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CHEMISTRY**

The newly constructed Daniel H. López
Chemistry Building, opening September, 2017

NEW MEXICO TECH
SCIENCE • ENGINEERING • RESEARCH UNIVERSITY

AUDIT REPORT 2017
Year ending June 30, 2017

**NEW MEXICO INSTITUTE
OF MINING AND TECHNOLOGY**

**FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

JUNE 30, 2017

atkinson

CERTIFIED PUBLIC ACCOUNTANTS | CONSULTANTS

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New Mexico Institute of Mining and Technology

OFFICIAL ROSTER

June 30, 2017

Board of Regents

Ex Officio Members:

The Honorable Susana Martinez
Dr. Barbara Damron

Governor of the State of New Mexico
Cabinet Secretary, Higher
Education Department

Appointed Members:

Deborah Peacock
Jerry A. Armijo
David Gonzales
Donald Monette
Myissa Weiss

President
Secretary-Treasurer
Member
Member
Member

Principal Administrative Officials

Dr. Stephen Wells
Dr. Cleve McDaniel

President
Vice President for Finance and
Administration

Charles Hendrickson

Associate Vice President for
Finance and Administration/
Budget Director

Dr. Douglas Wells
Melissa Jaramillo-Fleming

Vice President for Academic Affairs
Vice President for Student
and University Relations

Van D. Romero

Vice President for Research
and Economic Development

Nelia Dunbar

Acting Director, New Mexico Bureau
of Geology and Mineral Resources

Robert Balch

Director, New Mexico Petroleum
Recovery Research Center

Mike Stanley

Acting Director, Energetic Materials
Research and Testing Center

Arleen Valles

Director of Finance

Gayle Bailey

Director of Sponsored Projects

JoAnn Salome

Director of Human Resources

Emma Aafloy

Associate Director for
Budget and Analysis

Melissa Tull

Controller

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Regents
New Mexico Institute of Mining and Technology
Socorro, New Mexico
and
Mr. Timothy Keller
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, each discretely presented component unit and the fiduciary fund of the New Mexico Institute of Mining and Technology (the Institute) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Institute'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 opinions 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 Institute'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 Institute's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, the discretely presented component units, and the fiduciary fund of the Institute, as of June 30, 2017, 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.

Emphasis of Matters

As discussed in Note A, the financial statements of the Institute are intended to present the financial position and the changes in financial position and cash flows of only that portion of the business-type activities that are attributable to the transactions of the Institute. They do not purport to, and do not present fairly the financial position of the State of New Mexico as of June 30, 2017, and the changes in its financial position and its cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America (US GAAP).

As discussed in Note A to the financial statements, during the year ended June 30, 2017, the Institute adopted new accounting standard GASB Statement No. 74 *Financial Reporting for Postemployment Benefits Other than Pension Plans* (GASB 74). Our opinion is not modified with respect to this matter.

As discussed in Note N to the financial statements, during the year ended June 30, 2017, the Institute adopted a new accounting policy to account for the Land Grant beneficiaries' interest in the State of New Mexico's State Land Grant Permanent Fund. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4-13, other postemployment benefit information on pages 87-90, and pension schedules on pages 84-86 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the

United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Institute's basic financial statements. The accompanying budgetary comparisons, schedules of deposit collateral and multiple-year capital projects funded by general obligation revenue bond and severance tax bond capital outlay appropriations from the state required by 2.2.2 NMAC are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards, the budgetary comparisons and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules referred to above and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of the Institute's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Institute's internal control over financial reporting and compliance.

ATKINSON & CO., LTD

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year Ended June 30, 2017

The New Mexico Institute of Mining and Technology (New Mexico Tech, NMIMT, NMT, or the Institute) Management's Discussion and Analysis (MDA) of annual financial statements provides an overview of New Mexico Tech's financial activities for the fiscal year ending June 30, 2017. Also included for comparison purposes is a 2016 financial summary. This annual report is presented in the Governmental Accounting Standard Board Statements (GASB) 34 and 35 reporting format. New Mexico Tech, as do all of New Mexico colleges and universities, uses the Business Type Activity (BTA) format to report the financial statements.

The purpose of the MDA is to provide users of this report with a brief overview of the year's activities as they relate to the funds and assets administered by New Mexico Tech. The MDA is a written discussion of the primary financial statements included in the annual report. It also provides the reader with a discussion of the major activities that occurred during the year and the effect of the activities to New Mexico Tech.

A brief summary is provided for the following financial reports:

- Statement of Net Position (SNP);
- Statement of Revenues, Expenses and Changes in Net Position (SRECNP); and
- Statement of Cash Flows.

The MDA gives New Mexico Tech's management a forum to analyze the activities for the fiscal year; including, but not limited to, a comparison of current fiscal year to last year's financial summary, enrollment data, research activities and capital projects. The report gives the reader a written assessment of the impact of the decisions made during the year that support the mission of New Mexico Tech. Therefore, the MDA begins with a brief description of the primary financial statements.

Statement of Net Position (SNP)

The Statement of Net Position is a report of the financial and capital resources managed by New Mexico Tech. The SNP is a summary of New Mexico Tech's assets and liabilities, and it is a "snapshot" of New Mexico Tech at the close of business at the date of the statement, in this case, June 30, 2017.

The statement format used by New Mexico Tech is Assets plus Deferred Outflows minus Liabilities minus Deferred Inflows equals Net Position. GASB 68 requires New Mexico Tech financial statements to report its pro rata share of pension liability even though the New Mexico Educational Retirement Board manages and oversees the retirement assets and administration of the funds dedicated to New Mexico Tech.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2017

The following table summarizes the Institute's assets, deferred outflows, liabilities, deferred inflows, and net position as of:

	Balance June 30, 2017 (In Thousands)	Balance June 30, 2016 (In Thousands)	Difference	% Change
Current assets	\$ 79,649	\$ 76,038	\$ 3,611	4.7%
Capital assets, net	160,786	156,057	4,729	3.0%
Other noncurrent assets	62,559	85,614	(23,055)	-26.9%
Total Assets	302,994	317,708	(14,714)	-4.6%
Deferred Outflows - pension related	13,365	7,883	5,483	69.6%
Total Assets and Deferred Outflows	\$ 316,360	\$ 325,591	\$ (9,231)	-2.8%
Current Liabilities	\$ 12,562	\$ 10,580	\$ 1,982	18.7%
Non-Current Liabilities	124,013	113,696	10,317	9.1%
Total Liabilities	136,576	124,277	12,299	9.9%
Deferred Inflows - pension related	2,792	6,013	(3,221)	-53.6%
Net Position				
Capital assets, net of related debt	149,662	144,367	5,295	3.7%
Restricted net position	58,067	79,698	(21,631)	-27.1%
Unrestricted net position	(30,736)	(28,764)	(1,972)	-6.9%
Total Net Position	176,993	195,302	(18,309)	-9.4%
Total Liabilities, Deferred Inflows and Net Position	\$ 316,360	\$ 325,591	\$ (9,231)	-2.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2017

Total assets decreased \$14.7 million or 4.6 percent. Several categories in the asset classification changed during the fiscal year.

- Current assets increased \$3.6 million, or 4.7 percent, due to normal operating activities
- Capital assets increased \$4.7 million or 3.0 percent. This is primarily due to the net of capital assets acquired throughout the fiscal year and the recording of depreciation.

New to this year's presentation is the fact that the New Mexico Tech SNP now excludes assets held by others in the amount of \$27,681,687 in accordance with DFA Policy #1 effective for FY 17, which is a change in accounting policy. Assets held by others, which are neither in the possession of nor under the control of the Institute, consisted of the Institute's share of the New Mexico Land Grant Permanent Fund which is held at the New Mexico State Investment Council on behalf of the New Mexico State Land Office.

Total Liabilities increased \$12.3 million or 9.9 percent.

Net Position is divided into three categories:

- Investment in capital assets, net of related debt: This category consists of capital assets reduced by outstanding debt and accumulated depreciation. The net increase is \$5.3 million. No large items such as buildings were capitalized this year; however, there was an increase to the construction work in progress account of \$12 million consisting of current year expenditures for the new Chemistry building.
- Restricted net position: This category is subdivided into non-expendable and expendable. The non-expendable is restricted assets earmarked for investment purposes only, such as endowments. Expendable restricted assets are available for expenditures restricted by the creditor, donor or other external source such as grants and contracts. The restricted net position category increased by \$21.6 million.
- Unrestricted net position: This category reports the assets available to New Mexico Tech for any lawful purpose. These funds decreased \$20 million.

Statement of Revenue, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position (SRECNP) is a report of New Mexico Tech's economic activity for the twelve-month period or fiscal year ending June 30, 2017. The SRECNP reports the revenues and expenses for one-year's activity, unlike the Statement of Net Position (SNP), which is a snapshot of New Mexico Tech as of the date of the statement. Operating and non-operating revenues and expenditures are reported in this statement.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2017

Statement of Revenue, Expenses and Changes in Net Position – Continued

Comparative Statement of Revenues and Expenses (in thousands) for the two years ending:

	June 30, 2017 (In Thousands)	June 30, 2016 (In Thousands)	Difference	%
Operating Revenue	\$ 88,606	\$ 72,690	\$ 15,916	21.9%
Operating Expense	<u>143,239</u>	<u>130,624</u>	<u>12,615</u>	9.7%
Operating Loss	(54,633)	(57,934)	(3,301)	-5.7%
Non-Operating Revenue	<u>38,252</u>	<u>40,240</u>	<u>(1,987)</u>	-4.9%
Loss before other revenues and capital items	(16,381)	(17,695)	1,314	-7.4%
Other revenues and capital items	<u>26,754</u>	<u>14,820</u>	<u>10,934</u>	73.8%
Increase (decrease) in net position	<u>\$ 9,373</u>	<u>\$ (2,874)</u>	<u>\$ 12,247</u>	426.1%

Operating revenues are received to provide goods and services to the constituencies of New Mexico Tech. The operating revenue includes tuition, federal, state and private grants and contracts and auxiliary service fees.

- Total operating revenue increased \$15.9 million.
- Net tuition and fee revenue increased \$47 thousand.
- Grants and contracts revenue increased \$6.5 million.
- All other operating income increased \$9.4 million.

Operating expenses are the cost of providing the goods and services for the operating revenue received.

- Total operating expenses increased \$12.6 million.
- Research and other sponsored expenditures increased \$3.9 million.

State appropriations, including Instruction and General (I&G) and Research and Public Service Projects (RPSP), were \$35.9 million compared to last year's \$38.5 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2017

Statement of Revenue, Expenses and Changes in Net Position – Continued

The net operating loss for this fiscal year is \$54.6 million compared to last year's net operating loss of \$57.9 million. The GASB-required reporting format is mandated to exclude state support as operating revenue. New Mexico Tech and all state universities do report an operating loss from operations.

Non-operating revenues are funds or commitments received in support of the Institute, but which do not provide for the operation of the Institute, such as interest income, gifts and endowments. The one major exception for public colleges and universities is state appropriations. GASB 34/35 requires state appropriations to be included as non-operating revenues, even though those revenues are in direct support of the educational mission of the Institute. Instruction and general expenses are reported as operating expenses; therefore, because of this anomaly, an operating loss is reported each year. Non-operating expenses are the expenditure or investment of the funds received from non-operating sources.

Non-operating revenues decreased \$2.0 million compared to last year. Other revenues and capital items increased \$10.9 million compared to last year. Capital appropriations increased \$7.2 million mainly due to funds received for the new Chemistry building. State land grant and permanent fund distributions and income decreased slightly: \$118 thousand in the current year.

Statement of Cash Flows

The Statement of Cash Flows is a summary of the sources and uses of funds received by New Mexico Tech. The statement is presented in four sections within the accompanying reconciliations. Each section is a summary of the funds received to that particular activity and the funds used for the activity. The Statement of Cash Flows includes:

- Cash flows from operating activities;
- Cash flows from noncapital financing activities;
- Cash flows from capital and related financing activities;
- Cash flows from investment activities; and
- Reconciliation of operating income (loss) to net cash provided by (used in) operating activities.

Note: The New Mexico Tech Research Foundation and The New Mexico Tech University Research Park Corporation's statements are included as component units, but their operations are not managed or controlled by New Mexico Tech.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2017

Comparison of Budget to Actual

Included in this audit report is a Budget Comparison Summary of the original budget to the final budget to actual revenue and expenses for current unrestricted funds and current restricted funds. This report is written in a required format by the New Mexico State Auditor called fund accounting format, which is used for accounting and budgeting by the State of New Mexico.

The Original Budget and the Final Budget are compared to Actual Revenues and Expenditures to reflect the changes in the original budget at New Mexico Tech compared to the final outcome.

A reconciliation of the budget to actual revenues and expenditures is added to ensure that the budgeted and actual numbers agree with the financial statements in accordance with US GAAP. The budget is adjusted at least twice a year with a Budget Adjustment Request (BAR) that is submitted to, and approved by, the Higher Education Department (HED) and the New Mexico Department of Finance (DFA).

The restricted current funds revenues and expenditures budget comparisons are also presented in accordance with state auditor standards. Unlike the unrestricted current fund, the activity for restricted current funds does not coincide with the New Mexico Tech fiscal year.

Capital Assets

The construction of the New Mexico Tech Chemistry building was completed in spring 2017. The project was funded by General Obligation Bonds passed by New Mexico voters in 2014. Those bonds included \$15 million for the construction project. Since the last audit, the Board of Regents approved naming the building for former President Daniel Lopez. A dedication ceremony was held in August.

In January 2017, the Board of Regents approved the construction of the new Data Center, located on the New Mexico Tech campus. This project was also approved by the Higher Education Department and the State Board of Finance in March, subject to the Institute identifying for demolition a campus building with equivalent square footage. The campus was able to do this, and the project is scheduled to begin construction in August 2017, with completion in late winter or early spring 2018.

Other projects that are in the planning stages include the renovation of Jones Hall and the renovation of the President's residence that will also include a new University house. However, the planning and/or design construction for these buildings is not yet complete.

New Mexico Tech has also requested a 2018 General Obligation Bond project that includes a major renovation of Brown Hall and significant upgrades of several campus parking lots and lighting systems. It is not yet known whether or not this project will be on the list for the November 2018 statewide vote.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2017

Debt Administration

The Board of Regents approved a Revenue Bond, Series 2011, for the construction of a dormitory in 2011.

The bond term is 20 years with an effective interest rate of 4.441 percent. The annual principal and interest payments average \$1,066,050. The debt is serviced with unrestricted revenues including auxiliary, tuition, fees, and overhead income.

Total proceeds deposited from the bond sale, including the premium and after-cost of issuance, was \$14,041,092. \$11 million was dedicated to the construction of the new dormitory and related projects, and \$5 million is dedicated for equipment and construction of the Magdalena Ridge Observatory project. The funds for both projects have been fully expended as of June 30, 2017. The semi-annual payment of principle and interest is paid on January 1 and July 1. The outstanding long-term bond debt, including bond premium net of accumulated amortization, at June 30, 2017, was \$11,083,337.

Currently Known Facts

Enrollment

Enrollment at New Mexico Tech continues to remain steady.

The Fall 2016 freshman and transfers enrollment is 377 compared to 408 last year. Additionally, total enrollment has decreased slightly from Fall 2015 to Fall 2016 for New Mexico Tech.

<u>School Year</u>	<u>Head Count</u>	<u>Credit Hours (CH)</u>	<u>End of Course (EOCCH)</u>
2012-13	2,105	50,865	49,425 97.2%
2013-14	2,134	52,426	50,616 96.6%
2014-15	2,127	53,027	51,484 97.1%
2015-16	2,150	53,319	51,230 96.1%
2016-17	2,135	52,232	51,268 98.2%
% Change	1.4%	2.7%	3.7%

As the chart above demonstrates, head count and credit hours have increased from the 2012-13 school year; however there was a slight decline from the 2015-16 school year. The end-of-course completion rates continue to hover around 96-98%. The End of Course is a measure used to calculate the higher education funding formula. The percentage changes over the last five years are positive, especially the End of Course increase. The percentage of EOCCH to CH also shows increased performance that is directly related to the quality of the student, faculty and staff at New Mexico Tech.

The national economy continues to improve. The main sources of revenue for the State of New Mexico, gas and oil, have declined compared to last year. Funding from the State continues to be an issue and appropriations are expected to be flat at least for the next fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2017

Currently Known Facts – Continued

Enrollment – Continued

The New Mexico Tech faculty and administration have continued to deliver quality education to the students. Additional faculty was hired for the current school year replacing many vacant positions that were on hold because of past budget reductions.

New Mexico Tech graduates with bachelor's degrees continue to get entry-level employment in the \$60,000 and above pay range. This level is a testament to the quality of the education received by New Mexico Tech graduates and the high demand for highly qualified students with science, technology, engineering and math (STEM) degrees.

Higher Education Funding Formula

The funding formula for higher education in New Mexico was updated in fiscal year 2013. Instead of funding universities for student credit hours at the census date, third week of classes, the new formula now funds universities on outcomes, end-of-course completion, awards (diplomas and certificates), work force incentives (STEM), at-risk student enrollment (Pell eligible) and sector-specific measures, which for the research universities is calculated as research expenditures. Despite the University's increased productivity in the formula metrics described above, due to declines in State revenue, the formula funding is unlikely to produce increased appropriations to the University. Tuition increases have helped offset some of the Institute's increased costs such as health insurance, risk management insurance, utilities, etc. The NMT administration is addressing faculty salaries in order to be comparable to New Mexico peer institutions over a three-year period. The 2017 budget in faculty salary equity increases was above and beyond the inflationary cost of living percentage.

Concern for future enrollment is based on the same circumstances that existed for several years; i.e., the forecast for high school graduation rates in New Mexico continues to be discouraging because of smaller graduating classes and low high school graduation rates. Smaller high school graduating classes means fewer students are in the pipeline to attend New Mexico colleges and universities. New Mexico Tech has been successful in recruiting and enrolling New Mexico high school graduates. The Fall 2017 undergraduate enrollment of New Mexico students is 87.4 percent.

Research

Research expenditures are not affected by the state budget, but they are highly dependent on the federal budget.

Research continues to provide a public service to the community and enhances the educational experience for students. By the time they graduate, most students have hands-on experience in their major field of study because of the research programs at New Mexico Tech. This is an important discriminator for employers that seek students with valuable research experience, and it is provided by only a select few universities in the world. Our students have an advantage when they go into the workforce. The effort pays off with the vast number of students finding employment in their chosen field of study.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2017

Currently Known Facts – Continued

Research – Continued

NMIMT's Incurred Cost Audit report shows that externally funded research activity has declined significantly since FY 2011. Research universities around the country have reported similar results as federal research budgets have continued to decline, as indicated below (in thousands):

FY17	\$ 53,356
FY16	48,789
FY15	58,975
FY14	67,762
FY13	64,484
FY12	70,182
FY11	89,011

The Bureau of Geology and Mineral Resources is mainly funded by the State of New Mexico through the Research and Public Service Projects (RPSP) line item in the higher education budget.

