



**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, 2015

atkinson

PRECISE. PERSONAL. PROACTIVE.

C O N T E N T S

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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, 2015

W.D. Peterson	President
Daniel H. Lopez	Vice President
Ann Murphy Daily	Secretary
Alex Thyssen	Assistant Secretary/Treasurer
Charlotte Lamont	Assistant Secretary
James Reist	Assistant Secretary
Holm Bursum III	Trustee
Lonnie Marquez	Trustee
Chris Baca	Trustee
Jerry A. Armijo	Trustee
Raul Deju	Trustee
Abe Silver	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. Timothy Keller
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 (the Institute), as of and for the year ended June 30, 2015, 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Foundation, as of June 30, 2015, 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.

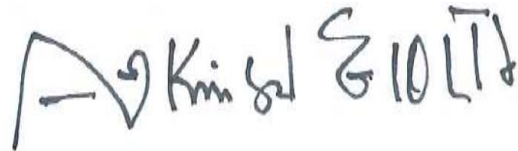
Other Matters

Required Supplementary Information

For the year ended June 30, 2015, 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 30, 2015, 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 blue ink, appearing to read "Atkinson & Co., Ltd.", with a stylized logo to the left consisting of a large 'A' and a checkmark-like shape.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 30, 2015

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

STATEMENT OF NET POSITION

June 30, 2015

ASSETS

Current assets:

Cash and cash equivalents	\$ 173,651
Notes receivable, current portion	168,800
Prepaid life insurance premium	153,000
Investments, restricted expendable	980,197
Investments, unrestricted	<u>19,663,631</u>

Total current assets 21,139,279

Noncurrent assets:

Notes receivable, less current portion	812,505
Investments, restricted non-expendable	2,775,843
Charitable remainder unitrust	105,198
Capital assets, net of accumulated depreciation of \$735,530	1,654,511
Intangible assets, net of accumulated amortization of \$22,512	<u>92,357</u>

Total noncurrent assets 5,440,414

Total assets \$ 26,579,693

LIABILITIES AND NET POSITION

Current liabilities:

Accounts payable	\$ 7,423
Charitable remainder unitrust payable	<u>1,507</u>

Total current liabilities 8,930

Long-term liabilities:

Annuity payable	<u>1,832,269</u>
-----------------	------------------

Total long-term liabilities 1,832,269

Total liabilities 1,841,199

NET POSITION

Net investment in capital and intangible assets	1,746,868
Restricted, non-expendable	2,775,843
Restricted, expendable	980,197
Unrestricted	<u>19,235,586</u>

Total net position 24,738,494

Total liabilities and net position \$ 26,579,693

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, 2015

OPERATING REVENUES:	
Lease income	<u>\$ 90,427</u>
Total operating revenues	90,427
OPERATING EXPENSES:	
Awards and scholarships	1,487,437
Support of New Mexico Institute of Mining and Technology	1,020,218
General and administrative expenses	142,519
Retainage annuity insurance premium	153,000
Depreciation	59,932
Patent amortization	<u>22,512</u>
Total operating expenses	<u>2,885,618</u>
Operating loss	(2,795,191)
NONOPERATING ACTIVITIES:	
Net unrealized gain on securities	978,945
Contributions from donors	1,859,294
Interest/dividend income	342,322
Gain on sale of property	4,200
Settlement of patent dispute	<u>(325,000)</u>
Net non-operating activities	<u>2,859,761</u>
CHANGE IN NET POSITION	64,570
Net position, beginning of year	<u>24,673,924</u>
Net position, end of year	<u>\$ 24,738,494</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, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Lease income	\$ 90,427
Payments to New Mexico Tech - awards and scholarships	(1,487,437)
Payments to New Mexico Tech - Other support	(1,127,149)
Payments to suppliers and others	<u>(244,516)</u>
Net cash flows used in operating activities	(2,768,675)

