

The logo for atkinson, featuring the word in a lowercase serif font with a small green dot above the letter 'i'.

Precise.

Personal.

Proactive.

**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, 2016**

atkinson

CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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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, 2016

W.D. Peterson	President
Jerry A. Armijo	Vice President
Ann Murphy Daily	Secretary/Treasurer
Colleen Guengerich	Executive Director
Charlotte Lamont	Assistant Secretary
James Reist	Assistant Secretary
Holm Bursum III	Trustee
Joanna DeBrine	Trustee
Chris Baca	Trustee
Paul Shoemaker	Trustee
Raul Deju	Trustee
Richard Cervantes	Trustee

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

### Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of The New Mexico Tech Research Foundation (the Foundation), a Component Unit of The New Mexico Institute of Mining and Technology (the Institute), which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Foundation, as of June 30, 2016, 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, 2016, 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 Information*

The schedule of vendor information, required by 2.2. NMAC, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2016, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting.

ATKINSON & CO., LTD

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 11, 2016

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

**STATEMENT OF NET POSITION**

June 30, 2016

ASSETS

Current assets:	
Cash and cash equivalents	\$ 335,090
Notes receivable, current portion	183,170
Investments, restricted expendable	605,036
Investments, unrestricted	<u>19,782,614</u>
Total current assets	20,905,910
Noncurrent assets:	
Notes receivable, less current portion	674,271
Investments, restricted non-expendable	3,391,072
Capital assets, net of accumulated depreciation of \$795,461	1,628,329
Intangible assets, net of accumulated amortization of \$28,992	<u>177,480</u>
Total noncurrent assets	<u>5,871,152</u>
Total assets	<u>\$ 26,777,062</u>

LIABILITIES AND NET POSITION

Current liabilities:	
Accounts payable	\$ 126,082
Due to New Mexico Tech	<u>17,492</u>
Total current liabilities	143,574
Long-term liabilities:	
Annuity payable	2,165,028
Other liabilities	<u>28,342</u>
Total long-term liabilities	<u>2,193,370</u>
Total liabilities	2,336,944

NET POSITION

Net investment in capital and intangible assets	1,805,809
Restricted, non-expendable	3,391,072
Restricted, expendable	605,036
Unrestricted	<u>18,638,201</u>
Total net position	<u>24,440,118</u>
Total liabilities and net position	<u>\$ 26,777,062</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 REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

Year Ended June 30, 2016

OPERATING REVENUES:	
Lease income	\$ 97,663
	<hr/>
Total operating revenues	97,663
OPERATING EXPENSES:	
Awards and scholarships	971,596
Support of New Mexico Institute of Mining and Technology	849,591
Retainage annuity insurance premium	306,000
General and administrative expenses	199,312
Depreciation	59,932
Patent amortization	11,388
Patent expense	8,358
	<hr/>
Total operating expenses	2,406,177
	<hr/>
Operating loss	(2,308,514)
NON-OPERATING ACTIVITIES:	
Contributions from donors	1,242,446
Investment income	500,238
Net unrealized gain on securities	184,918
Gain on sale of patents	49,891
Interest income	32,645
	<hr/>
Net non-operating activities	2,010,138
	<hr/>
CHANGE IN NET POSITION	(298,376)
	<hr/>
Net position, beginning of year	24,738,494
	<hr/>
Net position, end of year	\$ 24,440,118
	<hr/> <hr/>

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



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

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Lease income	\$ 97,663
Payments to New Mexico Tech - awards and scholarships	(971,596)
Payments to New Mexico Tech - Other support	(832,099)
Other income	<u>31,067</u>
Net cash flows used in operating activities	(1,674,965)
CASH FLOWS FROM INVESTING ACTIVITIES	
Contributions received from donors	1,812,029
Proceeds from sales of investments	1,619,139
Purchases of investments	(1,227,015)
Reinvested investment income	(481,618)
Proceeds from sale of patents	50,000
Proceeds from notes receivable	173,864
Cash paid for patents	<u>(109,995)</u>
Net cash flows provided by investing activities	<u>1,836,404</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	161,439
Cash and cash equivalents, beginning of year	<u>173,651</u>
Cash and cash equivalents, end of year	<u>\$ 335,090</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, 2016

Reconciliation of operating income to net cash used by operating activities:	
Operating loss	\$ (2,308,514)
Adjustments to reconcile operating loss and net cash used in operating activities	
Abandoned patent write-off	8,358
Gain on sale of patent	(46,549)
Depreciation and amortization	71,320
Changes in assets and liabilities	
Decrease in prepaid life insurance premium	153,000
Increase in accounts payable	98,676
Increase in annuity payable	332,759
Decrease in charitable remainder unitrust payable	(1,507)
Increase in due to New Mexico Tech	17,492
	<hr/>
Net cash used in operating activities	<u>\$ (1,674,965)</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

During 2016, investments were written up to fair market value in the amount of \$184,918.

