the foundation executive director and the foundation president to ensure all entries are posted properly along with reconciliations and journal entries.

Point of contact: Jenny Ma, Accountant

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

FINANCIAL STATEMENT PREPARATION AND EXIT CONFERENCE

June 30, 2014

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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 November 5, 2014 and attended by the following:

For The New Mexico Tech Research Foundation:

Lonnie Marquez
Jenny Ma
Colleen Guengerich

Trustee
Accountant
Executive Director

For Atkinson & Co., Ltd.:

Martin Mathisen, CPA, CGFM
Clarke Cagle, CPA, CCIFP, CGFM
Lisa Harrison

Shareholder/Audit Director
Audit Director
Audit Staff

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