CASH FLOWS FROM INVESTMENT ACTIVITIES

Contributions received from donors	1,859,294
Proceeds from sales of investments	4,506,938
Purchases of investments	(2,205,269)
Reinvested investment income	(326,058)
Unrealized gain on investments	(978,945)
Cash received from sale of land held for investment	6,000
Gain on sale of land held for investment	(4,200)
Cash received from note receivable	168,684
Cash paid for patents	(93,028)
Payment for settlement of patent dispute	<u>(325,000)</u>
Net cash flows provided by investing activities	<u>2,608,416</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS (160,259)

Cash and cash equivalents, beginning of year	<u>333,910</u>
Cash and cash equivalents, end of year	<u>\$ 173,651</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, 2015

Reconciliation of operating income to net cash used

by operating activities:

Operating loss	\$ (2,795,191)
Adjustments to reconcile operating loss and net cash used in operating activities	
Depreciation and amortization	82,444
Changes in assets and liabilities	
Due from New Mexico Tech	700,000
Charitable remainder unitrust	(9,640)
Prepaid life insurance premium	(153,000)
Accounts payable	2,011
Annuity payable	211,632
Due to New Mexico Tech	<u>(806,931)</u>
Net cash used in operating activities	<u>\$ (2,768,675)</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During 2015, investments were written up to fair market value in the amount of \$978,945

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

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 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which codifies preexisting authoritative guidance from all sources into GASB standards and edits such standards for the government environment as appropriate. It further eliminates the election for proprietary fund and business type reporting entities to apply certain Financial Accounting Standards guidance after November 30, 1989.

The Foundation 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, 2015 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), which changes the classification of various financial statement balances including several more common type transactions to deferred outflows and inflows of resources for the year ended June 30, 2015. 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, 2015.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

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 and contribution 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.

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 the 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.

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

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, 2015 as the notes are secured by real estate.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Investments

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheet. 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 within the scope of its investment policy. The following are the target allocations for the investments:

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

Fair value is defined as the amount that the Foundation can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Due to the nature of investments, it is reasonable that changes in the value of investments will occur in the near future and changes could materially affect the amounts reported. The determination of fair values includes, among other things, published market prices, prices obtained from pricing services, and prices quoted by independent brokers at current exchange rates.

The Foundation has an agreement with the Institute for investment of the majority of the Foundation's funds. The majority of investments of the Foundation are held by the New Mexico State Investment Council. 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, 2015.

The 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 position 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

7. Investments – Continued

Information relating to SIC's use of derivatives is not made available to the Foundation. For additional GASB 40 disclosure information related to the investments held at SIC, the reader should refer to the separate audit report and required supplementary information of SIC for the fiscal year ended June 30, 2015. That report may be obtained by writing to State Investment Council, 41 Plaza la Prensa, Santa Fe, New Mexico 87507. The report is also available on the SIC website at www.sic.state.nm.us.

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

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 or through September 2015, whichever occurs first. 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. The final payment to the beneficiary under this agreement occurred on September 1, 2015 and at that time the remainder of the assets in the Charitable remainder unitrust became the unrestricted assets of the Foundation.

9. Capital Assets

The Foundation records tangible and intangible capital assets purchased at cost; and donations at their estimated fair value on the date of donation. The building 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.

10. Patents

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

Legal fees for patent expenditures that have no expectation to achieve patent approval in the future were expensed as incurred in the amount of \$32,847 during the year ended June 30, 2015.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 the estimated useful life of capital and intangible assets, and valuation of investments and the insurance annuity.

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, 2015. 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, 2015. Under the statute of limitations, the Foundation's tax returns are no longer subject to examination by tax authorities for years prior to 2012.

13. Subsequent Events

Subsequent events have been evaluated through October 30, 2015, 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, 2015. Management believes there are no material subsequent events which have arisen that would require adjustment or disclosure.