During 2016, the Foundation sold a patent for \$100,000 with a net book value of \$5,126 for \$50,000 in cash plus a note receivable for \$50,000. As part of the sale, the Foundation recorded an expense in the amount of \$48,325 to the patent inventors that reduced the gross gain on sale down to \$46,549.

During 2016, the Foundation received a donation of land with a fair market value of \$33,750.

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

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

1. Reporting Entity

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

2. Basis of Presentation

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

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

The Foundation 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, 2016 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, 2016. 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, 2016.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

2. Basis of Presentation - Continued

The Foundation implemented Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurements and Application*, which requires certain assets and liabilities to be measured at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. This statement is effective for periods beginning after June 15, 2015.

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 or contractually obligated to spend in accordance with imposed restrictions by third parties. Restricted expendable net position is released from restriction as the purpose restrictions are met.

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

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

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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, 2016.

7. Investments

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

7. Investments – Continued

The Foundation has an agreement with the Institute for investment of the majority of the Foundation's funds. The majority of investments of the Foundation are held by the New Mexico State Investment Council (SIC). The Foundation's funds are combined with those of several other funds of SIC. Income is allocated based on the proportionate market value of the investment of each participating fund. The insurance annuity is invested in underlying fixed income bond and index funds valued at fair value at June 30, 2016.

Information relating to SIC's use of derivatives is not made available to the Foundation. For GASB 40 disclosure information related to the investments held at SIC, the reader should refer to the separate audit report and required supplementary information of SIC for the fiscal year ended June 30, 2016. 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](http://www.sic.state.nm.us).

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

8. Private Equity Investments

Private equity investment represents ownership in closely held businesses, which are not publicly traded. Private equity investments are recorded in the financial statements on the accrual basis. These investments are recorded on the equity method of accounting in accordance with GASB 31 as the Foundation owns between 20% and 50% of the businesses and is able to exercise some level of control.

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

Private equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. The only private equity investment that is owned by the Foundation has been fully impaired and continues to have a recorded fair value of \$0 at June 30, 2016.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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 is written off at that time.

Legal fees for patent expenditures not related to patent approval in the future were expensed as incurred in the amount of \$36,584 during the year ended June 30, 2016.

11. Classification of Revenues

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2016

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

12. Endowments

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

13. Estimates

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

14. Income Taxes

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

The Foundation applies the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. There were no uncertain tax positions taken by the Foundation for the year ended June 30, 2016. 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, 2016. Under the statute of limitations, the Foundation's tax returns are no longer subject to examination by tax authorities for years prior to 2013.

15. Subsequent Events

Subsequent events have been evaluated through November 11, 2016, 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, 2016. Management believes there are no 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, 2016

**NOTE B – CASH AND CASH EQUIVALENTS**

1. Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. The Foundation has a deposit policy for custodial credit risk and collateral requirements. As of June 30, 2016, the Foundation's deposits were exposed to custodial credit risk as follows:

	First State Bank	Wells Fargo	Total
Total of deposits in the bank	\$ 296,765	\$ 10,489	\$ 307,254
FDIC coverage	(250,000)	(10,489)	(260,489)
Total uninsured funds	\$ 46,765	\$ -	\$ 46,765
Custodial credit risk-deposits			
Account balance			\$ 307,254
FDIC insured			(260,489)
Uninsured and uncollateralized			\$ 46,765
Total deposits			\$ 307,254
Add: Money market			46,308
Total Deposits			\$ 353,562

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

Deposit Classification in the financial statements at June 30, 2016 follows:

Name of Depository	Account Name	Bank Account Type	Bank Balance	Reconciling Items	Financial Statement Balance
First State Bank	Checking	Cash	\$ 195,779	\$ (18,472)	\$ 177,307
First State Bank	Savings	Cash	986	-	986
First State Bank	Certificate	CD	100,000	-	100,000
Wells Fargo	Checking	Cash	10,489	-	10,489
Merrill Lynch	Investment	Money Market	46,308	-	46,308
			\$ 353,562	\$ (18,472)	\$ 335,090

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, 2016

**NOTE C – INVESTMENTS**

A summary of investments at June 30, 2016 are as follows:

Investments	Ratings	Fair Value
Held at Merrill Lynch investment account		
Mutual funds		
Marketable Equities	Not Rated	\$ 3,043,978
Fixed Income	Not Rated	696,994
Alternative Investments	Not Rated	295,990
Marketable Common Stock	Not Rated	1,184
		4,038,146
Investments held with the New Mexico State Investment Council (SIC) pooled funds:		
Large Cap Index Fund	Not Rated	9,156,678
Core Plus Bonds Pool	Not Rated	8,418,870
		17,575,548
Insurance annuity investments at New York Life:		
Mainstay VP SP 500	Not Rated	440,755
Mainstay VP Hi Yd Bond Fund	Not Rated	535,030
Fidelity Contra Fund	Not Rated	440,921
Fixed Income	Not Rated	748,322
		2,165,028
Total investments		\$ 23,778,722

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

*Interest Rate Risk.* Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2016, the Foundation had fixed income and bond type investments subject to interest rate risk.

*Credit Risk.* Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2016, none of the above investments were subject to credit risk.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2016

### NOTE D – FAIR VALUE OF INVESTMENTS

During fiscal year 2016, the Foundation adopted the Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which establishes fair value standards for certain investments held by governmental entities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

- |         |   |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.  |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none"><li>• quoted prices for similar assets or liabilities in active markets;</li><li>• quoted prices for identical or similar assets or liabilities in inactive markets;</li><li>• inputs other than quoted prices that are observable for the asset or liability;</li><li>• inputs that are derived principally from or corroborated by observable market data by correlation or other means.</li></ul> If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement.   |

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

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2016.

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, 2016

**NOTE D – FAIR VALUE OF INVESTMENTS – CONTINUED**

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

During 2016, the Company used quoted market prices in an active market to determine the fair value of debt and equity securities and mutual funds. These measurements are classified within Level 1 of the fair value hierarchy. The Company uses the net asset value provided by the SIC as an approximation of the fair value of SIC investments. These measurements are classified within Level 2 of the fair value hierarchy. Neither of these approaches changed from previous periods.

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

The following table presents the fair value measurements of assets and liabilities at June 30, 2016:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
At June 30, 2016				
Held at Merrill Lynch investment account				
Mutual funds:				
Marketable common stock	\$ 1,184	\$ 1,184	\$ -	\$ -
Marketable Equities	3,043,978	3,043,978	-	-
Fixed Income	696,994	696,994	-	-
Alternative Investments	295,990	-	295,990	-
Investment in Srypto, Inc. common stock	-	-	-	-
Investments held with the New Mexico State Investment Council (SIC) pooled funds:				
Core Plus Bonds Pool	8,418,869	-	8,418,869	-
Large Cap Index Fund	9,156,678	-	9,156,678	-
Insurance annuity investments at New York Life:				
Mainstay VP SP 500	440,755	-	440,755	-
Mainstay VP Hi Yd Bond Fund	535,030	-	535,030	-
Fidelity Contra Fund	440,921	-	440,921	-
Fixed Income	748,322	-	748,322	-
	<u>\$ 23,778,721</u>	<u>\$ 3,742,156</u>	<u>\$ 20,036,565</u>	<u>\$ -</u>

\*Investment in Srypto, Inc. was fully impaired.

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, 2016

**NOTE E – NOTES RECEIVABLE – CONTINUED**

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 \$657,267 of which \$170,800 is reported as a current asset and \$486,467 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 \$150,174, of which \$3,200 is reported as a current asset and \$146,974 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 Foundation received a \$50,000 unsecured note receivable from RiskSense as part of the purchase of certain patent rights. The first principal payment in the amount of \$9,170 is recorded as a current asset and the remaining balance of \$40,840 is classified as a noncurrent asset. The note is dated August 31, 2015 and was made at 4.25 percent (prime + 1%). The note will be repaid with five annual payments, the first of which is due on or before August 31, 2016.

**NOTE F – CAPITAL ASSETS**

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and building held for investment	\$ 611,413	\$ 33,750	\$ -	\$ 645,163
Artwork	130,500	-	-	130,500
Total capital assets not being depreciated	741,913	33,750	-	775,663
Capital assets being depreciated				
Building	1,648,127	-	-	1,648,127
Accumulated depreciation				
Building	(735,529)	(59,932)	-	(795,461)
Capital assets, net	<u>\$ 1,654,511</u>	<u>\$ (26,182)</u>	<u>\$ -</u>	<u>\$ 1,628,329</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.