The Petroleum Research and Recovery Center is also funded via the RPSP budget. However, a U.S. Department of Energy carbon sequestration project has been in place for several years, but the phased project has been tapering down, and its expenditures decreased from a high of \$14.3 million in FY 2014 to \$3.9 million in FY 2017.

The Energetic Materials Research and Testing Center (EMRTC) research programs increased from \$22 million in FY 2016 to \$28 million in FY 2017. The \$22 million training program with Homeland Security was renewed for a five-year period and went into effect October 2016. It is a premier training program for first responders in the United States.

The Magdalena Ridge Observatory (MRO) 2.4 meter telescope continues to be NASA's flagship telescope for near earth object observations. In the past year the telescope conducted numerous campaigns to track and characterize close approaching asteroids. Funding for the 2.4 meter telescope comes from NASA (80%) and Department of Education (20%). The construction of the Interferometer at MRO continues. This past year option year 1, of 4 option years, was executed between NMT and the Air Force Research Lab (AFRL). In addition to supporting the project's manpower the option year 1 funding will be used to purchase long lead-time items.

The IRIS/PASSCAL seismic center continues to support National Science Fund projects across the globe. Currently the Earthscope project is centered in Alaska and preparation is underway to support this year's Antarctic expedition. Funding for this program continues to be stable.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) – CONTINUED

Year Ended June 30, 2017

Economic Outlook

The economic outlook for New Mexico Tech continues to be closely monitored by the administration. Decisions by the NMT administration are dependent on actions taken by the state and federal government. Proactive financial and budget actions were taken early in the global economic downturn to reduce budgets. The result of adjusting the NMT base during the economic downturn of prior years is reflected in NMT's ability to continue to grow and thrive in the current year. Recent revenue forecasts for the State of New Mexico continue to project flat state revenue growth. The state's 6.8% appropriation cuts to the University for FY 16-17 were somewhat offset by a 5% increase in tuition. Funding for higher education will be offset by continued increased operational costs and unfunded mandates placed on higher education by all levels of government, students and those served by colleges and universities. The New Mexico Tech staff has been very cooperative in managing their departmental budgets. The staff has picked up additional duties to continue to provide a quality educational experience for our students through ongoing student support services and facilities.

New Mexico Tech's national and international reputation as an outstanding research university has made it a go-to organization for many federal, state and private companies to address their needs. The research programs enhance the teaching, research and economic development missions of New Mexico Tech, the local community, the State of New Mexico, and the United States of America.

The longevity and the success of the established programs at New Mexico Tech have helped solidify their funding; however, their budgets for future funding continue to be a target by both the state and federal grantors.

The New Mexico Tech Admission Office has increased its recruitment efforts in states such as Texas, California and Arizona. These states are ripe for recruitment because their universities are at or near full capacity, and they have a large Hispanic population. New Mexico Tech continues to reach its goal of being recognized as a Hispanic Serving Institution. By qualifying as a Hispanic Serving Institution, additional research and grants, plus other funding opportunities, are available to New Mexico Tech.

Total entering first-time freshmen for the school year 2016-17 were 301 compared to 338 last year.

Requests for Information

Questions concerning any of the financial information provided in this report or requests for additional information should be addressed to Dr. Cleve McDaniel, Vice President for Administration and Finance, New Mexico Institute of Mining and Technology, 801 Leroy Place, Socorro, New Mexico 87801-4796. There are separately issued financial statements available for the New Mexico Tech Research Foundation and New Mexico Tech University Research Park Corporation, the component units of the Institute. These are available at the same location.

New Mexico Institute of Mining and Technology

STATEMENT OF NET POSITION

June 30, 2017

	Institute	Component Units	
		Research Park	Foundation
ASSETS			
Current assets			
Cash and cash equivalents	\$ 48,310,709	\$ 322,956	\$ 138,455
Short-term investments	18,092,536	-	19,289,130
Contract and grant billed and unbilled receivables	8,629,442	-	-
Student accounts receivable, net of allowance for doubtful accounts of \$444,014	406,549	-	-
Due from state agencies and other accounts receivable	848,111	-	-
Inventories	1,267,793	-	-
Other assets	2,094,076	164,233	205,667
Total current assets	79,649,216	487,189	19,633,252
Noncurrent assets			
Restricted cash and cash equivalents	160,896	-	-
Endowment investments	45,042,956	-	3,303,789
Other long-term investments	17,355,414	1,398,815	447,484
Capital assets, net of accumulated depreciation	160,785,624	-	1,876,609
Total noncurrent assets	223,344,890	1,398,815	5,627,882
Total assets	302,994,106	1,886,004	25,261,134
Deferred outflows of resources			
Employer pension contributions	5,112,672	-	-
Changes in actuarial assumptions, investment experience and employer proportion of net pension liability	8,252,741	-	-
Total deferred outflows of resources	\$ 13,365,413	\$ -	\$ -

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

New Mexico Institute of Mining and Technology

STATEMENT OF NET POSITION – CONTINUED

June 30, 2017

	Component Units		
	Institute	Research Park	Foundation
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	\$ 7,350,562	\$ 1,610	\$ 64,876
Cash overdraft	-	-	17,698
Bonds payable, current portion	-	-	-
Bond premium, net of accumulated amortization	40,688	-	-
Accrued compensated absences - current portion	4,166,413	-	-
Due to primary government	-	-	17,137
Deposits	167,373	-	-
Unearned revenue	837,077	-	-
	<u>12,562,113</u>	<u>1,610</u>	<u>99,711</u>
Total current liabilities			
Noncurrent liabilities			
Accrued compensated absences, net of current portion	3,162,717	-	-
Bonds payable, net of current portion	10,550,000	-	-
Bond premium, net of accumulated amortization	533,337	-	-
Net other post-employment benefits obligation	10,137,594	-	-
Net pension liability	94,195,558	-	-
Other noncurrent liabilities	5,434,223	-	22,674
	<u>124,013,429</u>	<u>-</u>	<u>22,674</u>
Total noncurrent liabilities			
Total liabilities			
	136,575,542	1,610	122,385
Deferred inflows of resources			
Changes in pension actuarial experience and proportion of total employer net pension liability	2,791,761	-	-
	<u>2,791,761</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources			
NET POSITION			
Net investment in capital assets	149,661,598	-	1,876,609
Restricted for			
Nonexpendable			
Endowments and all other nonexpendable	50,965,103	-	3,303,789
Inventory	1,267,793	-	-
Expendable			
Scholarships, research, instruction, and other	7,778,567	-	1,060,731
Other postemployment benefits	(10,137,594)	-	-
Employee benefit trust	3,655,468	-	-
Loans	1,812,061	-	-
Capital projects	-	-	-
Debt service	793,675	-	-
Unrestricted net (deficit) position	(28,804,455)	1,884,394	18,897,620
	<u>\$ 176,992,216</u>	<u>\$ 1,884,394</u>	<u>\$ 25,138,749</u>
Total net position			

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended June 30, 2017

	Institute	Component Units	
		Research Park	Foundation
OPERATING REVENUES			
Tuition and fees	\$ 15,208,317	\$ -	\$ -
Tuition discounts and allowances	(4,084,921)	-	-
Federal grants and contracts	39,802,566	-	-
State and local grants and contracts	2,559,260	-	-
Private grants and contracts	9,498,107	-	-
Other grants and contracts	2,820,435	-	-
Sales and services of auxiliary enterprises	6,173,084	-	-
Auxiliaries scholarship allowances	(1,271,605)	-	-
Other	9,196,008	-	90,150
Benefit Trust employee contributions	3,706,201	-	-
Benefit Trust employer contributions	4,998,780	-	-
Total operating revenues	88,606,232	-	90,150
EXPENSES			
Instruction and general			
Instruction	18,057,488	-	-
Institutional support	7,506,516	-	-
Operations and maintenance support	6,330,550	-	-
Student services	2,189,934	-	-
Academic support	2,055,517	-	-
Other sponsored activities	33,685,336	-	-
Research	18,242,467	-	-
Student aid grants and stipends	14,077,237	-	1,047,303
Expense related to tuition discounts and allowances	(4,084,921)	-	-
Depreciation and amortization	10,365,490	-	84,358
Auxiliary enterprises	5,283,540	-	-
Expense related to auxiliary discounts and allowances	(1,271,605)	-	-
Other expenditures	7,452,213	27,219	263,704
Independent operations	4,029,224	-	822,863
Plant funds	3,116,962	-	-
Public service	297,054	-	-
Pension expense	6,240,470	-	-
Other postemployment benefits expense	1,663,308	-	-
Benefit Trust claims paid	6,473,783	-	-
Benefit Trust premiums	1,149,379	-	-
Benefit Trust general and administrative	378,878	-	-
Total operating expenses	143,238,820	27,219	2,218,228
Operating loss	(54,632,588)	(27,219)	(2,128,078)

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – CONTINUED

Year Ended June 30, 2017

	Institute	Component Units	
		Research Park	Foundation
NONOPERATING REVENUES			
State appropriations	\$ 36,160,949	\$ -	\$ -
Gifts	1,587,136	-	-
Interest and investment income (loss), net	504,322	(1,463,009)	2,489,330
Net nonoperating revenues	38,252,407	(1,463,009)	2,489,330
(Loss) gain before other revenues and expenses	(16,380,181)	(1,490,228)	361,252
OTHER REVENUES AND CAPITAL ITEMS			
Other revenues	8,908,537	-	-
Additions to permanent endowments	5,155,570	-	337,379
State land grant permanent fund income	1,504,560	-	-
Interest on capital debt	(775,444)	-	-
Capital gifts and grants	37,792	-	-
Capital project appropriations from state issued bonds and other	10,921,935	-	-
Net other revenues	25,752,950	-	337,379
Income (loss) before extraordinary items	9,372,769	(1,490,228)	698,631
EXTRAORDINARY ITEMS			
Investee's restatement of prior period investment earnings	-	(214,399)	-
Total extraordinary items	-	(214,399)	-
Net increase (decrease) in net position	9,372,769	(1,704,627)	698,631
Net position, beginning of year	195,301,134	3,589,021	24,440,118
Adoption of new accounting policy	(27,681,687)	-	-
Net position, end of year	\$ 176,992,216	\$ 1,884,394	\$ 25,138,749

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

New Mexico Institute of Mining and Technology

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

	Institute	Component Units	
		Research Park	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES			
Tuition and fees	\$ 11,210,130	\$ -	\$ -
Grants and contracts	53,974,393	-	-
Sales and services of auxiliary enterprises	4,901,479	-	-
Other receipts	18,756,409	-	90,150
Payments to employees	(65,145,193)	-	-
Payments to suppliers	(62,959,264)	(25,609)	-
Other payments	-	-	(2,183,401)
Net cash used in operating activities	(39,262,046)	(25,609)	(2,093,251)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
State appropriations	36,160,949	-	-
Gifts for other than capital purposes	1,587,136	-	-
Other nonoperating receipts	10,413,097	-	-
Net cash provided by noncapital financing activities	48,161,182	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	(15,105,983)	-	-
Proceeds from sales of capital assets	56,072	-	-
Payments of principal on bond obligations	(1,025,000)	-	-
Payments of interest on bond obligations	(816,132)	-	-
Capital project appropriations from state issued bonds and other	10,921,935	-	-
Capital gifts and grants	37,792	-	-
Net cash used in capital and related financing activities	(5,931,316)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of investments, net	926,393	-	5,706,578
Additions to endowments	573,767	-	337,379
Investment purchases	(573,767)	-	(4,257,513)
Cash received for notes receivable, net	-	220,021	204,290
Cash paid for patents	-	-	(155,650)
Interest, dividend and realized investment income	405,583	51,140	61,532
Net cash provided by investing activities	1,331,976	271,161	1,896,616
Net increase (decrease) in cash and cash equivalents	4,299,796	245,552	(196,635)
Cash and cash equivalents, beginning of year	44,171,809	77,404	335,090
Cash and cash equivalents, end of year	\$ 48,471,605	\$ 322,956	\$ 138,455
Cash and cash equivalents			
Unrestricted	\$ 48,310,709	\$ 322,956	\$ 138,455
Restricted	160,896	-	-
Total	\$ 48,471,605	\$ 322,956	\$ 138,455

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

STATEMENT OF CASH FLOWS – CONTINUED

Year Ended June 30, 2017

	Institute	Component Units	
		Research Park	Foundation
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES			
Operating loss	\$ (54,632,588)	\$ (27,219)	\$ (2,128,078)
Adjustments to reconcile operating loss to net cash used by operating activities			
Depreciation and amortization expense	10,365,490	-	84,358
Net pension expense	1,127,800	-	-
Net OPEB expense	1,663,308	-	-
Gain on sale of assets	(44,689)	-	-
Changes in assets and liabilities			
Student accounts receivable	25,118	-	-
Inventories	85,325	-	-
Other assets	84,998	-	-
Contract and grant billed and unbilled receivables	(661,685)	-	-
General obligation cost-reimbursement and other receivables	855,420	-	-
Cash overdraft	-	-	17,698
Accounts payable and accrued expenses	2,232,724	1,610	(61,206)
Other liabilities	(44,290)	-	(5,668)
Student and other deposits	(23,382)	-	-
Compensated absences	(295,595)	-	-
Other payables	-	-	(355)
Net cash used in operating activities	<u>\$ (39,262,046)</u>	<u>\$ (25,609)</u>	<u>\$ (2,093,251)</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

During 2017, investments held by the Institute increased in value in the amount of \$5,254,309.

During 2017, for the Research Park, the private equity investment was written down to zero as a result of loss recognition in the amount of \$1,753,380.

During 2017, investments held by the Foundation increased in value in the amount of \$2,060,592.

During 2017, the Foundation transferred the investment account balance of \$2,165,028 in the New York Life Investments to the past President of the Institute as these amounts were being held for his benefit until retirement.

New Mexico Institute of Mining and Technology

STATEMENT OF FIDUCIARY NET POSITION

Year Ended June 30, 2017

ASSETS	
Cash	\$ 1,952,053
Other receivables	129,129
Short-term investments	920,666
Other long-term investments	<u>1,492,251</u>
Total assets	4,494,099
LIABILITIES	
Accounts payable and accrued liabilities	<u>838,631</u>
Total liabilities	<u>838,631</u>
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS	<u>\$ 3,655,468</u>

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

New Mexico Institute of Mining and Technology

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2017

INCREASE IN FIDUCIARY NET POSITION ATTRIBUTED TO:	
Employer contributions	\$ 4,998,780
Employee contributions	3,706,201
Investment income	208,410
Other revenue	<u>30</u>
Total revenues	8,913,421
DECREASE IN FIDUCIARY NET POSITION ATTRIBUTED TO:	
Claims expense, net of stop-loss refunds of \$436,413	6,473,783
Insurance premiums	1,149,379
General and administrative	<u>378,878</u>
Total expenses	<u>8,002,040</u>
Net increase in fiduciary net position	911,381
Fiduciary net deficit restricted for postemployment benefits other than pensions, beginning of year, as previously stated	(5,730,204)
Prior period restatement to remove OPEB liability upon adoption of GASB 74	8,474,286
Fiduciary net position restricted for postemployment benefits other than pensions, beginning of year, as restated	<u>2,744,082</u>
Fiduciary net position restricted for postemployment benefits other than pensions, end of year	<u><u>\$ 3,655,463</u></u>

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Organization

The New Mexico Institute of Mining and Technology (the Institute, NMIMT, or NMT) is declared to be and is confirmed as a state educational institution by Section 11 of Article XII of the Constitution of the State of New Mexico, as amended. The Institute was founded in 1889 under the New Mexico Territorial Laws of 1889.

According to the Constitution of the State of New Mexico, the legislature shall provide for the control and management by a Board of Regents consisting of five members appointed by the Governor and confirmed by the State Senate for overlapping terms of six years. Section 21-11-4 of the New Mexico Statutes Annotated, 1978 Compilation (NMSA 1978), also vests this control and management in the Board of Regents.

The Institute offers both graduate and undergraduate degree programs in many fields. Major programs offered include earth sciences, physical and biological sciences, mineral engineering disciplines, mathematics, and computer science. The Institute is also involved in numerous research projects, many of which are performed under government or private contracts.

2. Basis of Presentation

The Institute and its component units present their financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as prescribed in applicable pronouncements of the Governmental Accounting Standards Board (GASB) and the Higher Education Department's Financial Reporting for Public Institutions in New Mexico. The statement presentation provides a comprehensive entity-wide perspective of the Institute's assets, liabilities, and net position, revenues, expenses and changes in net position, and cash flows.

The significant accounting policies are summarized in Note A and include accounting standards adopted in recent years as detailed below.

The Institute has implemented Governmental Accounting Standards Board Statement No. 72 "*Fair Value Measurements and Application*" (GASB 72), 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 was effective in the prior year.

The Trust implemented Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefits Other than Pension Plans* (GASB 74) in the current year. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general-purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB 74 is in effect for financial statements for fiscal years beginning after June 15, 2016 (FY 17).

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Presentation – Continued

The Institute adopted Governmental Accounting Standards Board Statement No. 79 *Certain External Investment Pools and Pool Participants* (GASB 79) in the prior year, to address changes in the regulatory provisions referenced by previous accounting and financial reporting standards for certain external investment pools and their participants. Those provisions were based on the Investment Company Act of 1940, Rule 2a7 whereby external investment pool investments were measured at amortized cost. Rule 2a7 contains the Securities and Exchange Commission's (SEC) regulations that apply to money market funds, and the SEC essentially eliminated Rule 2a7 in 2014. GASB 79 provides for continuation of amortized cost accounting and reporting for external investment pools such as the Local Government Investment Pool (LGIP), which is a 2a7-like pool, instead of converting to fair value measurement. The New Mexico LGIP has implemented GASB 79 and its participants qualify for accounting for the investment pool at amortized cost which approximates fair value.

In evaluating how to define the Institute for financial reporting purposes, management has evaluated the Institute's potential component units. The basic, but not the only, criterion for including a potential component unit as part of the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestations of this ability include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and the accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of the criterion involves considering whether the activity benefits the Institute. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing or fiduciary relationships, regardless of whether the Institute is able to exercise oversight responsibilities.

The following entities are presented in the financial statements as component units:

Discretely Presented Component Units

In the financial statements, discrete presentation entails reporting component unit financial data in a column separate from the financial data of the Institute. Based on the application of these criteria, the New Mexico Tech Research Foundation and New Mexico Tech University Research Park Corporation are included in these financial statements as discretely presented component units.