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 has a deposit policy for custodial credit risk and collateral requirements. As of June 30, 2015, the Foundation's deposits were exposed to custodial credit risk as follows:

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, 2015

NOTE B – CASH AND BANK DEPOSITS – CONTINUED

1. Custodial Credit Risk - Continued

	First State Bank	Wells Fargo	Bank of America	Total
Total of deposits in the bank	\$ 374,101	\$ 10,486	\$ 5,872	\$ 390,459
FDIC coverage	(350,584)	(10,486)	(5,872)	(366,942)
Total uninsured funds	\$ 23,517	\$ -	\$ -	\$ 23,517
Custodial credit risk-deposits				
Account balance				\$ 390,459
FDIC insured				(366,942)
Uninsured and uncollateralized				\$ 23,517
Total deposits				\$ 390,459
Add: Money market				33,163
Total Deposits				\$ 423,622

Deposit classification in the financial statements at June 30, 2015 follows:

Name of Depository	Account Name	Bank Account Type	Bank Balance	Reconciling Items	Financial Statement Balance
First State Bank	Checking	Cash	\$ 273,517	\$ (249,971)	\$ 23,546
First State Bank	Savings	Cash	584	-	584
First State Bank	Certificate	CD	100,000	-	100,000
Bank of America	Checking	Cash	5,872	-	5,872
Wells Fargo	Checking	Cash	10,486	-	10,486
Merrill Lynch	Investment	Money Market	33,163	-	33,163
			\$ 423,622	\$ (249,971)	\$ 173,651

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, 2015

NOTE C – INVESTMENTS

A summary of investments at June 30, 2015 are as follows:

Investments	Ratings	Fair Value
Held at Merrill Lynch investment account		
Mutual funds	Not Rated	\$ 3,314,143
Alternative investments	Not Rated	338,040
Equity securities	Not Rated	1,389
		3,653,572
Investments not subject to categorization		
New Mexico State Investment Council		
pooled funds		
Equity securities		9,919,421
Fixed income securities		8,014,409
		17,933,830
Insurance annuity investments at New York Life		
		1,832,269
Total investments		\$ 23,419,671

Investments not subject to categorization are held at the SIC which provides investment services in accordance with its policies and statutory requirements NMSA Section 6-8-9.

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 \$827,998 of which \$166,000 is reported as a current asset and \$661,998 is a noncurrent asset. 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 also has a note receivable in the amount of \$153,307, of which \$2,800 is reported as a current asset and \$150,507 is a noncurrent asset. The real estate sold is the underlying collateral for the note receivable. The note bears a 6% interest rate and is payable monthly over 36 months with 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, 2015

NOTE E – CAPITAL ASSETS

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and building held for investment	\$ 613,213	\$ -	\$ (1,800)	\$ 611,413
Artwork	130,500	-	-	130,500
Total capital assets not being depreciated	743,713	-	(1,800)	741,913
Capital assets being depreciated				
Building	1,648,127	-	-	1,648,127
Accumulated depreciation				
Building	(675,598)	(59,932)	-	(735,529)
Capital assets, net	<u>\$ 1,716,242</u>	<u>\$ (59,932)</u>	<u>\$ (1,800)</u>	<u>\$ 1,654,511</u>

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

NOTE F - INTANGIBLE ASSETS

Identifiable intangible assets consist of the following at June 30, 2015:

	Beginning Balance	Increases	Decreases	Ending Balance
Amortized patents				
Cost	\$ 21,841	\$ 61,762	\$ -	\$ 83,603
Less accumulated amortization	-	(22,512)	-	(22,512)
	21,841	39,250	-	61,091
Unamortized patents				
Cost	-	31,266	-	31,266
	<u>\$ 21,841</u>	<u>\$ 70,516</u>	<u>\$ -</u>	<u>\$ 92,357</u>

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, 2015

NOTE F - INTANGIBLE ASSETS - CONTINUED

Estimated aggregate amortization expense for each of the five years succeeding June 30, 2015, is as follows:

2016	\$	6,084
2017		6,084
2018		6,084
2019		6,084
2020		6,084
Thereafter		<u>30,671</u>
	\$	<u>61,091</u>

Amortization expense charged to earnings was \$22,512 for the year ended June 30, 2015. The pending patents will be amortized upon patent application acceptance or immediately expensed upon refusal of the patent application. Eleven patents have been approved and management is amortizing the values over the life of the patents of twenty years. Management anticipates the approval of all patents pending.