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, 2016

**NOTE G - INTANGIBLE ASSETS**

Identifiable intangible assets consist of the following at June 30, 2016:

	Beginning Balance	Increases	Decreases	Ending Balance
Amortized patents				
Cost	\$ 83,603	\$ 11,976	\$ (10,034)	\$ 85,545
Less accumulated amortization	(22,512)	(11,388)	4,908	(28,992)
	61,091	588	(5,126)	56,553
Unamortized patents				
Cost	31,266	98,019	(8,358)	120,927
	\$ 92,357	\$ 98,607	\$ (13,484)	\$ 177,480

Estimated aggregate amortization expense for each of the five years succeeding June 30, 2016, is as follows:

2017	\$ 6,540
2018	6,540
2019	6,540
2020	6,540
2021	6,540
Thereafter	23,853
	\$ 56,553

Amortization expense charged to earnings was \$11,388 for the year ended June 30, 2016. The pending patents will be amortized upon patent application acceptance or immediately expensed upon refusal of the patent application. Fourteen patents have been approved and management is amortizing the values over the life of the patents of twenty years. Management anticipates the approval of all patents pending.

**NOTE H – RELATED PARTY TRANSACTIONS AND DONATED SERVICES**

The Institute provides the Foundation's office space in exchange for property management services provided to the Institute by the Foundation. These transactions are not recorded in the Foundation's financial statements, as they are not significant and the value is not subject to reasonable estimation. The Institute charged \$56,340 to the Foundation for accounting and management services during the year ended June 30, 2016.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2016

**NOTE H – RELATED PARTY TRANSACTIONS AND DONATED SERVICES – CONTINUED**

The Foundation owns an insurance annuity through New York Life with a fair value of \$2,165,028 which is the annuity payable at June 30, 2016. The insurance annuity was acquired to benefit the President of the Institute. The Foundation's annual contribution to the insurance annuity was \$306,000 in 2016. The President of the Institute retired on June 30, 2016, and the ownership of this insurance annuity was transferred to him in July of 2016.

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

The Foundation leases an apartment building to the Institute. The lease is classified as an operating lease on a month-to-month basis as it had expired in June, 2014, and was renewed after year end. Lease revenues were \$97,663 for 2016.

The Foundation funded \$971,596 in scholarships and awards which were provided through the Institute during the year ended June 30, 2016.

The Foundation funded \$971,596 in scholarships and awards which were provided through the Institute during the year ended June 30, 2016. The funding for these scholarships comes primarily from assets held by the Foundation from which the Institute is entitled to 4.5% of the income, but has no title to the assets themselves. However, income earned on such assets upon which the Institute has claim is recorded in the accompanying basic financial statements.

The Foundation provided other support in the amount of \$849,591 to the Institute during 2016.

The Foundation received stock donations of \$95,944, which it liquidated and transferred tax proceeds to the Institute during 2016.

**NOTE I – RISK MANAGEMENT**

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

**NOTE J – DONOR RESTRICTED ENDOWMENTS**

The Foundation solicits contributions to support the activities of the Institute. Contributions received may be unrestricted, restricted for a certain time or for a certain purpose, or restricted in perpetuity. Amounts which are restricted in perpetuity are classified as restricted, non-expendable on the statement of net position, and were \$3,391,072 at June 30, 2016.

**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2016

**NOTE J – DONOR RESTRICTED ENDOWMENTS – CONTINUED**

Net appreciation/depreciation on donor restricted endowments and related investment income are recorded as an increase or decrease in restricted, expendable net position until the amount is expended in accordance with donor specifications. The investment policy is in accordance with the State of New Mexico Uniform Prudent Management of Institutional Funds Act (UPMIFA) (Chapter 46, Article 9A 1-10 NMSA 1978). The investment income, including realized gains, from the restricted, non-expendable net position as well as balance of the unrestricted net position is generally available for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. During the current year, donor-restricted endowments had investment losses of \$218,433.

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 \$257,341 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.