The New Mexico Tech Research Foundation (the Foundation) is a New Mexico not-for-profit corporation located in Socorro, New Mexico. The Foundation is organized to solicit, receive, hold, invest, and transfer funds to the New Mexico Institute of Mining and Technology by making available funds for institutional support, scholarships, and other benefits. The Foundation has no component units.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

2. Basis of Presentation – Continued

The inclusion of the assets, liabilities, and net income of the Foundation as a discretely presented component unit of the Institute, for accounting purposes only, has been directed by generally accepted accounting principles as applied to governmental units. The Foundation has no obligation to provide resources and earnings to the Institute, except by action of the Foundation's Board of Trustees. The Foundation's Board of Trustees is appointed by the Institute and is made up of five members with no employment relationship with the Institute and only one member with an employment relationship.

The New Mexico Tech University Research Park Corporation (the Corporation) is a New Mexico not-for-profit corporation located in Socorro, New Mexico. The Corporation is organized to assist the Institute by making available funds to pursue technology research and other programs being carried out by the Institute. The Corporation has no component units. The Institute is the sole member of the Corporation and appoints the board of the Corporation.

Blended Component Unit

New Mexico Institute of Mining and Technology Employee Benefit Trust (the Trust) is a single-employer benefit plan organized as a legally formed trust that is tax exempt under section 501(c)(9) of the Internal Revenue Code. The trust was established to provide a funding vehicle to which participants and the Institute contribute to prefund, in part, the cost of other postemployment benefits for eligible retirees of the Institute. The Trust is the fiduciary fund presented in the financial statements.

The Trust has been informed by legal opinion and accepted by management that the Plan is a legally formed independent trust and is therefore recognized as a blended component unit in the Institute's financial statements. The Trust accounts are separately audited as required under GASB 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*.

The financial statements of the Foundation, Corporation, and Trust can be obtained directly at the Institute's office at the following address: New Mexico Institute of Mining and Technology, 801 Leroy Place, Socorro, New Mexico 87801.

3. Basis of Accounting

For financial reporting purposes, the Institute is considered a special-purpose government engaged only in business-type activities in conformity with accounting principles generally accepted in the United States of America. Accordingly, the Institute's primary institution financial statements have been presented in a single column using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-entity transactions have been eliminated.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. Basis of Accounting – Continued

For the Trust, plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Government Accounting Standards Board (GASB) and the Higher Education Department's Financial Reporting for Public Institutions in New Mexico.

4. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include the following:

- a) Claims incurred but not reported liability (IBNR)
- b) Net other postemployment benefits (OPEB) obligation
- c) Unfunded accrued actuarial liability (UAAL) for postemployment benefits
- d) Depreciation
- e) Tuition discounts and allowances
- f) Environmental cleanup liability reserves
- g) Incurred cost rate audit adjustments
- h) Fair value measurements on investments.

5. Budgetary Basis and Control

The Institute follows the requirements established by the New Mexico Higher Education Department (HED) in formulating its budgets and in exercising budgetary control. It is through the HED's policy that, when an appropriation has been made to the Institute, its Board of Regents can, in general, adopt an operating budget within the limits of available income. Operating budgets are approved via the following procedures:

- a) The institution will submit an original copy that has been approved by the Institution's regents to the HED's office by May 1st.
- b) The HED meets in June and acts on approval of the budgets.
- c) The budgets, as approved by the HED, are transmitted to the Budget Division of the Department of Finance and Administration for official approval prior to July 1.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. Budgetary Basis and Control – Continued

Unexpended state appropriations do not revert to the State of New Mexico at the end of the fiscal year, and are available for use by the Institute in subsequent years, per the General Appropriation Act.

Under Title 5 of the New Mexico Administrative Code, Chapter 3, part 4, paragraph 10 – Items of Budgetary Control: total expenditures or transfers may not exceed the amount shown in the approved budget. Expenditures used as the items of budgetary basis are as follows: (1) unrestricted and restricted expenditures are considered separately; (2) total expenditures in instruction and general; (3) total expenditures of each budget function in current funds other than instruction and general; (4) within the plant funds budget, the items of budgetary control are major projects, library bonds, equipment bonds, minor capital outlay, renewals and replacements, and debt service; and (5) each individual item of transfer between funds and/or functions.

Budget revisions must be approved by the executive secretary of the New Mexico Department of Higher Education and then by the Budget Division of the Department of Finance and Administration.

Excess of expenditures over appropriations: For the year ended June 30, 2017, the Institute overspent its final budget amount for items within unrestricted and restricted current funds which exceeded the level of budgetary control by a total of \$215,739. The excess expenditures were covered by available cash balances.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and current investments, which are defined as investments that are readily convertible to cash or reach their original maturity date within three months. Cash restricted by grants and collected for auxiliary projects is included in cash and cash equivalents. The Institute accounts for its investments at fair value in accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* and GASB No. 72, *Fair Value Measurement and Application*.

7. Restricted Cash and Cash Equivalents

This cash constitutes resources that the Institute is legally or contractually obligated to spend in accordance with imposed restrictions by third parties.

8. Investments

Investments are made in accordance with the Constitution of the State of New Mexico and the policies of the Board of Regents. The investment policy has incorporated the provisions of the State of New Mexico Uniform Prudent Management of Institutional Funds Act (Chapter 46,

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

8. Investments – Continued

Article 9A NMSA 1978) in accounting for net appreciation/depreciation of endowments. The Institute accounts for its investment portfolio at fair value on June 30 of each fiscal year.

Stocks, bonds, real estate held for sale or investment, and similar investments are generally reported at fair value. The basis of determining the fair value of investments is the readily determinable sales price or current exchange rate of the investments based on prices or quotations from over-the-counter markets. In the case of pooled funds or mutual funds, the fair value is determined as the number of units held in the fund multiplied by the price per unit share as publicly quoted. The income from the Institute's interest in the Land Grant Permanent Fund, which interests are managed by the New Mexico State Investment Council, is distributed monthly to the Institute.

9. Endowments

The Institute accounts for its endowed investment portfolio at fair value on June 30 of each fiscal year. Additions to endowments are reported each year based on the fair value of the investments. The investments are managed on a total return basis with 4.5% of the average five-year market value being made available for expenditure, and the remaining returns retained in the funds to compensate for inflationary growth. State statute 46-9-6 NMSA 1978 provides the Institution with the authority to use the net appreciation of restricted endowments as established by the donor. An institution may appropriate for expenditures or accumulate as much as it determines prudent for the uses, benefits, purposes, and duration of the endowment. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan. In the case of reserve, allocated, and agency funds, the total returns will remain with the funds until these funds are authorized to be expended for the purposes for which they were established.

10. Inventories

Inventories of supplies and materials held for sale or use are stated substantially at average weighted cost. Golf course inventory is stated at cost.

11. Income Taxes

The Institute, as an instrumentality of the State of New Mexico, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Contributions to the Institute are deductible by donors as provided under Section 170 of the Internal Revenue Code. The Foundation and Research Park Corporation are both exempt from taxes under Section 501(c)(3) of the Internal Revenue Code and the Employee Benefit Trust is exempt from taxes under Section 501(c)(9) of the Internal Revenue Code for normal activities not unrelated to their exempt purpose.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

12. Accounts Receivable

The Institute records student tuition and fees and student accounts receivable at rates established at the time a student registers for classes. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Institute's grants and contracts. A provision for uncollectible student accounts is recorded to maintain an adequate allowance for anticipated losses. The allowance for doubtful accounts includes consideration for the credit risk associated with the various receivables. There were no accounts receivable due from the Federal, state and local governments or private sources deemed to be uncollectible.

13. Other Receivables

Other receivables consist of amounts due under various agreements not related to grants or contracts and amounts due from component units. Management reviews the collectability of its receivables and, if necessary, records an allowance for its estimate of uncollectible accounts. Bad debt history and current facts and circumstances are their primary bases for this estimate. When an account is deemed uncollectible, it is charged off against the allowance. In the opinion of management, there was no allowance necessary at year-end.

14. Other Assets

Other assets primarily consist of student loans outstanding under the federal Perkins loan program.

15. Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets, are classified as noncurrent assets in the statement of net position.

16. Capital Assets

This represents the Institute's capital assets less depreciation, net of any outstanding debt obligations related to those capital assets. Capital assets are defined as tangible or intangible assets that are used in operations and have a useful life beyond a single reporting period. The Institute has bond obligations related to capital assets for 2017 (see Note F).

Property, plant, and equipment purchased or acquired at a value of \$5,000 or greater are capitalized per Section 12-6-10 NMSA 1978. All capital assets are valued at historical cost or estimated historical cost if actual history is not available. Donated assets, or those contributed by other governmental entities, are valued at their estimated fair value on the date donated. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized in the year in which the

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

16. Capital Assets – Continued

project was completed. The Institute does not capitalize historical treasures or works of art as they are immaterial. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over estimated useful lives with no salvage value. Estimated useful lives and capitalization thresholds of capital assets are as follows:

	<u>Life (in years)</u>	<u>Threshold</u>
Land improvements	30	\$ 100,000
Building	30	\$ 100,000
Infrastructure	30	\$ 100,000
Computers	3	\$ 5,000
Equipment	5	\$ 5,000
Vehicles	7	\$ 5,000
Heavy equipment	12	\$ 5,000
Library books	10	All
Software - minor	5	\$ 5,000
Software - major	10	\$ 50,000

17. Compensated Absences

The Institute accounts for the accumulated vacation leave on the accrual basis. Accrued vacation up to 240 hours for employees with 10 years of service and 336 hours thereafter is recorded at 100% of the employee's hourly wage. Compensatory time is accrued at a rate of one and one-half hours for each hour of employment for which overtime compensation is required for those employees covered by the Fair Labor Standards Act (FLSA). Employees exempt from coverage by FLSA earn one hour of compensatory time for each overtime hour.

18. Unearned Revenue

Revenue for each academic session is reported within the fiscal year during which the session is completed. Revenues for the summer session starting in May 2017 are shown as unearned revenue in the accompanying financial statements since the session was not completed at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

19. Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

20. Deferred Outflows of Resources

Deferred outflows of resources includes employer pension contributions and changes in actuarial assumptions, investment experience and employer proportion of net pension liability related to expenditure of net assets in future periods.

21. Deferred Inflows of Resources

Deferred inflows of resources includes changes in pension actuarial experience and proportion of total employer net pension liability related to acquisition of net assets in future periods.

22. Net Position

The Institute's net position is classified as follows:

Net Investment in Capital Assets: Net investment in capital assets represents the Institute's capital assets, less related accumulated depreciation and debt attributable to the acquisition, construction, or improvement of these assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. The Institute has outstanding bond obligations of \$11,575,000 for purposes of constructing a dormitory and an educational building.

Restricted Net Position – Nonexpendable: 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.

Restricted Net Position – Expendable: Expendable restricted net position includes resources which the Institute is obligated to spend in accordance with restrictions imposed by external parties. Restrictions imposed on asset use can be imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation, which includes a legally enforceable requirement that the resources be used

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

22. Net Position – Continued

only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party to use resources created by enabling legislation only for purposes specified by the legislation. The amount of net position restricted by enabling legislation and the amount of restricted net position from state sources was \$0 at June 30, 2017.

Unrestricted Net Position: Unrestricted net position represents resources derived from student tuition and fees, state appropriations, sales and services of educational departments, auxiliary enterprises, other exchange transactions and unrestricted grants. These resources are used for transactions relating to the educational and general operations of the Institute, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Institute's policy is to first apply restricted, and then unrestricted resources.

Deferred outflows of resources consumed and deferred inflows of resources received and available are included in the statement of net position.

There were deferred outflows and inflows of resources to separately report at June 30, 2017.

23. Revenues and Revenue Recognition

The Institute has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) most federal, state and local grants and contracts, and Federal appropriations, and (3) interest on institutional student loans.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, state appropriations, investment income, bond proceeds appropriations and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB Statement No. 34.

The Institute engages in federal grant, contract, and cooperative agreement programs commonly referred to as "reimbursement type" programs. These programs require that the recipient (the Institute) must incur allowable costs as defined by the agreement types in order to draw down funds against the particular project. This is the principal eligibility

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

23. Revenues and Revenue Recognition – Continued

requirement for the recognition of the revenue. Contract and grant revenues are recognized when the underlying exchange transaction has occurred – that is when all eligibility requirements have been met. Upon incurring an allowable cost, the Institute simultaneously recognizes a receivable and revenue in the amount of the expenditures incurred. All other eligibility requirements or grants, as applicable, must also be satisfied.

The Institute received an annual state General Fund appropriation of \$36,160,949 for fiscal year 2017, under the General Appropriation Act of 2016 as amended by subsequent bills. In general, unexpended state appropriations to the Institute do not revert at the end of each fiscal year (NMSA 1978 6-4-2). The appropriation was fully spent during the year. There is no remaining balance to bring forward to fiscal year 2018.

The Institute periodically receives severance tax and general obligation bond appropriations for capital asset projects on the campus. Bond revenue from these appropriations is recorded only when eligibility requirements have been met. The eligibility requirements for capital projects financed by bonds are satisfied when all required documentation to support a drawdown of a bond fund is submitted and approved by the Board of Finance. See Supplementary Schedule 6 for details of current year bond activity and amounts remaining.

The Institute is a beneficiary of the Ferguson legislation (1898) whereby lands of the State of New Mexico were allocated to the benefit of state educational institutions including income derived therefrom. NMSA 1978 19-1-17 is the enabling legislation to allocate specific lands to educational institutions including the Institute. Currently oil and gas royalties, coal royalties, and grazing fees produce investment income which is distributed monthly to beneficiaries based on their allocated lands.

24. Classification of Expenses

The Institute has classified its expenses as either operating or non-operating expenses according to the following criteria:

Operating expenses: Operating expenses include activities that have the characteristics of exchange transactions, such as (1) employee salaries, benefits, and related expenses; (2) utilities, supplies, and other services; (3) professional fees; (4) depreciation expenses related to Institute property, plant, and equipment, (5) pension and other postemployment benefit costs, and (6) all other cash flows from transactions that do not result from transactions defined as capital and related financing, noncapital financing.

Non-operating expenses: Non-operating expenses include activities that have the characteristics of non-exchange transactions that are consistently applied as non-operating expenses 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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

25. Fiduciary Fund

Fiduciary funds are used to account for resources the Institute holds for others. It uses a trust to hold medical insurance premiums collected from the employees until the premiums are remitted to the insurance carriers. The Institute is responsible for seeing that the assets in these funds are spent for their intended purpose. The finances of these funds are reported in separate statements of fiduciary net position and changes in fiduciary net position. See Note A2 for additional information on the presentation of the Institute's only fiduciary fund (Employee Benefit Trust).

26. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Educational Retirement Plan (ERP) and additions to/deductions from ERP's fiduciary net position have been determined on the same basis as they are reported by ERP, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

27. Subsequent Events

Subsequent events have been evaluated through October 31, 2017, the date which the financial statements were available to be issued, to determine whether such events should be recorded or disclosed in the financial statements for the year ended June 30, 2017. Management believes no material subsequent events have arisen that would require adjustment or disclosure.

NOTE B – CASH AND INVESTMENTS

1. Cash

The Institute is required to comply with Section 6-10-16 and 6-10-17 NMSA 1978, which requires that 50% of the uninsured balance of public deposits be secured by pledges of qualifying securities of the depository.

A detail of the cash accounts at June 30, 2017, is included below:

New Mexico Institute of Mining and Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – CASH AND INVESTMENTS – CONTINUED

Name of Depository	Account Name	Bank Account Type	Bank Balance	Reconciling Items	Reconciled Balance
Bank of America	IERA Cash on Deposit	Checking	\$ 7,939	\$ -	\$ 7,939
First State Bank	Comptroller Cash on Deposit	Checking	47,494,126	(1,062,281)	46,431,845
First State Bank	Payroll Cash on Deposit	Checking	177,820	(763,564)	(585,744)
First State Bank	NMEAF Cash on Deposit	Checking	155,950	4,946	160,896
Wells Fargo	Vendor Cash on Deposit	Checking	1,264,600	(784,478)	480,122
Wells Fargo	Employee Ben. Trust Operating	Checking	1,955,537	(4,569)	1,950,968
Wells Fargo	Employee Ben. Trust Claims	Checking	155,664	(154,579)	1,085
			51,211,636	(2,764,525)	48,447,111
	Petty Cash	Cash	-	-	24,494
			<u>\$ 51,211,636</u>	<u>\$ (2,764,525)</u>	<u>\$ 48,471,605</u>

2. Custodial Credit Risk – Cash

Custodial credit risk is the risk that in the event of a bank failure, the Institution's deposits may not be returned to it. The Institution does not have a deposit policy for custodial credit risk. As of June 30, 2017, the Institute's custodial credit risk was as follows:

Bank balance uninsured and uncollateralized	\$ 11,376,254
Bank balance uninsured and collateral held not in the Institute's name	<u>39,327,443</u>
	<u>\$ 50,703,697</u>

The Institute's pledged collateral as of June 30, 2017, was as follows:

Total deposits all banks	\$ 51,211,635
Less: FDIC coverage	<u>(507,938)</u>
Uninsured public funds	<u>50,703,697</u>
50% collateral required	25,351,849
Pledged collateral held by pledging banks' agent in the name of the Institute	<u>(39,327,443)</u>
Excess of pledge collateral over the required amount	<u>\$ (13,975,595)</u>

The Institute, under the terms of its automated clearinghouse (ACH) origination agreement with its primary financial institution, has a requirement to maintain a minimum balance in its accounts with that financial institution of \$30 million. The Institute may access all deposits with this institution at any time.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – CASH AND INVESTMENTS – CONTINUED

3. Investments

Investments of the Institute consist of the following at June 30, 2017:

	<u>Market Value</u>
Short-term LGIP	\$ 18,093,103
Endowments	45,042,389
Other long-term	<u>17,355,414</u>
Total	<u>\$ 80,490,906</u>

There are no other restrictions on withdrawals (such as redemption notice periods, maximum transaction amounts, and the qualifying external investment pool's authority to impose liquidity fees or redemption gates) to disclose in accordance with GASB 79.

As the Institute's investment in LGIP is under \$30 million, the Trust's only restriction on withdrawals is 24 hours of notice to the NMSTO.

	<u>Reconciled Balance per Books</u>	<u>Balance per Custodian Statements</u>
Investment accounts		
Morgan Stanley		
Langmuir endowment		
Money market funds	\$ 53,074	\$ 53,074
Mutual funds	85,207	85,207
U.S. Government and corporate		
debt securities	470,439	470,439
Common stocks	2,148,262	2,148,262
NMT Capital Campaign		
Money market funds	20,766	20,766
Mutual funds	227,284	227,284
Corporate debt securities	209,439	209,439
Common stocks	329,747	329,747
Scottrade		
Student Investment Club		
Cash	6,384	6,384
Common stocks	167,211	167,211
State Investment Council Pooled Fund	58,418,796	58,679,990
State Treasurer - LGIP	<u>18,092,536</u>	<u>18,093,103</u>
Total	<u>\$ 80,229,145</u>	<u>\$ 80,490,906</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – CASH AND INVESTMENTS – CONTINUED

4. External Investment Pool

The New Mexico Local Government Investment Pool (LGIP) is an investment pool established by the State Treasurer for the purpose of investing funds of municipal, county, tribal, and quasi-governmental bodies. There are no requirements for governments to participate in the LGIP. Participating governments may withdraw up to \$30 million within one business day, and withdrawals in various ranges between \$30 million and over \$100 million require notice from 2-10 business days.