NOTE G – 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 \$52,204 to the Foundation for accounting and management services during the year ended June 30, 2015.

The Foundation owns an insurance annuity through New York Life with a fair value of \$1,832,269 which is the annuity payable at June 30, 2015. 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 2015. The President of the Institute is set to retire on June 30, 2016, and expects to receive the benefit of this annuity.

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

The Foundation leases an apartment building to the Institute. The lease is classified as an operating lease on a month-to-month basis and expired in June, 2014, and was renewed after year end. Lease revenues were \$90,427 for 2015.

The Foundation received \$700,000 from the Institute and repaid \$806,931 to the Institute during the year ended June 30, 2015 related to funding scholarships.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE G – RELATED PARTY TRANSACTIONS AND DONATED SERVICES - CONTINUED

The Foundation funded \$1,487,437 in scholarships and awards provided to the Institute during the year ended June 30, 2015.

The Foundation provided other support in the amount of \$405,756 during 2015.

The Foundation provided \$200,000 to the Advance Office for fundraising during 2015.

The Foundation received a stock donation of \$381,441, which it passed on to the Institute during 2015.

NOTE H – 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 years.

During the year ended June 30, 2014, the Foundation was named as a defendant in a lawsuit involving a dispute with a business partner. The complaint claimed failure by the Foundation to provide or disclose technical information related to the licensing of a patent which would allow the licensee to commercialize the patent, and failure to create a legal entity with an operating agreement. This matter was settled on October 7, 2014 with the Foundation agreeing to pay \$475,000 to settle the matter in full. Of the total, \$150,000 was covered by liability insurance. No other settlements have occurred that exceeded coverage in the prior three years.

NOTE I – DONOR RESTRICTED ENDOWMENTS

The Foundation solicits contributions to support the activities of the Institute. Contributions received may be unrestricted, restricted for a certain time or for a certain purpose, or restricted in perpetuity. Amounts which are restricted in perpetuity are classified as Restricted, non-expendable on the statement of net position, and were \$2,775,843 at June 30, 2015.

Net appreciation/depreciation on donor restricted endowments and related investment income are recorded as an increase or decrease 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). The investment income, including realized gains, from the restricted, non-expendable net position as well as balance of the unrestricted net position is generally available for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. During the current year, donor-restricted endowments had investment loss of \$22,900.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE I – DONOR RESTRICTED ENDOWMENTS – CONTINUED

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original contribution as of the contribution date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as restricted, non-expendable net position (a) the original value of contribution to the endowment, (b) the original value of subsequent contribution to the endowment, (c) accumulations to the endowment made in accordance with the direction of the applicable donor agreement at the time the contribution is added to the fund. During the current year, the Foundation reclassified \$159,305 from unrestricted net position to restricted, non-expendable to cover certain donor endowments, whose fair value was less than the original value (under water) of the contribution to the endowment.

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

1. The duration and preservation of the various fund,
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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2015

NOTE I – DONOR RESTRICTED ENDOWMENTS – CONTINUED

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.

NOTE J - NEW ACCOUNTING STANDARD

Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application* (GASB 72) provides guidance for determining a fair value measurement for financial accounting and reporting purposes and requires additional disclosures related to fair value measurements. GASB 72 defines *fair value* as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement sets fair value to be described as an exit price. GASB 72 requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. GASB 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels: Level 1 inputs are quoted prices (unadjusted) in active markets. Level 2 inputs are inputs - other than quoted prices - that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs.

Fair value application generally requires investments to be measured at fair value. An *investment* is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments not measured at fair value continue to include, for example, money market investments, 2a-7 like external investment pools, investments in life insurance contracts, common stock meeting the criteria for applying the equity method, unallocated insurance contracts, and synthetic guaranteed investment contracts. GASB 72 requires measurement at acquisition value (an entry price) for donated capital assets, donated works of art, historical treasures, and similar assets and capital assets received in a service concession arrangement. These assets were previously required to be measured at fair value.