**NOTES TO FINANCIAL STATEMENTS – CONTINUED**

June 30, 2016

**NOTE J – DONOR RESTRICTED ENDOWMENTS – CONTINUED**

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

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

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

**SUPPLEMENTARY INFORMATION**

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

**SCHEDULE OF VENDOR INFORMATION FOR PURCHASES EXCEEDING \$60,000  
 (EXCLUDING GRT)  
 (UNAUDITED)**

As of June 30, 2016

RFB#/RFP#	Type of Procurement	Awarded Vendor	\$ Amount of Awarded Contract	\$ Amount of Amended Contract	Name and Physical Address per the procurement documentation, of <u>ALL</u> Vendor(s) that responded	In-State/ Out-of-State Vendor (Y or N) (Based on Statutory Definition)	Was the vendor in-state and chose Veteran's preference (Y or N) For federal funds answer N/A	Brief Description of the Scope of Work

There were no contracts exceeding \$60,000

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The New Mexico Tech Research Foundation (the Foundation), a Component Unit of The New Mexico Institute of Mining and Technology which comprise the Statement of Financial Position as of June 30, 2016, and the related Statements of Net Position, Revenues, Expenses, and Changes in Net Position and Cash Flows for the year then ended and the related notes to financial statements, and have issued our report thereon dated November 11, 2016.

**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. We did identify a deficiency in internal control over financial reporting, described as item 2016-001 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 responses. 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.

ATKINSON & CO., LTD

**Atkinson & Co., Ltd.**

Albuquerque, New Mexico  
November 11, 2016

**SUMMARY OF AUDIT FINDINGS**

Year Ended June 30, 2016

**Prior 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) – Resolved

**Current Year Finding Description**

*Findings in Accordance with 2.2.2 NMAC (State Audit Rule)*

None

*Findings – Financial Statement Audit*

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

**SCHEDULE OF FINDING AND RESPONSE**

Year Ended June 30, 2016

**CURRENT YEAR FINDING**

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

CONDITION

During our audit of the Foundation, we observed that a lack of segregation of duties existed necessary for accurate and complete financial close and reporting this condition is due to a reduction in accounting personnel in the prior year. The Foundation's current general ledger accountant has knowledge and experience to ensure the Foundation's account balances and transactions are recorded and reconciled but a second individual is currently not involved who also has accounting knowledge and expertise and is also familiar with the Banner software. As a result, there was no proper segregation of duties during the year over review and approval of certain monthly, quarterly or annual financial and accounting reconciliations.

We also became aware of an unrecorded investment in Srypto, Inc. (Srypto) by the Foundation for purposes of commercialization of specific patented technology owned by the Foundation. This ongoing investment in Srypto was not disclosed to us in the past and not recorded in the financial statements. We were informed that there was no longer a continuing involvement or ownership with this organization upon settlement of a lawsuit. However, while reviewing the legal files, we noted that there was legal expense paid by the Foundation related to reviewing shareholder agreements, board meeting minutes, and similar items.

CRITERIA

It is management's responsibility to have good accounting practices and a control structure in place that will allow the Organization to reconcile and account for balances and transactions within its financial accounting system in conformity with accounting principles generally accepted in the United States of America.

CAUSE

Until the current year the Foundation had two accountants involved with recording basic cash receipts and disbursements transactions along with reconciled accrual transactions on a monthly, quarterly or annual basis. The former Secretary-Treasurer who then worked with the current accountant on reconciling the account balances to supporting source documents and records retired prior to the start of the current fiscal year which caused segregation of duties to no longer exist.

The Srypto investment was not recorded from inception nor reported in the financial statements in previous years. In 2015, it was reported that the Foundation's investment was terminated.

**SCHEDULE OF FINDING AND RESPONSE – CONTINUED**

Year Ended June 30, 2016

**CURRENT YEAR FINDING – CONTINUED**

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

EFFECT

As a result of the lack of segregation of duties, it was necessary for several entries to be proposed and recorded to correctly classify and present account balances in the financial statements for the year ended June 30, 2016. Risk of error exists over financial close and reporting.

The Foundation has a remaining ownership interest in Srypto, which in management's opinion has no market value, and management has determined is fully impaired.

RECOMMENDATION

We recommend the Foundation engage a second accountant to re-establish proper segregation of duties to ensure that all account balances and transactions are reconciled within the Banner system in a timely manner with proper review and approval by a person with accounting knowledge, skill and experience.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

During FY17, a person with accounting knowledge and experience with the Banner system has been hired to review and approve reconciliations as well as the general ledger on monthly basis; also to review account balances and financial reports on monthly and/or yearly basis.

POINT OF CONTACT

NMT Research Foundation 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, 2016

\* \* \* \* \*

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 10, 2016, and attended by the following:

**For The New Mexico Tech Research Foundation:**

Jerry Armijo  
Jenny Ma  
Colleen Foster

Vice-President  
Accountant  
Executive Director

**For Atkinson & Co., Ltd.:**

Clarke Cagle, CPA, CCIFP, CGFM

Audit Shareholder

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