The LGIP is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with GASB 79, *Certain External Investment Pools and Pool Participants*. LGIP has met the criteria outlined in GASB Statement No. 79 to permit the election to report its investments at amortized cost which approximates fair value. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest earned is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the amounts were invested.

Section 6-10-10, NMSA 1978, empowers the State Treasurer, with the advice and consent of the State Board of Finance, to invest money held in the short-term investment fund in securities that are issued by the United States government or by its departments or agencies and are either direct obligations of the United States or are backed by the full faith and credit of the United States government or are agencies sponsored by the United States government. The LGIP investments are monitored by the same investment committee and the same policies and procedures that apply to all other state investments.

5. Custodial Credit Risk – Investments

Custodial credit risk is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, an entity will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Institute does not have custodial credit risk policies for investments and does not have investments subject to custodial credit risk.

An acceptable method of reporting interest rate risk is the Weighted Average Maturity (WAM).

The Institute has no control over the State Treasurer's Investment pools and provides the following disclosure provided by the State Treasurer's Office concerning the Institute's investment in the New Mexico LGIP:

New Mexico LGIP	AAAm rated	\$18,092,536	58 day WAM(R) and 106 day WAM (F)
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NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – CASH AND INVESTMENTS – CONTINUED

6. Credit Risk

Credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. The Institute is required to disclose credit ratings of their debt investments in order to assess credit risk. U.S. obligations, investments explicitly guaranteed by the U.S. Government, and non-debt investments are excluded from this requirement. Currently, the Institute does have a policy that restricts investments to specific investment ratings issued by nationally recognized statistical rating organizations. The policy states that cash equivalent reserves shall consist of interest bearing or discount instruments of the U.S. Government or agencies thereof; money market funds, corporate discounted instruments, corporate issued commercial paper rated at least A-1 by Moody's, time deposits in U.S. banks. Exclusive of the U.S. government and agency issues, all other fixed income portfolio will be "A" or better rated as established by a recognized rating service and further reinforced by independent in-house credit analyses.

A summary of the Institute's investments at June 30, 2017, and its exposure to credit risk are as follows:

Investments	WAM Years	Rating	Fair Value
<i>Items subject to credit risk:</i>			
Money market funds	-	Not rated	\$ 73,840
Cash	-	Not rated	6,384
Corporate debt securities	3.82	A-AAA	678,817
Government debt securities	6.00	AA+	1,061
State Treasurer - LGIP	0.16	AAAm	18,093,103
Investments not subject to categorization			
State Investment Council pooled funds	-	Not rated	58,679,990
Total items subject to credit risk			77,533,195
<i>Items not subject to credit risk:</i>			
Mutual funds			312,491
Common stocks			2,645,220
Total items not subject to credit risk			2,957,711
Total investments			\$ 80,490,906

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – CASH AND INVESTMENTS – CONTINUED**7. Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Institute does not have a formal policy to limit its exposure to interest rate risk.

A summary of the investments and their respective maturities at June 30, 2017, and their exposure to interest rate risk are as follows:

	Investment Maturities				Fair Value
	Less than 1 Year	1-5 Years	6-10 Years	Greater than 10 Years	
<i>Items subject to interest rate risk:</i>					
Money market funds	\$ 73,840	\$ -	\$ -	\$ -	\$ 73,840
U.S. Government and corporate debt securities	-	617,925	61,477	476	679,878
State Treasurer LGIP	18,093,103	-	-	-	18,093,103
	<u>\$ 18,166,943</u>	<u>\$ 617,925</u>	<u>\$ 61,477</u>	<u>\$ 476</u>	18,846,821
Investments not subject to categorization					
State Investment Council Pooled fund					<u>58,679,990</u>
Total items subject to interest rate risk					77,526,811
<i>Items not subject to interest rate risk:</i>					
Cash					6,384
Common stocks					2,645,220
Mutual funds					<u>312,491</u>
Total investments					<u>\$ 80,490,906</u>

8. Fair Value Measurements

US GAAP requires certain assets and liabilities to be measured at fair value. 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.

Investments are measured at fair value on a recurring basis. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value. The fair value hierarchy 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:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – CASH AND INVESTMENTS – CONTINUED

8. Fair Value Measurements – Continued

- | | |
|---------|---|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none">• quoted prices for similar assets or liabilities in active markets;• quoted prices for identical or similar assets or liabilities in inactive markets;• inputs other than quoted prices that are observable for the asset or liability;• inputs that are derived principally from or corroborated by observable market data by correlation or other means. 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, 2017.

The investment portfolio is comprised of equity securities (common stock), mutual funds, debt securities, and pooled investments 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 investment income in the statement of revenues, expenses, and changes in net position.

During 2017, the Institute 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 Institute uses the classifications of investment pools provided by the SIC. These measurements are classified within levels of the fair value hierarchy as follows:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – CASH AND INVESTMENTS – CONTINUED

8. Fair Value Measurements – Continued

- Investments in the Large Cap Index Pool (Investments are in a commingled fund) – Level 2
- Investments in Small/Mid Cap Active Pool – Level 1
- Investments in Non-US Developed Markets Index Pool – Level 1
- Investments in Core Plus Bonds Pool – Level 2

The State Treasurer LGIP is excluded from fair value accounting and is recorded in the financial statements at amortized cost.

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, 2017.

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Held at Morgan Stanley and Scottrade:				
Common stocks:				
Technology	\$ 274,710	\$ 274,710	\$ -	\$ -
Services	490,697	490,697	-	-
Healthcare	418,490	418,490	-	-
Financial	409,928	409,928	-	-
Industrial Goods	253,959	253,959	-	-
Basic Materials	14,284	14,284	-	-
Energy	178,340	178,340	-	-
Consumer Goods	566,562	566,562	-	-
Utilities	38,250	38,250	-	-
Money market funds	73,840	73,840	-	-
Corporate debt securities	678,817	678,817	-	-
Government debt securities	1,061	1,061	-	-
Mutual funds	312,491	312,491	-	-
Investments held with the New Mexico State				
Investment Council (SIC) pooled funds:				
Core Plus Bonds Pool	31,856,173	-	31,856,173	-
Large Cap Index Pool	26,285,347	-	26,285,347	-
Non-US Developed Market Index Pool	109,350	109,350	-	-
Small/Mid Cap Active Pool	167,926	167,926	-	-
Deposit in transit	261,194	261,194	-	-
	<u>\$ 62,391,419</u>	<u>\$ 4,249,899</u>	<u>\$ 58,141,520</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE B – CASH AND INVESTMENTS – CONTINUED8. Fair Value Measurements – Continued

GASB 72 requires additional disclosure for certain types of investments that calculate net asset value per share but are not publicly traded to assist in understanding the nature and risk of these investments by major category. The table below summarizes the fair value and other pertinent liquidity information of investments at June 30:

Investment	Fair Value	Redemption Frequency	Redemption Notice Period
SIC Non-US Developing	\$ 109,350	Daily	Five business days
SIC Mid/Small Cap	167,926	Daily	Five business days
SIC Large Cap Index Fund	26,285,347	Daily	Five business days
SIC Core Plus Bond Fund	31,856,173	Daily	Five business days
Deposit in transit	261,194	Daily	Five business days

NOTE C – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following at June 30, 2017:

Grant and contracts billed and unbilled	\$ 8,629,442
Student accounts	850,563
Due from state agencies	324,744
Other receivables	<u>523,367</u>
Total receivables	10,328,116
Allowance for doubtful accounts	<u>(444,014)</u>
Total accounts receivable billed and unbilled, net	<u><u>\$ 9,884,102</u></u>

New Mexico Institute of Mining and Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE D – CAPITAL ASSETS

Following are the changes in capital assets for the year ended June 30, 2017:

	Balance June 30, 2016	Additions	Transfers	Retirements	Balance June 30, 2017
Land	\$ 4,334,219	\$ -	\$ -	\$ -	\$ 4,334,219
Construction in progress	8,821,488	13,554,437	-	(2,784,376)	19,591,549
Total assets not being depreciated	\$ 13,155,707	\$ 13,554,437	\$ -	\$ (2,784,376)	\$ 23,925,768
Non-major infrastructure networks	\$ 30,411,900	\$ -	\$ -	\$ -	\$ 30,411,900
Land improvements	6,302,775	402,524	-	-	6,705,299
Buildings	189,528,044	1,040,873	-	-	190,568,917
Furniture, fixtures, and equipment	47,122,534	2,055,960	-	(2,068,499)	47,109,995
Software	1,745,277	24,841	-	-	1,770,118
Library materials	19,274,965	909,880	-	(23,413)	20,161,432
Total depreciable capital assets	\$ 294,385,495	\$ 4,434,078	\$ -	\$ (2,091,912)	\$ 296,727,661
Non-major infrastructure networks	\$ (13,613,669)	\$ (1,000,161)	\$ -	\$ -	\$ (14,613,830)
Land improvements	(3,209,148)	(209,454)	-	-	(3,418,602)
Buildings	(82,278,299)	(5,447,293)	-	-	(87,725,592)
Furniture, fixtures, and equipment	(38,755,172)	(2,625,485)	(98,413)	2,057,372	(39,421,698)
Software	(1,043,745)	(193,106)	-	-	(1,236,851)
Library materials	(12,584,654)	(889,991)	-	23,413	(13,451,232)
Total accumulated depreciation	\$ (151,484,687)	\$ (10,365,490)	\$ (98,413)	\$ 2,080,785	\$ (159,867,805)
Capital assets summary					
Capital assets not being depreciated	\$ 13,155,707	\$ 13,554,437	\$ -	\$ (2,784,376)	\$ 23,925,768
Depreciable capital assets, at cost	294,385,495	4,434,078	-	(2,091,912)	296,727,661
Total cost of capital assets	307,541,202	17,988,515	-	(4,876,288)	320,653,429
Accumulated depreciation	(151,484,687)	(10,365,490)	(98,413)	2,080,785	(159,867,805)
Capital assets, net	\$ 156,056,515	\$ 7,623,025	\$ (98,413)	\$ (2,795,503)	\$ 160,785,624

New Mexico Institute of Mining and Technology

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE E – LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2017 is as follows:

	Balance			Current	
	June 30, 2016	Increases	Decreases	Balance June 30, 2017	Portion (Due in 2017)
Noncurrent liabilities					
Accrued compensated absences	\$ 7,624,725	\$ 4,299,343	\$ (4,594,938)	\$ 7,329,130	\$ 4,166,413
Environmental remediation	5,434,223	-	-	5,434,223	-
Bonds payable	11,575,000	-	(1,025,000)	10,550,000	-
Bond premium, net	614,713	-	(40,688)	574,025	40,688
Net pension liability	84,363,804	9,831,754	-	94,195,558	-
Net OPEB obligation	8,474,287	1,663,307	-	10,137,594	-
Total noncurrent liabilities	\$118,086,752	\$ 15,794,404	\$ (5,660,626)	\$ 128,220,530	\$ 4,207,101

1. Environmental Remediation

As part of the Government's weapons and munitions research and development during the years 1972 to 1992, munitions containing depleted uranium (DU), which is a heavy metal and has very low level radioactivity, were tested at the Energetic Materials Research and Testing Center (EMRTC). The Institute's Radioactive Material License issued by the State of New Mexico for possession of the DU requires decommissioning of sites and facilities. The Institute had submitted its claim for breach of express contracts, pursuant to the Contract Disputes Act (CDA) breach of implied contracts, and negligence requiring restoration of property, to the contracting officers of various US government and military related organizations in May 2011. The claim under the CDA was denied on April 13, 2012. A claim was also submitted to Government contracting officers for cleanup of DU at the Institute under the Federal Tort Claims Act. The Government's agency handling the claim did not respond to the claim within the prescribed time which may be deemed by the Institute a final denial of the claim.

NMT/EMRTC elected not to pursue the Tort Claim filed in accordance with the Contract Disputes Act of 1978 for breach of contract, breach of implied contract, negligence, violation of Federal Tort Claims Act (FTCA), equitable claims, and damages. EMRTC determined that costs involved in this activity have little or no probability of being recovered.

The Institute may be liable for all or part of the cleanup cost. The cleanup cost has not been definitely estimated, but preliminary estimates range from approximately \$5,000,000 to \$19,000,000. It is uncertain at the date of these financial statements as to the outcome of the Institute's recovery actions against the United States or the potential cleanup amount that might be ultimately required. The Institute has accrued \$5,434,223 as a non-current liability as of June 30, 2017.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE F – BONDS PAYABLE

Long-term debt of the Institute at June 30, 2017, consists of revenue bonds. On August 5, 2011, the Institute issued the NMIMT System Revenue Bonds, Series 2011, in the par amount of \$13,395,000, maturing July 2031, and carrying interest rates from 3.00% to 5.00%. These bonds were Board approved in 2011 to fund the acquisition, construction, and equipping of a student housing facility, the construction of facilities to house a telescope and related improvements including the purchase of equipment and furnishings at the Magdalena Ridge Observatory, and other improvements to the facilities of the Institute.

Total Institute revenue bonded debt is as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Capital improvements	3.00-5.00%	<u>\$10,550,000</u>

Annual debt service requirements for the Institute’s revenue bonds to maturity are as follows:

Year Ended		
June 30,	Principal	Interest
2018	\$ -	\$ 258,175
2019	540,000	505,550
2020	575,000	483,250
2021	590,000	457,000
2022	630,000	426,500
2023-2027	3,610,000	1,370,375
2028-2032	<u>4,605,000</u>	<u>848,500</u>
Total	<u>\$ 10,550,000</u>	<u>\$ 4,349,350</u>

The Institute has pledged future net income and net revenues received from Institute-owned Auxiliary Enterprises, housing and other facilities; all gross proceeds of student tuition and fees except student social and cultural activities fees; the gross amount received by the Institute from the income from the Permanent fund and Income fund; and all income or revenues received by the Institute as indirect cost recovery and fixed fee reimbursement from restricted grants and contracts to repay the bond debt. Annual principal and interest payments on the bond are expected to require about 6% of pledged revenues. Principal and interest paid during the current year totaled \$1,820,507 which includes the required payments for 2017 and the principal and first-half interest payments for fiscal year 2018. Pledged revenues received during 2017 were \$10,564,203.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE F – BONDS PAYABLE – CONTINUED

A bond premium of \$574,025 remains unamortized as of June 30, 2017, with \$40,688 being amortized during the year. Amortization of the bond premium in future years is \$40,688 per year.

NOTE G – OTHER POSTEMPLOYMENT BENEFITS PLAN

The Board of Regents authorized the creation of the New Mexico Tech Employee Benefit Trust (Trust or Plan), a contributory benefit plan, to operate, control and maintain a program to provide certain health and life insurance benefits to the employees of the Institute and their families. Retired employees may participate in the Plan. The Plan is considered a postemployment benefit plan as defined by GASB 74, *Financial Reporting for Postemployment Benefit Other than Pension Plans* which was implemented this year. The Trust is recorded as a fiduciary fund in the accompanying financial statements and as a blended component unit. The Board of Regents serves as trustee and has delegated the day-to-day operations of the Trust to the executive staff of the Institute.

The Trust issues standalone audited financial statements that can be obtained by request or via the Office of the State Auditor's website at www.saonm.org.

Plan Description

Eligibility: The Trust offers employees of New Mexico Institute of Mining and Technology and their eligible dependents retiree benefits. Employees of New Mexico Tech expect to continue health benefit coverage at retirement by electing to pay the full active participant premium charged to New Mexico Tech's health coverage plan, a single employer plan. The differential between the active participant premium and that charged for an older retiree on a stand-alone basis qualifies as a postemployment benefit. The authority to establish and amend the benefit provisions and contribution requirements rests with the Board of Regents.

All regular, regular limited-term, and full-time temporary employees of the Institute and their eligible dependents are eligible to participate in the Plan. An employee is eligible for coverage on the first day of the month following attainment of status as a full-time employee. In order for a retiree of the Institute to be eligible for other postemployment benefits, the employee must be enrolled in the benefit prior to retirement and choose to continue the benefit or opt out. If the retiree chooses to opt out at retirement, the retiree will no longer be offered the benefit. Retirees may opt out at any time or may change plan options during the benefits open enrollment period.

Benefits provided: Eligible retirees of the Institute receive healthcare coverage through one self-funded medical plan, including prescription drugs, administered by the Plan's third-party administrator. Eligible Medicare retirees (for retirees 65 years of age and over) continue to receive healthcare coverage through Meritain Health as the Supplement Plan including vision, dental, and prescription drugs. Retirees are also offered \$10,000 of retiree basic life insurance.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE G – OTHER POSTEMPLOYMENT BENEFITS PLAN – CONTINUED

Plan Description – Continued

In addition, the Trust is used to pay premiums for life insurance coverage on eligible participants and to administer the Flexible Benefits Plan (the Flex Plan). The Flex Plan, which is fully funded by employees, provides reimbursement of certain employee health and dependent care expenses.

Plan membership: As of June 30, 2017, there were a total of 206 retirees and 490 active participants in the plan.

Contributions: The Trust is funded by contributions from both the Institute and employees of the Institute. Flex Plan contributions consist of employee-only contributions and are based on amounts elected by the employees up to specified limits, and are withheld from employee pay. All other contributions, including employee and employer contributions, are based on amounts determined by the Trust Committee as necessary to cover the expenses of the Trust. Contributions are funded on a monthly basis.

Retiree contributions for medical, dental, vision, and prescriptions are required for both retiree and dependent coverage. Retirees are required to pay the full premiums less a subsidy provided by the Institute.

Contribution amounts vary by plan, salary level, and age (for retirees) and ranged as follows for the year ended June 30, 2017:

<u>Contribution Type</u>	<u>Monthly Contribution</u>
Employer	\$456 - \$2,022
Active member	\$152 - \$1,012
Retiree	\$24 - \$45

The Institute currently funds its plan on a pay-as-you-go basis. The pay-as-you-go expense is the net expected cost of providing retiree benefits, and includes all expected claims and related expenses and is offset by retiree contributions. The net pay-as-you-go expense of the Institute for fiscal year 2017 was \$2,193,286.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE G – OTHER POSTEMPLOYMENT BENEFITS PLAN – CONTINUED

Net Other Postemployment Benefits Liability

The components of the Institute's net OPEB liability at June 30, were as follows:

Total OPEB liability	\$ 59,159,581
Plan fiduciary net position	<u>3,655,468</u>
 The Institute's net OPEB liability	 <u>\$ 55,504,113</u>
 Plan fiduciary net position as a percentage of total OPEB liability	 <u>6.18%</u>

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all prior periods included in the measurement:

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the periods July 1, 2010, through June 30, 2016.