GASB 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). GASB 72 is applicable for financial statements for periods beginning after June 15, 2015 (FY 16).

SUPPLEMENTARY INFORMATION



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The New Mexico Tech Research Foundation (the Foundation), a Component Unit of The New Mexico Institute of Mining and Technology as of and for the year ended June 30, 2015, and have issued our report thereon dated October 30, 2015.

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 2015-001 in the accompanying schedule of findings and responses that we consider to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

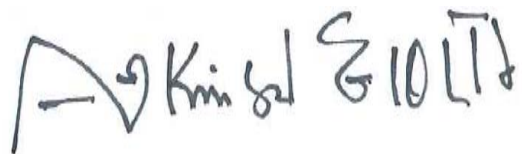
As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 finding and response. 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 black ink, appearing to read "Atkinson & Co., Ltd.", with a stylized flourish on the left side.

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 30, 2015

SUMMARY OF AUDIT FINDINGS

Year Ended June 30, 2015

Prior 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) – Resolved

Current Year Finding Description

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

None

Findings – Financial Statement Audit

2015-001 Patent Reconciliation and Classification (Significant Deficiency)

SCHEDULE OF FINDING AND RESPONSE

Year Ended June 30, 2015

CURRENT YEAR FINDING

2015-001 PATENT RECONCILIATION AND CLASSIFICATION (SIGNIFICANT DEFICIENCY)

CONDITION

During audit testing of the capitalized patent costs as well as current year expenditures, the following issues were identified:

- The four patents that were previously capitalized at a total of \$21,841, and which were awarded between 2001 and 2003, were not being amortized as required by accounting standards.
- We found that the costs for seven additional patents which had been awarded and four that had applications pending, had not been tracked by the individual patents.
- Additionally, because the costs are not being tracked for each of the patents, it would be difficult for management to perform a thorough and accurate evaluation to determine what if any costs should be capitalized for patents that are deemed to have a future value to the Foundation.

CRITERIA

Accounting standards require that an entity track and accumulate costs associated with assets that are capitalizable, such as patents. These assets are then amortized over their expected useful lives and tested for impairment in subsequent years based on the expected value they will bring to the entity.

CAUSE

Due to transitions in responsibility for certain accounting functions, the Foundation did not follow its policies and procedures to recognize capitalization versus expense classification and when to begin amortization regarding patents.

EFFECT

Capitalized costs for patents were understated by \$93,028 and related accumulated amortization of these costs was understated by \$22,512.

RECOMMENDATION

We recommend that management develop policies and procedures regarding reconciling costs associated with each of the individual patent applications as the costs are being incurred. Once a patent is awarded, management should perform an evaluation as to whether the subject patent is likely to generate future income to the Foundation from either the sale of the patent or allowing others to use the patent. If there is no future benefit to the Foundation these costs would be expensed at that time. However, we recommend that management continue to track the costs for the patents outside of the accounting system as a way for management and the Board to track these activities.

SCHEDULE OF FINDING AND RESPONSE – CONTINUED

Year Ended June 30, 2015

CURRENT YEAR FINDING – CONTINUED

2015-001 PATENT RECONCILIATION AND CLASSIFICATION – CONTINUED

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Management is currently asking the patent advisory committee to evaluate all patents to determine their potential, and advise the New Mexico Tech Research Foundation of their findings. Those patents deemed to have no potential value will be assessed for impairment in the future and then removed from the Foundation patent inventory. The remaining patent costs will be capitalized along with corresponding amortization.

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, 2015

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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 October 27, 2015, and attended by the following:

For The New Mexico Tech Research Foundation:

W.D. Peterson
Lonnie Marquez
Jenny Ma
Colleen Guengerich

President
Trustee
Accountant
Executive Director

For Atkinson & Co., Ltd.:

Clarke Cagle, CPA, CCIFP, CGFM
Mike Reeves, CPA

Audit Shareholder
Senior Manager

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