The long-term rate of return on assets is based on the Citigroup Pension Liability Index (CPLI) for corporate bonds which was 3.72% as of June 30, 2017.

The unfunded actuarial accrued liability (UAAL) is amortized over the maximum acceptable period of 30 years and is calculated assuming a level dollar basis for each individual active participant through retirement.

Annual OPEB Cost and Net OPEB Obligation

The Institute's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE G – OTHER POSTEMPLOYMENT BENEFITS PLAN – CONTINUED

Discount Rate

The discount rate and the theoretical rate of return on assets had been set equal to the Citigroup Pension Liability Index (“CPLI”) for corporate bonds rounded up to the nearest 50 basis points in prior years. As of June 30, 2016, the CPLI was 3.61% and had increased slightly to 3.87% by June 30, 2017. Thus, the initial discount assumption was 4.00% as of June 30, 2017. With the inclusion in the analysis of the funds held currently in the Trust, a crossover test was performed to determine when the funds in the Trust are expected to be depleted, which is by the year 2042. As such benefit payments were discounted at 4.00% until 2042 and 3.58% after that time. The 3.58% is the composite 20-bond GO index for municipal bonds. The effective blended rate for all benefit payments was calculated at 3.72%.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Institute’s net OPEB liability calculated using the discount rate of 3.72 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.72 percent) or 1-percentage-point higher (4.72 percent) than the current rate:

	<u>1% Decrease (2.72%)</u>	<u>Discount Rate (3.72%)</u>	<u>1% Increase (4.72%)</u>
Net OPEB liability	\$ 67,642,460	\$ 55,504,113	\$ 46,120,228

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Institute’s net OPEB liability calculated using the current healthcare cost trend rate of 3.00 percent, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (2.00 percent) or 1-percentage-point higher (4.00 percent) than the current rate:

	<u>1% Decrease (2.00%)</u>	<u>Current Health Care Trend Rate (3.00%)</u>	<u>1% Increase (4.00%)</u>
Net OPEB liability	\$ 45,899,006	\$ 55,504,113	\$ 68,066,734

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE H – CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

The liability for claims and claims adjustment expenses related to the Trust, which is reported on an ultimate development basis, includes an amount for claims incurred but not reported. Estimates of the liability for amounts incurred but not reported as of June 30, 2017, have been based on the Institute's historical claims' experience. While management believes that these estimates are adequate, actual incurred but unpaid claims may vary significantly from the amount provided.

As of June 30, 2017, the changes in reserves for claims and claims adjustment expenses are as follows:

Liability for claims and claims adjustment expenses at beginning of year	\$ 558,992
Incurred claims and claims adjustment expenses	6,901,069
Payments, net of recoveries	<u>(6,632,731)</u>
Liability for claims and claims adjustment expenses at end of year	<u>\$ 827,330</u>

NOTE I – TERMINATION PROVISIONS

The Trust may be terminated upon sixty (60) days' notice by an instrument in writing duly executed by the institute and delivered to the Trust Committee. Upon termination, all monies remaining in the Trust will be used to pay any unpaid claims or used to continue benefits described in the Trust document until all such monies have been exhausted. In no event, upon termination, shall any assets of the Trust revert back to the Institute. The Institute is not legally committed or obligated to fund deficits in the Trust but has advanced funds on an as needed basis as determined by the sole discretion of the Trust Committee (see Note G). The Institute is required to indemnify and pay the Trust up to \$142,000 in reserves from the contributions made by participants.

NOTE J – DEFINED BENEFIT RETIREMENT PLAN

Plan Description

The New Mexico Educational Retirement Board (ERB) was created by the state's Educational Retirement Act (ERA), Section 22-11-1 through 22-11-52, NMSA 1978, as amended, to administer the Educational Employees Retirement Plan (Plan). The Plan is a cost-sharing, multiple-employer plan established to provide retirement and disability benefits for certified teachers and other employees of the state's public schools, institutions of higher learning, and state agencies providing educational programs.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE J – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Plan Description – Continued

The Plan is considered a component unit of the State of New Mexico's financial reporting entity. The ERA assigns the authority to establish and amend benefit provisions to a seven-member Board of Trustees (Board); the state legislature has the authority to set or amend contribution rates and other terms of the Plan which is a pension benefit trust fund of the State of New Mexico.

ERB issues a publicly available financial report and a comprehensive annual financial report that can be obtained at www.nmerb.org.

NMERB is self-funded through investment income and educational employer contributions. The Plan does not receive General Fund Appropriations from the State of New Mexico. All accumulated assets are held by the Plan in trust to pay benefits, including refunds of contributions as defined in the terms of the Plan. Eligibility for membership in the Plan is a condition of employment, as defined Section 22-11- 2, NMSA 1978. Employees of public schools, universities, colleges, junior colleges, technical-vocational institutions, state special schools, charter schools, and state agencies providing an educational program, who are employed more than 25% of a full-time equivalency, are required to be members of the Plan, unless specifically excluded.

Benefits Provided

A member's retirement benefit is determined by a formula which includes three component parts: the member's final average salary (FAS), the number of years of service credit, and a 0.0235 multiplier. The FAS is the average of the member's salaries for the last five years of service or any other consecutive five-year period, whichever is greater.

Summary of Plan Provisions for Retirement Eligibility

For members employed before July 1, 2010, a member is eligible to retire when one of the following events occurs: the member's age and earned service credit add up to the sum of 75 or more; the member is at least sixty-five years of age and has five or more years of earned service credit; or the member has service credit totaling 25 years or more.

Chapter 288, Laws of 2009 changed the eligibility requirements for new members first employed on or after July 1, 2010, and before July 1, 2013. The eligibility for a member who either becomes a new member on or after July 1, 2010, and before July 1, 2013, or at any time prior to July 1, 2010, refunded all member contributions and then became, or becomes, reemployed after that date is as follows: the member's age and earned service credit add up to the sum of 80 or more; the member is at least sixty-seven years of age and has five or more years of earned service credit; or the member has service credit totaling 30 years or more.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE J – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Benefits Provided – Continued

Section 2-11-23.2, NMSA 1978 added eligibility requirements for new members who were first employed on or after July 1, 2013, or who were employed before July 1, 2013, but terminated employment and subsequently withdrew all contributions, and returned to work for an ERB employer on or after July 1, 2013. These members must meet one of the following requirements: The member's minimum age is 55, and has earned 30 or more years of service credit (those who retire earlier than age 55, but with 30 years of earned service credit will have a reduction in benefits to the actuarial equivalent of retiring at age 55); the member's minimum age and earned service credit add up to the sum of 80 or more (those who retire under the age of 65, and who have fewer than 30 years of earned service credit will receive reduced retirement benefits); the member is at least sixty-seven years of age and has five or more years of earned service credit.

The benefit is paid as a monthly life annuity with a guarantee that, if the payments made do not exceed the member's accumulated contributions plus accumulated interest, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. There are three benefit options available: single life annuity; single life annuity monthly benefit reduced to provide for a 100% survivor's benefit; or single life annuity monthly benefit reduced to provide for a 50% survivor's benefit.

All retired members and beneficiaries receiving benefits receive an automatic adjustment in their benefit on July 1 following the later of 1) the year a member retires, or 2) the year a member reaches age 65 (Tier 1 and Tier 2) or age 67 (Tier 3). Tier 1 membership is comprised of employees who became members prior to July 1, 2010, tier 2 membership is comprised of employees who became members after July 1, 2010, but prior to July 1, 2013, and tier 3 membership is comprised of employees who became members on or after July 1, 2013. As of July 1, 2013, for current and future retirees the Cost of Living Adjustment (COLA) is immediately reduced until the Plan is 100% funded. The COLA reduction is based on the median retirement benefit of all retirees excluding disability retirements. Retirees with benefits at or below the median and with 25 or more years of service credit will have a 10% COLA reduction; their average COLA will be 1.8%. Once the funding is greater than 90%, the COLA reductions will decrease. The retirees with benefits at or below the median and with 25 or more years of service credit will have a 5% COLA reduction; their average COLA will be 1.9%.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE J – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Benefits Provided – Continued

Members on disability retirement are entitled to a COLA commencing on July 1 of the third full year following disability retirement. A member on regular retirement who can prove retirement because of a disability may qualify for a COLA beginning July 1 in the third full year of retirement. A member is eligible for a disability benefit provided (a) he or she has credit for at least 10 years of service, and (b) the disability is approved by ERB. The monthly benefit is equal to 2% of FAS times years of service, but not less than the smaller of (a) one-third of FAS or (b) 2% of FAS times year of service projected to age 60. The disability benefit commences immediately upon the member's retirement. Disability benefits are payable as a monthly life annuity, with a guarantee that, if the payments made do not exceed the member's accumulated contributions, determined as of the date of retirement, the balance will be paid in a lump sum to the member's surviving beneficiary. If the disabled member survives to age 60, the regular optional forms of payment are then applied. A member with five or more years of earned service credit on deferred status may retire on disability retirement when eligible under the Rule of 75 or when the member attains age 65.

Members may withdraw their contributions only when they terminate covered employment in the State and their former employer(s) certification determination has been received by NMERB. Interest is paid to members when they withdraw their contributions following termination of employment at a rate set by the Board. Interest is not earned on contributions credited to accounts prior to July 1, 1971, or for contributions held for less than one year.

Contributions

The contribution requirements of defined benefit plan members and the Institute are established in state statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. For the fiscal years ended June 30, 2017 and 2016, employers contributed 13.9% of employees' gross annual salary to the Plan. Employees earning \$20,000 or less contributed 7.90% and employees earning more than \$20,000 contributed 10.70% of their gross annual salary. The Institute's contributions to the defined benefit plan were \$5,112,672 for the year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The total ERB pension liability, net pension liability, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2015. The total ERB pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE J – DEFINED BENEFIT RETIREMENT PLAN – CONTINUEDPension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Continued

At June 30, 2017, the Institute reported a liability of \$94,195,558 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ending June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date of June 30, 2016. There were no significant events or changes in benefit provision that required an adjustment to the roll-forward liabilities as of June 30, 2016. The Institute's proportion of the net pension liability was based on a projection of the Institute's long-term share of contributions to the pension plan relative to the projected contributions of all participating educational institutions, actuarially determined. At June 30, 2016, the Institute's proportion was 1.30892 percent, which was an increase of 0.00646 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Institute recognized pension expense of \$6,240,470. Pension expense as reported in the Statement of Revenues, Expenses, and Changes in Net Position consists of the amount above less the reversal of the prior year's contributions subsequent to the measurement date and adjustments related to differences between prior year Plan schedules and the Institute's financial statements. At June 30, 2017, the Institute reported deferred outflows of resources and deferred inflows or resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ -	\$ (895,919)
Changes of assumptions	1,917,444	-
Net difference between projected and actual earnings on pension plan investments	6,031,346	-
Changes in proportion and differences between Institute contributions and proportionate share of contributions	303,951	(1,895,842)
Institute contributions subsequent to the measurement date	<u>5,112,672</u>	<u>-</u>
	<u>\$ 13,365,413</u>	<u>\$ (2,791,761)</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE J – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Continued

\$5,112,672 reported as deferred outflows of resources related to pensions resulting from Institute contributions subsequent to the measurement date of June 30, 2016, will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized in pension expense as follows:

Year ended June 30:	
2018	\$ (407,490)
2019	1,750,540
2020	2,746,782
2021	<u>1,371,148</u>
	<u>\$ 5,460,980</u>

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following significant actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Remaining Period	Amortized – closed 30 years from June 30, 2012 to June 30, 2042
Asset Valuation Method	5-year smoothed market
Average of Expected Remaining Service Lives	3.77 years
Inflation	3.00%
Salary Increases	Composition: 3% inflation, plus 0.75% productivity increase rate, plus step-rate promotional increases for members with less than 10 years of service
Investment Rate of Return	7.75%
Retirement Age	Experience based table based on age and service rates.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE J – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Actuarial Assumptions – Continued

Mortality	<p>Healthy males: Based on the RP-2000 Combined Mortality Table with White Collar adjustments, generational mortality improvements with Scale BB.</p> <p>Healthy females: Based on GRS Southwest Region Teacher Mortality Table, set back one year, generational mortality improvements in accordance with Scale BB from the table's base year of 2012.</p> <p>Disabled males: RP-2000 Disabled Mortality Table for males, set back three years, projected to 2016 with Scale BB.</p> <p>Disabled females: RP-2000 Disabled Mortality Table for females, no set back, projected to 2016 with Scale BB.</p> <p>Active members: RP-2000 Employee Mortality Tables, with males set back two years and scaled at 80%, and females set back five years and scaled at 70%. Static mortality improvement from the table's base year of 2000 to the year 2016 in accordance with Scale BB. No future improvement was assumed for preretirement mortality.</p>
Cost-of-living increases	2% per year, compounded annually
Contribution accumulation	5% increase per year for all years prior to the valuation date. (Contributions are credited with 4.0% interest, compounded annually, applicable to the account balance in the past as well as the future).
Disability incidence	Approved rates applied to eligible members with at least 10 years of service.

The actuarial assumptions and methods are set by the Plan's Board of Trustees, based upon recommendations made by the Plan's actuary. The Board adopted new assumptions on June 12, 2015, in conjunction with the six-year actuarial experience study period ending June 30, 2014. At that time, the Board adopted several assumption changes, which included a decrease in the annual wage inflation rate from 4.25% to 3.75%, and changes to the mortality rates, disability rates, and retirement rates for members who joined the plan after June 30, 2010. In addition, the board lowered the population growth rate assumption to zero.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE J – DEFINED BENEFIT RETIREMENT PLAN – CONTINUEDActuarial Assumptions – Continued

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>
Equities	35%	
Fixed income	28%	
Alternatives	36%	
Cash	1%	
Total	<u>100%</u>	<u>7.75%</u>

Discount Rate

A single discount rate of 7.75% was used to measure the total ERB pension liability as of June 30, 2016. This single discount rate was based on the expected rate of return on pension plan investments of 7.75%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore, the long term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine this single discount rate assumed that Plan contributions will be made at the current statutory levels. Additionally, contributions received through the Alternative Retirement Plan (ARP), ERB's defined contribution plan, are included in the projection of cash flows. ARP contributions are assumed to remain at a level percentage of ERB payroll, where the percentage of payroll is based on the most recent five-year contribution history.

Sensitivity of the Institute's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the Institute's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Institute's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate.

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Institute's proportionate share of the net pension liability	\$ 124,759,829	\$ 94,195,558	\$ 68,835,848

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE J – DEFINED BENEFIT RETIREMENT PLAN – CONTINUED

Pension Plan Fiduciary Net Position

Detailed information about the ERB's fiduciary net position is available in the separately issued audited financial statements as of and for the year ending June 30, 2016, which are publicly available at www.nmerb.org.

Funding Policy

The contribution requirements of plan members and the Institute are established in state statute under Chapter 22, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Institute's contributions to ERB (which include contributions related to the Alternative Retirement Plan) for fiscal years ending June 30, 2017, 2016, and 2015 were \$5,112,672, \$5,193,709, and \$5,135,439, respectively, which is equal to the amount of the required contributions for each fiscal year.

Payables to the Pension Plan

At June 30, 2017, the Institute had an outstanding payable to the Plan of \$1,148,084 which consisted of statutory employee and employer contributions for the month of June 2017.

NOTE K – DEFINED CONTRIBUTION RETIREMENT PLAN

Effective October 1991, the New Mexico legislature established an Alternative Retirement Plan (ARP) through the enactment of ERA Sections 22-11-47 through 52 NMSA 1978 to provide eligible employees an election to establish an alternative retirement investment plan. In contrast to the defined benefit plan administered by ERB, the ARP is a defined contribution plan. ERB is the trustee of the ARP which is administered by two third-party contractors for NMERB. The administrators approved to offer ARP plans to eligible participants are Teachers Insurance and Annuity Association (TIAA) and Fidelity Investments.

These administrators have the authority to perform record keeping, enrollment education services, and other administrative duties for the ARP. The administrators are delegated any and all powers as may be necessary or advisable to discharge their duties under the ARP, and have certain discretionary authority to decide matters under the ARP. As the ARP trustee, ERB is responsible for selecting investment options that provide a prudent rate of return, and to ensure that all investments, amounts, property, and rights under the executed Plan-Trust are held for the exclusive benefit of Plan participants and their beneficiaries, as defined in the Plan Document.

Faculty and professional employees of New Mexico public universities and community colleges have the option of participating in the ARP. They can opt to participate in either ERB's Defined Benefit Plan or ARP during the first 90 days of employment if they are in an eligible

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE K – DEFINED CONTRIBUTION RETIREMENT PLAN – CONTINUED

position. Information about the ARP is distributed by the employer. Those who do not elect to participate in the ARP remain members of the regular defined benefit retirement plan. Section 22-11-47(D) NMSA 1978 allows an ARP participant a one-time option to make an irrevocable switch to the defined benefit retirement plan after seven years of ARP participation.

The benefit received upon retirement is based on the amount contributed by the employee during their career, subject to any investment gains or losses. Employees are 100% vested in both the employee and employer contributions upon enrollment in the ARP. ARP participants can apply for a distribution of their ARP contributions upon separation from the Institute. ARP participants direct their own investments which are held at either TIAA or Fidelity, and retirement benefits are tied to the value of the assets in the account at retirement. Upon retirement, ARP participants have three options:

- a monthly annuity based on the retiree's estimated life span
- payments received over a fixed term of years, or
- a lump sum payment

For the year ended June 30, 2017, the employee contributes 10.7% and the employer contributes 10.9% of the employee's gross covered salary to the ARP vendor. Employers pay an additional 3% contribution rate to cover the actuarial impact on the Defined Benefit Plan attributable to employees participating in the ARP. Employer contributions to the ARP for the fiscal years ended June 30, 2017, 2016 and 2015 totaled \$847,983, \$838,353, and \$818,691, respectively. The Institute's 3% contribution for each year is included in the amount remitted to ERB in Note K.

NOTE L – COMMITMENTS AND CONTINGENCIES

1. Operating Leases

The Institute is obligated under certain lease (rental) agreements, which are accounted for as operating leases. Incorporated in each lease agreement is a fiscal funding clause, which allows the Institute to cancel the operating lease if funding for future periods is not appropriated. The likelihood of such an occurrence is considered to be remote by the Institute. Total rent expense for the year ended June 30, 2017 was \$439,925.

The Institute entered into a lease agreement with New Mexico Tech Research Foundation (a related party) which began April 1, 2006, renewed July 1, 2017, and ends June 30, 2026. Monthly payments under this lease amounted to \$7,513 and are included in the total rent expense above.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE L – COMMITMENTS AND CONTINGENCIES – CONTINUED

1. Operating Leases – Continued

Future minimum rental payments required under operating leases are as follows for the years ending June 30:

2018	\$	368,075
2019		153,631
2020		143,389
2021		136,239
2022		131,778
2023 - 2027		545,016
2028 - 2031		132,000
		<hr/>
	\$	<u>1,610,128</u>

2. Contingencies

The Institute is liable or contingently liable in connection with certain claims that arise in the normal course of its activities. It is the opinion of management that uninsured losses resulting from these claims would not be material to the Institute's financial position or operations.

The Institute receives grants and other forms of reimbursement from various federal and state agencies. These activities are subject to audit by agents of the funding authority, the purpose of which is to ensure compliance with conditions precedent to providing such funds. Institute administration believes that the liability, if any, for reimbursement that may arise as the results of audits, would not be material to the financial position or operations of the Institute.

3. State Risk Management Pool

The Institute, as a state institute defined in the New Mexico Tort Claims Act, is insured through the Risk Management Division of the State of New Mexico. Annual premiums are paid to the Office of Risk Management for coverage provided in the following areas:

- a) Liability and civil rights protection for claims made by others against the Institute.
- b) Coverage to protect the Institute's property and assets.

The Institute participates in the State of New Mexico Risk Management Program (Risk Management), which provides liability and physical damage insurance. The Institute pays premiums for its participation. From time-to-time the Institute is subject to lawsuits including

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE L – COMMITMENTS AND CONTINGENCIES – CONTINUED

3. State Risk Management Pool – Continued

personnel and student liability matters in the ordinary course of business. Currently, no lawsuit settlements or outcomes have exceeded insurance coverage for the last three years.

The Institute is a defendant in legal actions arising from normal business activities. Management believes that those actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Institute's financial position or results of operations.

4. Other Commitments

At June 30, 2017, the Institute had issued purchase orders for materials and services which were not received and thus not reflected as liabilities in the accompanying basic financial statements. The amount of such commitments is \$33,966,529.

Total construction commitments of \$3,726,186 are not presented in the financial statements. These commitments represent unfinished contracts with various entities at June 30, 2017.

NOTE M – ENDOWMENTS

The Institute has donor-restricted and unrestricted endowments with the authority to use interest, income, dividends, or profits of endowments for specified purposes for the benefit of the Institute and its students. Expendable funds are those funds that may be expended for either a stated purpose or for a general purpose as per the endowment gift terms. Nonexpendable funds are those required to be retained in perpetuity.

Endowment income is reported each year based on investment activity for the year as "additions to endowments" on the statement of revenues, expenses and changes in net position. Each institution sets the amounts and/or percentage of net appreciation on endowment investments that are authorized for expenditure in its spending plan. Endowment income made available for distribution for the established purpose was \$1,515,795.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE N – ADOPTION OF NEW ACCOUNTING POLICY

Effective fiscal year 2017, the State of New Mexico adopted a new accounting policy to account for the Land Grant beneficiaries' interest in the State of New Mexico's State Land Grant Permanent Fund. The School is a beneficiary of the New Mexico Land Grant Permanent Fund (LGPF) under the Ferguson legislation (1898) whereby lands of the State of New Mexico were allocated to the benefit of state educational institutions including income derived therefrom. NMSA 19-1-17 1978 is the enabling legislation to allocate specific lands to educational institutions including NM Tech. Upon the adoption of GASB 34 in FY2003, the Institute began recording the value of its beneficial interest in the LGPF as an investment, including any gains and losses. The New Mexico State Investment Council (SIC) also included the entire balance and activity of the LGPF in its separately issued financial statements. Both the SIC's and certain Land Grant beneficiaries' LGPF balances and activity have been accounted for in the statewide Comprehensive Annual Financial Report (CAFR) through fiscal year 2016.

On June 23, 2017, the New Mexico State Department of Finance and Administration (DFA) issued an accounting policy (APS #1) to eliminate double-counting of LGPF balances in the CAFR. The State Controller's Office determined that LGPF balances should only be reported in the SIC's separately issued financial statements (and included in the statewide CAFR). This determination was based on several factors including a legal opinion that indicates title to the land grant land and the corpus derived from the land grant lands are state assets with resulting distribution of income to the Land Grant beneficiaries.

Due to this change, the Institute will no longer report its interest in the LGPF in its financial statements made effective for this year. Accordingly, the Institute has included the effect of the State's adoption of this new accounting policy in its 2017 financial statements. The Institute's interest in the LGPF on July 1, 2016, was \$27,681,687. The Institute's Statement of Revenues, Expenses, and Changes in Net Position includes an adjustment to reduce net position on July 1, 2016, in the amount of \$27,681,687.

The Institute continues to receive and account for its share of income distributions from the LGPF. For the year ended June 30, 2017, the Institute recorded \$1,504,560 in income distributions from the LGPF.

NOTE O – STATE BOND APPROPRIATION ACCOUNTING

The Institute has periodically received severance tax and general obligation bond appropriations from the State of New Mexico for capital asset projects on the campus of the Institute. Bond revenue from these appropriations is recorded only when eligibility requirements have been met. The eligibility requirements for capital projects financed by bonds are satisfied when all required documentation to support a drawdown of a bond fund is submitted and approved by the Board of Finance.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE P – RECONCILIATION OF BUDGET BASIS TO GAAP

Budget basis revenues	\$ 151,444,960
Tuition discounts and allowances	(5,356,527)
Indirect cost recovery	(8,892,959)
Deposits held for other	39,500
Unbudgeted exhibits	1,575,718
Restricted internal service adjustment	(5,255,337)
Internal service cost recovery adjustment	2,931,907
Benefit Trust revenue	8,913,426
Interest on capital debt - reclass	(775,444)
Unbudgeted exhibits	7,986,345
	<hr/>
Revenues per GAAP	<u><u>\$ 152,611,589</u></u>
Budget basis expenditures	\$ 148,577,287
Tuition discounts and allowances	(5,356,527)
Indirect costs	(8,892,957)
Capital expenditures	(15,105,726)
Deposits held for other	59,269
Depreciation expense	10,365,490
Restricted internal service adjustment	(5,255,337)
Payable adjustment	1,575,718
Pension expense	1,183,871
OPEB expense	1,663,308
Internal service cost recovery adjustment	2,931,907
Benefit Trust expenses	8,002,040
Interest on capital debt - reclass	(775,444)
Unbudgeted exhibits	4,265,921
	<hr/>
Expenditures per GAAP	<u><u>\$ 143,238,820</u></u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION

1. Summary of Significant Accounting Policies

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.

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, 2017.

Revenue and Cost Recognition

The Foundation's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred.

Operating revenues and contributions are those received by the Foundation for events and activities that relate directly to the Foundation and operating expenses are those incurred for events and activities that relate to administration, scholarships and awards for students. Revenues, expenses, gains and losses from investments are considered non-operating.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

1. Summary of Significant Accounting Policies – Continued

Net Position – Continued

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 and intangible assets. There is no related debt.

Deferred outflows of resources consumed and deferred inflows of resources received and available are elements of the Statement of Net Position for reporting the residual balances. There were no deferred outflows or inflows of resources to separately report at June 30, 2017.

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. 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:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

1. Summary of Significant Accounting Policies – Continued

Investments – Continued

<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.

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 the Institute. Income is allocated based on the proportionate market value of the investment of each participating fund.

The SIC investments are stated at fair value in accordance with GASB Statement No. 72, with increases or decreases in fair value recognized in the statement of revenues, expenses and changes in net position at the end of each month. Investment transactions are recorded on the trade date basis. Dividends are recognized as income when declared. Current fair value of investments may fluctuate markedly from what is recorded at June 30 each year.

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, 2017. 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 or decrease in restricted, expendable net position until the amount is expended in accordance with donor specifications.

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.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

1. Summary of Significant Accounting Policies – Continued

Private Equity Investments

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

Private equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. The only private equity investment that is owned by the Foundation is considered fully impaired and continues to have a recorded fair value of \$0 at June 30, 2017.

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

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 that have no expectation to achieve patent approval in the future were expensed as incurred in the amount of \$39,809 during the year ended June 30, 2017.

Classification of Revenues

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

1. Summary of Significant Accounting Policies – Continued

Classification of Revenues – Continued

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions such as lease income on Foundations 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.

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 or decrease in restricted, expendable net position and are available for expenditure in accordance with donor specifications and in accordance with the State of New Mexico Uniform Prudent Management of Institutional Funds Act. (46-9A 1-10 NMSA 1978).

Estimates

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

1. Summary of Significant Accounting Policies – ContinuedIncome 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, 2017. 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, 2017. Under the statute of limitations, the Foundation's tax returns are no longer subject to examination by tax authorities for years prior to 2014.

2. Cash and Bank Deposits*Custodial Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. The Foundation has a deposit policy for custodial credit risk and collateral requirements. As of June 30, 2017, the Foundation's deposits were exposed to custodial credit risk as follows:

	First State Bank	Wells Fargo	Total
Total of deposits in the bank	\$ 79,918	\$ 38,455	\$ 118,373
FDIC Coverage	<u>(79,918)</u>	<u>(38,455)</u>	<u>(118,373)</u>
Total uninsured funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Custodial credit risk-deposits			
Account balance			\$ 118,373
FDIC insured			<u>(118,373)</u>
Uninsured and uncollateralized			<u>\$ -</u>
Total deposits			\$ 118,373
Add: Money market			<u>100,000</u>
Total deposits			<u>\$ 218,373</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED**2. Cash and Bank Deposits – Continued**

The Foundation infrequently has uninsured and uncollateralized deposits not in compliance with collateral requirements. 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, 2017 follows:

<u>Name of Depository</u>	<u>Account Name</u>	<u>Bank Account Type</u>	<u>Bank Balance</u>	<u>Reconciling Items</u>	<u>Financial Statement Balance</u>
First State Bank	Certificate	CD	\$ 100,000	\$ -	\$ 100,000
Wells Fargo	Checking	Cash	38,455	-	38,455
Cash and cash equivalents			<u>\$ 138,455</u>	<u>\$ -</u>	<u>\$ 138,455</u>
First State Bank	Checking	Cash	\$ 78,531	\$ (97,616)	\$ (19,085)
First State Bank	Savings	Cash	1,387	-	1,387
Cash overdraft			<u>\$ 79,918</u>	<u>\$ (97,616)</u>	<u>\$ (17,698)</u>

3. Investments

A summary of the investments at June 30, 2017 are as follows:

<u>Investments</u>	<u>Ratings</u>	<u>Fair Value</u>
Investments held with the New Mexico State Investment Council (SIC) pooled funds:		
Large Cap Index Fund	Not Rated	\$ 13,410,190
Core Plus Bonds Pool	Not Rated	<u>9,182,729</u>
Total investments		<u>\$ 22,592,919</u>

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, 2017, the Foundation had fixed income and bond type investments subject to interest rate risk.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

3. Investments – Continued

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, 2017, none of the above investments were subject to credit risk.

Fair Value: 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">• quoted prices for similar assets or liabilities in active markets;• quoted prices for identical or similar assets or liabilities in inactive markets;• inputs other than quoted prices that are observable for the asset or liability;• inputs that are derived principally from or corroborated by observable market data by correlation or other means. 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 December 31, 2017.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED**3. 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 2017, the Company used quoted market prices in an active market to determine the fair value of available-for-sale exchange traded 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, 2017:

	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, 2017				
Investments held with the New Mexico State Investment Council (SIC) pooled funds:				
Large Cap Index Fund	\$ 13,410,190	\$ -	\$ 13,410,190	\$ -
Core Plus Bonds Pool	9,182,729	-	9,182,729	-
Investment in Srypto, Inc. common stock	-	-	-	-
	<u>\$ 22,592,919</u>	<u>\$ -</u>	<u>\$ 22,592,919</u>	<u>\$ -</u>

*Investment in Srypto, Inc. was fully impaired.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

4. Notes Receivable

The Foundation funded the construction of a building for a company which leases land from New Mexico Institute of Mining and Technology. The Foundation has a related note receivable of \$465,202 of which \$193,000 is reported as a current asset and \$272,202 is a noncurrent asset. The note bears a variable rate of interest based on Wall Street Journal Prime (currently 4.00%), is payable monthly over 15 years, and is secured by the building.

The Foundation also has a note receivable in the amount of \$147,119, of which \$3,100 is reported as a current asset and \$144,019 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 note has a balance of \$40,830, with \$9,567 reported as a current asset and \$31,263 reported as a noncurrent asset. The note is dated August 31, 2015, and has a variable rate of interest based on Wall Street Journal Prime (currently 4.00%) plus one percent. The note will be repaid with five annual payments, the first which was paid during the fiscal year 2017 and the second of which is due on or before August 31, 2017.

5. Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land and building held for investment	\$ 645,163	\$ -	\$ -	\$ 645,163
Artwork	130,500	-	-	130,500
	<u>775,663</u>	<u>-</u>	<u>-</u>	<u>775,663</u>
Total capital assets not being depreciated				
Capital assets being depreciated				
Building	1,648,127	-	-	1,648,127
Accumulated depreciation				
Building	(795,461)	(59,932)	-	(855,393)
Capital assets, net	<u>\$ 1,628,329</u>	<u>\$ (59,932)</u>	<u>\$ -</u>	<u>\$ 1,568,397</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

5. Capital Assets – Continued

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.

6. Intangible Assets

Identifiable intangible assets consist of the following at June 30, 2017:

	Beginning Balance	Increases	Decreases	Ending Balance
Amortized patents				
Cost	\$ 85,545	\$ 109,153	\$ -	\$ 194,698
Less accumulated amortization	(28,992)	(24,426)	-	(53,418)
Total amortized patents	56,553	84,727	-	141,280
Unamortized patents				
Cost	120,927	46,005	-	166,932
Total intangible assets	<u>\$ 177,480</u>	<u>\$ 130,732</u>	<u>\$ -</u>	<u>\$ 308,212</u>

Estimated aggregate amortization expense for each of the five years succeeding June 30, 2017, is as follows:

2018	\$ 13,320
2019	13,320
2020	13,320
2020	13,320
2022	13,320
Thereafter	<u>74,680</u>
	<u>\$ 141,280</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

6. Intangible Assets – Continued

Amortization expense charged to earnings was \$24,426 for the year ended June 30, 2017. 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.

7. Related Party Transactions and Donated Services

The Institute provides the Foundation's office space in exchange for property management services provided to the Institute by the Foundation. These transactions are not recorded in the Foundation's financial statements, as they are not significant and the value is not subject to reasonable estimation. The Institute charged \$0 to the Foundation for accounting and management services during the year ended June 30, 2017.

The Foundation owned an insurance annuity through New York Life with a fair value of \$2,165,028 as of June 30, 2016, as deferred compensation for retention for the former President. The insurance annuity was acquired to benefit the past President of the Institute. The President of the Institute retired on June 30, 2016, and the ownership of this insurance annuity was transferred to the past President 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 and expired in June 2014, and was renewed on the same terms (month-to-month) after year-end. Lease revenues were \$90,150 for 2017.

The Foundation funded \$1,047,303 in scholarships and awards which were provided through the Institute during the year ended June 30, 2017. 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 \$822,863 to the Institute during 2017, which included \$162,974 in stock donations which were liquidated and the proceeds transferred to the Institute during 2017.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

8. 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.

9. 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 \$3,303,789 at June 30, 2017.

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 net investment gains of \$419,379.

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 \$26,826 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:

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE Q – THE NEW MEXICO TECH RESEARCH FOUNDATION – CONTINUED

9. Donor Restricted Endowments – Continued

1. The duration and preservation of the various funds,
2. The purpose of the donor-restricted funds,
3. General economic conditions,
4. The possible effect of inflation and deflation,
5. The expected total return from income and the appreciation of investments,
6. Other resources of the Foundation,
7. The Foundation's investment policies.

Spending Policy: The Foundation has available for distribution in any given year, all amounts in the unrestricted net position. However, the actual number of scholarships given out may be limited by the number of qualified applicants for the various scholarships. The decisions to award scholarships depends on the scholarship, with some being decided by the Board of Trustees, and others being decided by the Institute. The Foundation also may provide general support to the Institute by way of supporting fundraising and promotional activities.

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

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

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

	Beginning Balance	Increases	Decreases	Ending Balance
Restricted, non-expendable	\$ 3,391,072	\$ 13,000	\$ (100,283)	\$ 3,303,789
Restricted, expendable	605,036	475,524	(19,829)	1,060,731
	<u>\$ 3,996,108</u>	<u>\$ 488,524</u>	<u>\$ (120,112)</u>	<u>\$ 4,364,520</u>

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE R – THE NEW MEXICO TECH UNIVERSITY RESEARCH PARK CORPORATION

1. Summary of Significant Accounting Policies

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Corporation considers cash and cash equivalents to be cash held in bank at June 30, 2017.

Revenue and Cost Recognition

The Corporation's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred.

Operating revenues are typically derived by providing goods or services as well as recognition of income from sales of investments in exchange transactions. The Corporation did not have any exchange transactions during the year ended June 30, 2017.

Operating expenses represent amounts paid to acquire or produce goods and services provided in return for operating revenues, and are necessary to carry out the mission of the Corporation. Examples of operating expenses are legal expenses and professional services.

Non-operating revenues represent non-exchange transactions and investment income and unrealized appreciation in investments in which the Corporation received or gained value without directly giving a value in return. Examples of non-operating revenues include gains and losses from investments, interest income, and other income items. The Corporation had non-operating expenses from recognition of loss on its private equity investment during the year ended June 30, 2017.

Net Position

Unrestricted net position represents resources whose use is not limited or restricted by time or purpose. Unrestricted net position has arisen primarily from the receipt of unrestricted investment gains less general and administrative expenses.

Restricted net position is net position that has third-party (statutory or granting agency) limitations on their use. There is no restricted net position at June 30, 2017.

Deferred outflows of resources consumed and deferred inflows of resources received and available are elements of the Statement of Net Position for reporting the residual balances. There were no deferred outflows or inflows of resources to separately report at June 30, 2017.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

**NOTE R – THE NEW MEXICO TECH UNIVERSITY RESEARCH PARK CORPORATION –
CONTINUED**

1. Summary of Significant Accounting Policies – Continued

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. Notes receivable are uncollateralized. 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, 2017.

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 in accordance with US GAAP. These investments are recorded on the equity method of accounting in accordance with GASB 31 as the Corporation 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 information 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 Corporation.

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. There was no impairment loss on the private equity investment during 2017.

Prior to May 1, 2015, the Corporation owned a 50% interest in CAaNES LLC, which at that date had a book value under the equity method of accounting of \$361,504. On May 1, 2015, CAaNES LLC was merged into a new Company, RiskSense Inc., and in conjunction with the merger, the Corporation agreed to sell 20% of their ownership back to RiskSense, Inc. through receipt of a note receivable for \$1,500,000. As a result of this transaction, the Corporation recognized the value of the thirty percent of RiskSense retained consistent with the \$1,500,000 it received for the twenty percent sold back to RiskSense. This equated to an initial value of \$2,250,000 being recorded as an investment in RiskSense and a resulting unrealized gain of \$2,123,641.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

**NOTE R – THE NEW MEXICO TECH UNIVERSITY RESEARCH PARK CORPORATION –
CONTINUED**

1. Summary of Significant Accounting Policies – Continued

Private Equity Investments – Continued

For FY 2017, the Corporation recognized a combined loss of \$1,753,380 for its ownership of RiskSense, which effectively reduced the investment balance to zero. Included as part of the combined loss is an adjustment of \$214,399 to record RiskSense's own restatement increasing their 2015 loss from operations during the fiscal year ended June 30, 2017. In accordance with GASB 34 the Corporation's portion of the restatement reported by RiskSense is reported in the Corporation's financial statements as an extraordinary item.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 appreciation or impairment loss of private equity investments and an allowance for doubtful accounts on the notes receivable.

Income Taxes

The Corporation applied for and received tax exempt status under Section 501(c)(3) of the Internal Revenue Code as of July 2014, effective July 1, 2013. The Corporation engaged in no material unrelated activities and therefore no provision for income taxes has been made. The Corporation is classified as a public charity supporting the Institute and not a private foundation.

The Corporation has adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, *Income Taxes*. FASB ASC 740 provides detailed guidance for the financial statement recognition, measurement, and disclosure of uncertain tax positions in an enterprise's financial statements. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FASB ASC 740 and in subsequent periods. The provisions of FASB ASC 740 have been applied to all Corporation income tax positions commencing from that date. There were no uncertain tax positions taken by the Corporation for the year ended June 30, 2017. The Corporation's policy is to classify income tax penalties and interest, when applicable, within income tax expense. Under the statute of limitations, the Corporation's tax returns are no longer subject to examination by tax authorities for years prior to 2014.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE R – THE NEW MEXICO TECH UNIVERSITY RESEARCH PARK CORPORATION – CONTINUED

1. Summary of Significant Accounting Policies – Continued

Subsequent Events

Subsequent events have been evaluated through October 31, 2017, 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, 2017.

2. Cash and Bank Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. The Corporation does not have a deposit policy for custodial credit risk. As of June 30, 2017, the Corporation's deposits were exposed to custodial credit risk as follows:

	First State Bank
Total of deposits in the bank	\$ 322,956
FDIC coverage	<u>(250,000)</u>
Total uninsured funds	<u>\$ 72,956</u>
Custodial credit risk-deposits	
Account balance	\$ 322,956
FDIC insured	<u>(250,000)</u>
Uninsured and uncollateralized	<u>\$ 72,956</u>

Deposit classification in the financial statements at June 30, 2017 follows:

Name of Depository	Account Name	Bank Account Type	Bank Balance	Reconciling Items	Financial Statement Balance
First State Bank	Checking	Cash	\$ 322,956	\$ -	\$ 322,956

3. Notes Receivable

The Corporation holds a first unsecured note receivable from RiskSense with a face value of \$1,310,278 dated May 1, 2015, as partial payment for 20% of the ownership in RiskSense. This note was made at zero percent interest; therefore, the Corporation imputed interest on the note using a rate of 4.25% (prime + 1%), which resulted in a discounted balance of \$979,043 based on the present value of the note. The note will be repaid in ten annual payments of \$131,028 beginning on or before December 31, 2017. This note may be

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

**NOTE R – THE NEW MEXICO TECH UNIVERSITY RESEARCH PARK CORPORATION –
CONTINUED**

3. Notes Receivable – Continued

subordinated to future senior financing not to exceed \$2,000,000. Additionally, a change in ownership of RiskSense of fifty percent or more would cause all remaining amounts due under this note to become due and payable at that time. Unamortized discount is amortized to earnings on the straight-line method over the life of the loan.

The Corporation holds a second unsecured note receivable from RiskSense with a face value of \$144,000 dated April 30, 2015, as distribution of a portion of 2013 undistributed earnings of RiskSense. This note was made at prime plus 1% and resets on January 1 of each year. As of January 1, 2017, the prime rate was 3.75%. The note will be repaid with ten annual payments of \$17,976 beginning December 31, 2016. This note also required a single payment of \$12,500 representing interest on the unpaid distributions since December 31, 2013. This note may be subordinated to future senior financing not to exceed \$2,000,000.

The Corporation holds a third unsecured note receivable from RiskSense with a face value of \$227,561 dated April 30, 2015, as distribution of a portion of 2014 undistributed earnings of RiskSense. This note was made at prime plus 1% and resets on January 1 of each year. As of January 1, 2017, the prime rate was 3.75%. The note will be repaid with ten annual payments of \$28,406 beginning on or before December 31, 2016. This note may be subordinated to future senior financing not to exceed \$2,000,000.

The Corporation holds a fourth unsecured note receivable from RiskSense with a face value of \$151,707 dated June 4, 2016, as distribution of the remaining portion of the 2014 undistributed earnings of RiskSense. This note was made at prime plus 1% and resets on January 1 of each year. As of January 1, 2017, the prime rate was 3.75%. The note will be repaid with ten annual payments of \$18,938 beginning on or before December 31, 2016. Additionally, one payment of \$6,448 representing accrued interest on the unpaid earnings to the date of the note, is to be paid by December 31, 2016, as well. This note may be subordinated to future senior financing not to exceed \$2,000,000.

4. Related Party Transactions

The Institute provides, on a rent-free basis, the Corporation's office space. This amount is not significant to report as in-kind lease revenue with an offset to in-kind lease expense in the same amount.

The Corporation paid the Institute \$21,948 for the amount due the Institute as of June 30, 2017.

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

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE S – NEW ACCOUNTING STANDARDS

GASB 75

Governmental Accounting Standards Board Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB) establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. GASB 75 is effective for fiscal years beginning after June 15, 2017 (FY18). Management has not yet fully determined the impact of GASB 75.

GASB 81

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81) requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts - or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements - in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. Management will evaluate the effect of this statement on the Institute's financial statements as there may be split-interest agreements associated with endowments. GASB 81 is effective for fiscal years beginning after December 15, 2016 (FY 18).

NOTES TO FINANCIAL STATEMENTS – CONTINUED

June 30, 2017

NOTE 5 – NEW ACCOUNTING STANDARDS – CONTINUED

GASB 84

GASB Statement No. 84, *Fiduciary Activities* (GASB 84) establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements.

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 is effective for periods beginning after December 15, 2018 (FY 20). This statement is not expected to change the Institute's financial reporting.

GASB 87

GASB Statement No. 87, *Leases* (GASB 87) establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB 87 increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB 87 is effective for periods beginning after December 15, 2019 (FY 21) with earlier application encouraged. This statement may have significant effects on the assets and liabilities of the Institute.

REQUIRED SUPPLEMENTARY INFORMATION

New Mexico Institute of Mining and Technology

**SCHEDULE OF PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
Educational Retirement Board (ERB) Pension Plan
Last 10 Fiscal Years***

June 30, 2017

Fiscal Year Ended June 30	Measurement Date June 30	Institute's Proportion of the Net Pension Liability	Institute's Proportionate Share of the Net Pension Liability	Institute's Covered Payroll	Institute's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	2014	1.30317%	\$ 74,355,364	\$ 41,456,404	179%	66.54%
2016	2015	1.30246%	\$ 84,363,804	\$ 35,561,330	237%	63.97%
2017	2016	1.30892%	\$ 94,195,558	\$ 35,751,781	263%	61.58%

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Institute will present information for those years for which information is available.

New Mexico Institute of Mining and Technology

SCHEDULE OF CONTRIBUTIONS
Educational Retirement Board (ERB) Pension Plan
Last 10 Fiscal Years*

June 30, 2017

Fiscal Year Ended June 30	Measurement Date June 30	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	Institute's Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	2014	\$ 5,762,440	\$ 5,135,439	\$ 627,001	\$ 41,456,404	12.4%
2016	2015	\$ 5,873,451	\$ 5,146,388	\$ 727,063	\$ 35,561,330	14.5%
2017	2016	\$ 5,193,709	\$ 5,010,002	\$ 183,707	\$ 35,751,781	14.0%

* The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Institute will present information for those years for which information is available.

NOTES TO DEFINED BENEFIT RETIREMENT PLAN RSI

For the Year Ended June 30, 2017

NOTE A – CHANGES OF BENEFIT TERMS

The COLA and retirement eligibility benefits changes in recent years are described in the Benefits Provided subsection of the financial statement note disclosure General Information on the Pension Plan.

NOTE B – CHANGES OF ASSUMPTIONS

ERB conducts an actuarial experience study for the Plan on a biennial basis. Based on the six-year actuarial experience study presented to the Board of Trustees on June 12, 2015, ERB implemented the following changes in assumptions for the fiscal year ended June 30, 2015 (the valuation date).

1. Fiscal year 2015 valuation assumptions that changed based on this study:

- a. Lower wage inflation from 4.25% to 3.75%
- b. Lower payroll growth from 3.50% to 3.25%
- c. Minor changes to demographic assumptions
- d. Lower population growth per year from 0.50% to zero
- e. Update mortality tables to incorporate generational improvements

2. Assumptions that were not changed:

- a. Investment return will remain at 7.75%
- b. Inflation will remain at 3.00%
- c. Payroll growth will remain at 3.50%
- d. Real return assumption will remain at 4.75%
- e. COLA assumption remains at 2.00% per year

See also the Actuarial Assumptions subsection of the financial statement note disclosure General Information on the Pension Plan.

New Mexico Institute of Mining and Technology

**SCHEDULE OF EMPLOYER CONTRIBUTIONS –
OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

Year Ended June 30, 2017

<u>Actual Valuation Date</u>	<u>Actuarially Determined Contribution (ARC)</u>	<u>Contributions in Relation to Actuarially Determined Contribution</u>	<u>Contribution (Deficiency) Excess</u>	<u>Covered Employee Payroll</u>	<u>Contributions as a Percentage of Covered Employee Payroll</u>
7/1/2014	\$ 5,518,536	\$ 1,358,071	\$ (4,160,465)	\$ 28,644,568	4.7%
7/1/2015	4,390,249	2,156,937	(2,233,312)	25,058,577	8.6%
7/1/2016	4,823,150	2,193,286	(2,629,864)	28,520,796	7.7%

* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

New Mexico Institute of Mining and Technology

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years*

	2017	2016	2015
Total OPEB Liability			
Service cost	\$ 1,883,445	\$ 1,354,443	\$ 1,732,469
Interest cost	2,234,168	2,116,515	2,640,118
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(712,784)	4,075,509	(16,659,685)
Changes of assumptions	(929,743)	-	-
Benefit payments	(1,490,341)	(930,054)	(424,956)
Net change in total OPEB liability	984,745	6,616,413	(12,712,054)
Total OPEB liability - beginning	58,174,836	51,558,423	64,270,477
Total OPEB liability - ending (a)	59,159,581	58,174,836	51,558,423
Plan Fiduciary Net Position			
Contributions	2,193,286	2,156,937	1,358,071
Net investment income	208,440	85,879	28,200
Benefit payments	(1,490,341)	(930,054)	(424,956)
Net change in plan fiduciary net position	911,385	1,312,762	961,315
Plan fiduciary net position - beginning	2,744,083	1,431,321	470,006
Plan fiduciary net position - ending (b)	3,655,468	2,744,083	1,431,321
Institute's net OPEB liability - ending (a) - (b)	\$ 55,504,113	\$ 55,430,753	\$ 50,127,102
Plan fiduciary net position as a percentage of total OPEB liability	6.2%	4.7%	2.8%
Covered employee payroll	\$ 28,520,796	\$ 25,058,577	\$ 28,644,568
Institute's net OPEB liability as a percentage of covered employee payroll	194.6%	221.2%	175.0%

* Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Notes to Schedule:

Changes in benefit terms: None.

Changes of assumptions: In 2017, the discount rate and long-term rate of return were reduced to 3.72% from 4.00%.

New Mexico Institute of Mining and Technology

SCHEDULE OF OPEB INVESTMENT RETURNS

Last 10 Fiscal Years*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	11.3%	1.3%	2.8%

* Schedule is intended to show information for ten years. Additional years will be displayed as they become available.

New Mexico Institute of Mining and Technology

NOTES TO OTHER POSTEMPLOYMENT BENEFIT PLAN RSI

Year Ended June 30, 2017

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, the healthcare cost trend, and the discount rate. Amounts determined regarding the funded status of the Plans and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress and employer contributions, presented as required supplemental information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AALs for benefits.

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all prior periods included in the measurement:

Summary of Key Actuarial Method and Assumptions

	<u>2017</u>	<u>2016</u>
Actuarial Cost Method:	Entry Age Normal, allocated on a level basis of each individual active	Entry Age Normal, allocated on a level basis of each individual active
Asset Valuation Method:	Market Value.	Market Value.
Interest:	Discount rate as of July 1, 2016: 3.72%, compounded annually. Discount rate as of July 1, 2017: 3.72%, compounded annually. Rate of Return on Assets: 6.00%, compounded annually.	Discount rate as of July 1, 2015: 4.00%, compounded annually. Discount rate as of July 1, 2016: 4.00%, compounded annually. Rate of Return on Assets: 4.00%, compounded annually.
Inflation Rate:	3.00%	3.00%
Projected Salary Increase:	3.00%	3.00%
Mortality:	RP-2014 Mortality tables for males and females, projected with scale MP-2016 to 2016.	RP-2014 Mortality tables for males and females, projected with scale MP-2015 to 2015.
Participation Rate:	85% of current Active Employees eligible to participate in the postretirement medical plan will elect single coverage after retirement; 50% will elect to cover their spouses as well.	85% of current Active Employees eligible to participate in the postretirement medical plan will elect single coverage after retirement; 50% will elect to cover their spouses as well.
Spousal Participation Rate:	33% of current Active Employees will be married at retirement. If spousal birthdates are not available, male spouses are assumed to be three years older than female spouses.	33% of current Active Employees will be married at retirement. If spousal birthdates are not available, male spouses are assumed to be three years older than female spouses.
Expenses:	None.	None.
Healthcare Cost Trend Rate:		
Pre-65 Medical/Stop Loss Fees	3.00%	3.00%
Prescription Drug/PostMedicare Medical	3.00%	3.00%
Administrative Fee	3.00%	3.00%
Dental	3.00%	3.00%

OTHER SUPPLEMENTARY INFORMATION

New Mexico Institute of Mining and Technology

**COMBINED REVENUES AND EXPENDITURES -
BUDGET COMPARISONS**

Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning fund balance	\$ 36,065,706	\$ 50,340,320	\$ 50,340,320	\$ -
Revenues				
State general fund appropriations	44,648,126	48,259,887	47,082,885	(1,177,002)
Restricted revenue sources	72,873,973	75,035,983	65,816,014	(9,219,969)
Tuition and fees	12,903,225	14,430,608	15,208,317	777,709
Land and permanent fund	1,050,000	1,050,000	1,504,560	454,560
Endowment earnings/private gifts	200,000	200,000	495,162	295,162
Other	15,534,002	15,494,102	21,338,022	5,843,920
Total revenues	147,209,326	154,470,580	151,444,960	(3,025,620)
Total revenues and fund balance budgeted	183,275,032	204,810,900	201,785,280	(3,025,620)
Expenditures				
Instruction and general	39,559,554	46,202,921	40,046,059	(6,156,862)
Student social and cultural	598,500	1,364,368	747,200	(617,168)
Research	69,871,456	76,321,047	59,649,638	(16,671,409)
Public service	480,730	536,810	319,465	(217,345)
Internal service departments	6,707,389	8,590,491	7,947,438	(643,053)
Student aid	11,285,430	12,822,497	12,012,633	(809,864)
Auxiliary enterprises	5,434,422	5,518,844	5,412,589	(106,255)
Intercollegiate athletics	214,000	230,472	205,491	(24,981)
Independent operations	5,385,515	6,386,130	5,935,022	(451,108)
Capital outlay	9,590,000	15,000,000	15,192,276	192,276
Renewal and replacements	2,850,000	2,850,000	325,033	(2,524,967)
Retirement of indebtedness	1,072,371	1,072,371	784,444	(287,927)
Total expenditures	153,049,367	176,895,951	148,577,288	(28,318,663)
Net transfers	(132,000)	(606,000)	(327,017)	278,983
Change in fund balance	(5,972,041)	(23,031,371)	2,540,655	25,572,026
Ending fund balance	\$ 30,093,665	\$ 27,308,949	\$ 52,880,975	\$ 25,572,026

New Mexico Institute of Mining and Technology

**UNRESTRICTED CURRENT FUNDS - REVENUES AND EXPENDITURES -
BUDGET COMPARISONS**

Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning fund balance	\$ 36,065,706	\$ 48,989,535	\$ 48,989,535	\$ -
Revenues				
Tuition	10,636,500	12,273,883	12,285,485	11,602
Miscellaneous fees	2,266,725	2,156,725	2,922,833	766,108
Government appropriation - federal	-	-	-	-
Government appropriation - state	44,648,126	48,259,887	47,082,885	(1,177,002)
Government appropriation - local	-	-	-	-
Government grants - federal	-	-	37,792	37,792
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private contracts	-	-	-	-
Endowments	200,000	200,000	495,162	295,162
Land and permanent fund	1,050,000	1,050,000	1,504,560	454,560
Private gifts	-	-	-	-
Sales and service	7,913,756	7,873,856	7,235,310	(638,546)
Other sources	7,620,246	7,620,246	14,064,920	6,444,674
Total revenues	74,335,353	79,434,597	85,628,947	6,194,350
Total revenues and fund balance budgeted	110,401,059	128,424,132	134,618,482	6,194,350
Expenditures				
Instruction and general	39,559,554	46,202,921	40,046,059	(6,156,862)
Student social and cultural	598,500	1,364,368	747,200	(617,168)
Research	8,912,956	15,362,547	8,197,138	(7,165,409)
Public service	480,730	536,810	319,465	(217,345)
Internal service departments	1,810,469	1,712,223	1,654,282	(57,941)
Student aid	5,137,892	5,822,497	5,110,677	(711,820)
Auxiliary enterprises	5,434,422	5,518,844	5,412,589	(106,255)
Intercollegiate athletics	214,000	230,472	205,491	(24,981)
Independent operations	4,514,500	4,836,130	4,361,559	(474,571)
Capital outlay	9,590,000	15,000,000	15,192,276	192,276
Renewal and replacements	2,850,000	2,850,000	325,033	(2,524,967)
Retirement of indebtedness	1,072,371	1,072,371	784,444	(287,927)
Total expenditures	80,175,394	100,509,183	82,356,213	(18,152,970)
Net transfers	(132,000)	(606,000)	(304,536)	301,464
Change in fund balance	(5,972,041)	(21,680,586)	2,968,198	24,648,784
Ending fund balance	\$ 30,093,665	\$ 27,308,949	\$ 51,957,733	\$ 24,648,784

New Mexico Institute of Mining and Technology

**RESTRICTED CURRENT FUNDS - REVENUES AND EXPENDITURES -
BUDGET COMPARISONS**

Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning fund balance	\$ -	\$ 1,350,785	\$ 1,350,785	\$ -
Revenues				
Tuition	-	-	-	-
Miscellaneous fees	-	-	-	-
Government appropriation - federal	269,731	269,731	280,893	11,162
Government appropriation - state	71,015	71,015	-	(71,015)
Government appropriation - local	-	-	-	-
Government grants - federal	56,777,807	58,939,817	44,869,806	(14,070,011)
Government grants - state	7,200,000	7,200,000	2,559,259	(4,640,741)
Contracts - other	-	-	2,820,433	2,820,433
Private contracts	3,546,000	3,546,000	9,498,104	5,952,104
Endowments	-	-	-	-
Land and permanent fund	-	-	-	-
Private gifts	-	-	-	-
Sales and service	4,896,920	4,896,920	5,787,518	890,598
Other sources	112,500	112,500	-	(112,500)
Total revenues	72,873,973	75,035,983	65,816,013	(9,219,970)
Cash balance budgeted	-	1,350,785	1,350,785	-
Total revenues and fund balance budgeted	72,873,973	76,386,768	67,166,798	(9,219,970)
Expenditures				
Instruction and general	-	-	-	-
Student social and cultural	-	-	-	-
Research	60,958,500	60,958,500	51,452,500	(9,506,000)
Public service	-	-	-	-
Internal service departments	4,896,920	6,878,268	6,293,156	(585,112)
Student aid	6,147,538	7,000,000	6,901,956	(98,044)
Auxiliary enterprises	-	-	-	-
Intercollegiate athletics	-	-	-	-
Independent operations	871,015	1,550,000	1,573,463	23,463
Capital outlay	-	-	-	-
Renewal and replacements	-	-	-	-
Retirement of indebtedness	-	-	-	-
	72,873,973	76,386,768	66,221,075	(10,165,693)
Net transfers	-	-	(22,481)	(22,481)
Change in fund balance	-	(1,350,785)	(427,543)	923,242
Ending fund balance	\$ -	\$ -	\$ 923,242	\$ 923,242

New Mexico Institute of Mining and Technology

**UNRESTRICTED CURRENT FUNDS - SUMMARY OF INSTRUCTION AND GENERAL -
REVENUES AND EXPENDITURES - BUDGET COMPARISONS**

Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Actual Over (Under) Budget
Beginning fund balance	\$ 3,700,000	\$ 9,720,806	\$ 9,720,806	\$ -
Revenues				
Tuition	10,636,500	12,273,883	12,285,485	11,602
Miscellaneous fees	1,268,000	1,268,000	1,836,706	568,706
Government appropriation - federal	-	-	-	-
Government appropriation - state	27,118,700	25,762,765	25,762,795	30
Government appropriation - local	-	-	-	-
Government grants - federal	-	-	-	-
Government grants - state	-	-	-	-
Contracts - local	-	-	-	-
Private gift/contracts	-	-	-	-
Endowment earnings	200,000	200,000	382,754	182,754
Land and permanent fund	1,050,000	1,050,000	1,504,560	454,560
Private gifts	-	-	-	-
Sales and service	-	-	-	-
Other sources	4,157,500	4,157,500	8,490,317	4,332,817
Total revenues	44,430,700	44,712,148	50,262,617	5,550,469
Expenditures				
Instruction	19,078,937	21,706,929	19,594,973	(2,111,956)
Academic support	4,175,508	4,855,240	3,075,878	(1,779,362)
Student services	2,427,934	3,105,506	2,377,431	(728,075)
Institutional support	8,291,014	10,949,085	8,211,226	(2,737,859)
Operation and maintenance of plant	5,586,161	5,586,161	6,786,551	1,200,390
Total expenditures	39,559,554	46,202,921	40,046,059	(6,156,862)
Net transfers	(6,202,822)	(6,004,106)	(10,296,186)	(4,292,080)
Change in fund balance	(1,331,676)	(7,494,879)	(79,628)	7,415,251
Ending fund balance	\$ 2,368,324	\$ 2,225,927	\$ 9,641,178	\$ 7,415,251

New Mexico Institute of Mining and Technology

SCHEDULE OF DEPOSIT COLLATERAL

June 30, 2017

	Pledged Collateral			First State Bank Socorro, NM	Wells Fargo Socorro, NM	Bank of America Socorro, NM	Total
	Safekeeping Location	Type of Security	Maturity Date				
Funds on deposit							
Deposits				\$ 47,827,896	\$ 3,375,801	\$ 7,938	\$ 51,211,635
FDIC insurance							
Demand deposits				(250,000)	(250,000)	(7,938)	(507,938)
Total uninsured public funds				\$ 47,577,896	\$ 3,125,801	\$ -	\$ 50,703,697
Fifty percent collateral requirement per Section 6-10-17 NMSA 1978				\$ 23,788,948	\$ 1,562,901	\$ -	\$ 25,351,849
Pledged collateral	Federal Reserve Bank, Dallas, Texas	FFCB Non CBL CUSIP #31331SVNO	12/28/2020	5,551,575	-	-	5,551,575
		FFCB Non CBL CUSIP #31331XX64	8/23/2021	4,609,292	-	-	4,609,292
		FFCB 2.20 CUSIP #3133ECK94	3/28/2023	5,060,670	-	-	5,060,670
		FHLB Non CBL CUSIP #3133X8EW8	8/15/2024	1,252,745	-	-	1,252,745
		FHLB 2.875 091324 CUSIP #31331KUD0	9/13/2024	5,129,433	-	-	5,129,433
		FFCB 3.620 021125 CUSIP #31331KUD0	2/11/2025	3,942,677	-	-	3,942,677
		FFCB Non CBL CUSIP #31331VKU9	4/16/2025	3,639,147	-	-	3,639,147
		FFCB 2.63 CUSIP #3133EAG44	8/3/2026	2,022,000	-	-	2,022,000
		FHLB 3.00 CUSIP #3130A2VE3	9/11/2026	6,243,252	-	-	6,243,252
		FNMA 3.0% CUSIP #3138M9CZ2	9/1/2042	-	1,876,652	-	1,876,652
Total collateral				37,450,791	1,876,652	-	39,327,443
Excess of pledged collateral over the required amount				\$ 13,661,843	\$ 313,751	\$ -	\$ 13,975,594

New Mexico Institute of Mining and Technology

**SCHEDULE OF MULTIPLE-YEAR CAPITAL PROJECTS FUNDED BY
GENERAL OBLIGATION REVENUE BOND AND SEVERANCE TAX BOND
CAPITAL OUTLAY APPROPRIATIONS FROM THE STATE**

Year Ended June 30, 2017

Project Description	Authority/Chapter	Laws	Appropriation		Total Appropriation	Bonds Sold to Date	Bonds Unsold	Amount Available	Prior Year Expenditures	Current Year Expenditures	Art in Public Places	Current Year	Unencumbered Balance	
			Period	Expiration								Reversion Amount		
<u>General Obligation Revenue Bond</u>														
GENERAL FUND														
General Obligation	Ch65, Sec10	2014	2015	6/30/2018	\$ 15,000,000	\$ 15,000,000	\$ -	\$ 15,000,000	\$ 4,359,838	\$ 10,490,162	\$ 150,000	\$ -	\$ -	
Total General Obligation Revenue Bonds					<u>\$ 15,000,000</u>	<u>\$ 15,000,000</u>	<u>\$ -</u>	<u>\$ 15,000,000</u>	<u>\$ 4,359,838</u>	<u>\$ 10,490,162</u>	<u>\$ 150,000</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>Severance Tax Bond Proceeds</u>														
Severance Tax - 15A	Data & Telecom	3	2015	2015	6/30/2019	\$ 2,000,000	\$ 2,000,000	\$ -	\$ 2,000,000	\$ -	\$ 290,671	\$ 20,000	\$ -	\$ 1,689,329
Severance Tax - 15A	Jones Planning	3	2015	2015	6/30/2019	190,000	190,000	-	190,000	46,998	141,102	1,900	-	-
Total Severance Tax Bonds					<u>\$ 2,190,000</u>	<u>\$ 2,190,000</u>	<u>\$ -</u>	<u>\$ 2,190,000</u>	<u>\$ 46,998</u>	<u>\$ 431,773</u>	<u>\$ 21,900</u>	<u>\$ -</u>	<u>\$ 1,689,329</u>	
Total Capital Appropriations					<u>\$ 17,190,000</u>	<u>\$ 17,190,000</u>	<u>\$ -</u>	<u>\$ 17,190,000</u>	<u>\$ 4,406,836</u>	<u>\$ 10,921,935</u>	<u>\$ 171,900</u>	<u>\$ -</u>	<u>\$ 1,689,329</u>	

New Mexico Institute of Mining and Technology

SCHEDULE OF JOINT POWERS AGREEMENTS

For the Year Ended June 30, 2017

Other Participant(s)	Party Responsible for Operations	Description	Beginning Date	Ending Date	Total Estimated Costs	FY 2016 Contributions	Audit Responsibility	Fiscal Responsibility	Entity Reporting Costs
Socorro County	Socorro County	County to use equipment owned by NMIMT for the construction and maintenance of the landfill	4/12/1994	Ongoing	None	None	Both	Both	Both
City of Socorro	City of Socorro	City to use equipment owned by NMIMT for the construction and maintenance of the landfill	7/18/1994	Ongoing	None	None	Both	Both	Both

New Mexico Institute of Mining and Technology

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2017

Federal Grantor Program Title	Funding Agency Identification Number/Contract ID	Catalog of Federal Domestic Assistance (CFDA) Number	Fiscal Year Subrecipient Expenditures	Fiscal Year Expenditures
RESEARCH AND DEVELOPMENT CLUSTER DIRECT				
Army				
Department of the Army	W911NF-16-1-0512	12.RD	\$ -	\$ 243,765
Army Research Laboratory	W911NF-11-2-0036	12.RD	-	18,732
Department of Defense	H98230-06-C-0611	12.RD	-	14,674
Department of Defense	H98230-13-C-1356	12.RD	-	1,377,092
Airforce				
Air Force Research Laboratory	FA943-15-2-0086	12.910	141,350	3,167,946
Navy				
Office of Naval Research	N00014-16-1-2897	12.300	-	79,744
Office of Naval Research	N00014-17-2181	12.300	-	2,462
Navy Engineering Logistics Off	N41756-16-C-4552	12.RD	-	272,009
Office of Naval Research	N00014-15-1-2265	12.300	-	110
Other DoD				
Defense Threat Reduction Agency	HDTRA1-14-1-0070	12.351	-	78,256
Total DoD - R&D Cluster			141,350	5,254,790
Environmental Protection Agency (EPA)	FP-91750601	66.514	-	1,287
Total EPA - R&D Cluster			-	1,287
Department of Energy (DOE)				
Fossil Energy (National Energy Technology Laboratory)	DE-FE0009878	81.089	-	30,619
Fossil Energy (National Energy Technology Laboratory)	DE-FC26-05NT42591	81.RD	2,315,202	3,663,794
Environmental Management	DE-EM0003555	81.214	-	202,352
Total DOE - R&D Cluster			2,315,202	3,896,765
Federal Aviation Administration				
	15-C-CST-NMT-01,TASK 303	20.109	-	50,000
	15-C-CST-NMT-03	20.109	-	37,690
	15-C-CST-NMT-05 TASK 299	20.109	-	119,640
	15-C-CST-NMT-04 AMENDMENT 4	20.109	-	23,181
	CA10-C-CST-NMT-06 TASK 299	20.109	-	(933)
Total FAA - R&D Cluster			-	229,578
Bureau of Reclamation	R16AC00025	15.560	-	111,116
Total Bureau of Reclamation - R&D Cluster			-	111,116
National Park Service (NPS)	P13AC00970-CP-P13AC00969	15.944	-	10,223
Total NPS - R&D Cluster			-	10,223

See Notes to Schedule of Expenditures of Federal Awards.

SCHEDULE 8

New Mexico Institute of Mining and Technology

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the Year Ended June 30, 2017

Federal Grantor Program Title	Funding Agency Identification Number/Contract ID	Catalog of Federal Domestic Assistance (CFDA) Number	Fiscal Year Subrecipient Expenditures	Fiscal Year Expenditures
National Science Foundation (NSF)				
	OCE-1434550	47.050	-	73,496
	EAR-1516680	47.050	-	333,874
	1543454	47.050	-	39,009
	1561084	47.050	-	61,945
	1445703	47.050	-	40,295
	AGS-1546698	47.050	-	84,858
	1643952	47.050	-	16,052
	DGE-1303051	47.076	-	247,893
	ANT-1142069	47.078	-	13,769
	AGS-1342001	47.050	-	15,229
	1661344	47.050	-	3,182
	1551587	47.050	-	71,151
	EAR-1141435	47.050	-	3,054
	EAR-1015100	47.050	-	(78)
	1557232	47.050	28,269	82,432
	ANT-1141534	47.078	-	42,099
	PLR-1304849	47.050	-	61,342
	EAR-1344553	47.050	-	31,139
	1650355	47.050	-	3,001
	1643798	47.050	-	18,720
	EAR-1141768	47.050	-	77,843
	AGS-1205727	47.050	-	87,175
	EAR-1349361	47.050	-	1,515
	1460534	47.050	-	34,685
	PLR-1142083	47.050	-	125,214
	AST-1310800	47.049	27,906	42,767
	EAR-1348076	47.050	370	47,087
	1607711	47.RD	-	24,743
	ANT-1142115	47.078	-	27,458
	CMMI-1335199	47.041	-	18,289
	DUE-1323744	47.076	-	6,927
	EAR-1322089	47.050	-	(1,252)
Total NSF - R&D Cluster			56,546	1,734,913
US Department of the Interior				
	P16AC01716	15.RD	-	74,856
Total DOI - R&D Cluster			-	74,856
US Geological Survey (USGS)				
	G17AP00005	15.807	-	2,208
	G16AC00287	15.810	-	162,064
	G15AC00243	15.810	-	9,715
	G15AP00080	15.807	-	51,714
	G15AP00126	15.814	-	(27)
	G16AC00301	15.808	-	78,486
Total USGS- R&D Cluster			-	304,160

See Notes to Schedule of Expenditures of Federal Awards.

New Mexico Institute of Mining and Technology

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the Year Ended June 30, 2017

Federal Grantor Program Title	Funding Agency Identification Number/Contract ID	Catalog of Federal Domestic Assistance (CFDA) Number	Fiscal Year Subrecipient Expenditures	Fiscal Year Expenditures
National Aeronautics & Space Administration(NASA)				
	NNX17AG82G	43.001	-	74,727
	NNX16AO19H	43.001	-	26,116
	NNX17AJ51A	43.009	-	27,544
	NNX15AG34G	43.001	-	401,607
	NNX13AT08H	43.008	-	37,800
Total NASA- R&D Cluster			-	567,794
Total Research and Development Cluster Federal Direct			2,513,097	12,185,482
OTHER				
Department of State	S-LMAQM-14-CA-1030	19.U01	-	(208)
	S-LMAQM-16-CA-1136	19.701	-	41,740
Total DOS-Other			-	41,532
Department of Homeland Security				
	EMW-2014-CA-00063-S01	97.005	-	5,328,467
	EMW-2015-CA-00060	97.005	-	13,955,194
	EMW-2016-CA-00058	97.005	-	2,438,908
Total DHS-Other			-	21,722,569
Department of Defense(DoD)				
Army	IPA GREGORY KNAPP7/6/15-7/5/16	12.U02	-	9,927
	IPA KNAPP 2016-2017	12.U03	-	254,242
	BRIDGE FUND	12.U04	-	(36)
Air Force	PEAR 3/21/17	12.U05	-	2,354
	PIA FA9453-11-3-0001/@2/CPO #1	12.615	46	1,158,203
	FA9453-10-2-0259	12.800	97,718	1,581,234
Navy	N00421-12-2-N011	12.U06	-	51,880
	N00421-12-2-N012	12.U07	-	48,544
	N00421-12-2-N013	12.U08	-	163,666
	IPA SCOTT T CRAIG 1/28/2014	12.U09	-	271,416
	IPA DAVID PINE	12.U10	-	3,747
	OSD OF69 EXECUTED 6/15/16	12.U11	-	244,275
	M0068117P0009	12.U12	-	7,783
Total DoD-Other			97,764	3,797,235
Department of Education				
	P031C110059	84.031	11,181	521,422
	P047M130504	84.047	-	256,722
	P047A120523	84.047	-	205,080
	Title V Endowment	84.031	-	847,517
Total Dept of Ed-Other			11,181	1,830,741
Department of Labor				
	MS-30311-17-55-R-35	17.600	-	38,330
	MS-28297-16-55-R-35	17.600	-	117,260
Total DOL- Other			-	155,590

See Notes to Schedule of Expenditures of Federal Awards.

New Mexico Institute of Mining and Technology

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the Year Ended June 30, 2017

Federal Grantor Program Title	Funding Agency Identification Number/Contract ID	Catalog of Federal Domestic Assistance (CFDA) Number	Fiscal Year Subrecipient Expenditures	Fiscal Year Expenditures
Department of the Interior	P16AC00907-P14AC00029	15.U13	-	281,809
	P15AC01175-P14AC00029	15.944	-	10,313
Total DOI- Other			-	292,122
National Science Foundation	DUE-1161334	47.076	95,887	235,929
Total NSF- Other			95,887	235,929
National Park Service	P13AC01015_CP P13AC00969	15.944	-	1,523
Total National Park Service- Other			-	1,523
Federal Aviation Administration	15-C-CST-NMT-05 TASK 299	20.109	-	42,653
Total FAA- Other			-	42,653
US Geological Survey	IPA FOR JOCHEMS ANDREW	15.U14	-	(1)
Total USGS- Other			-	(1)
Total Other Federal Direct			204,833	28,119,894
RESEARCH & DEVELOPMENT CLUSTER-PASS THROUGH				
Department of Homeland Security				
Oak Ridge Associated University	AWARD LETTER 2/10/17	97.062	-	19,992
Total NOAA- R&D Cluster Pass Through			-	19,992
Department of Defense				
Johns Hopkins University	2001645111	12.630	-	66,738
Georgia Institute of Technolog	D7888-S4	12.RD	-	56,000
University of Utah	10028801-NMT	12.630	-	34,148
Northeastern University	505092-78052	97.RD	-	53,633
Total DoD- R&D Cluster Pass Through			-	210,519
National Science Foundation				
Incorporated Research Institutions for Seismology	16-NMT-ECCOL	47.050	-	16,884
	95-NMT-GLISN2	47.050	-	154,225
	96-NMT-GEOICE	47.RD	-	20,921
	04-NMT-SAGE	47.050	-	2,597,207
	04-NMT-SAGE REBILL ACCOUNT	47.RD	-	7,476
NMC, Inc	COLLAB-2016-210	47.RD	-	8,785
National Radio Astronomy Observatory	351900	47.049	-	26,787
	352087	47.049	-	40,906
	352113	47.049	-	25,146
University of South Florida	1230-1052-00-A	47.050	-	41,699
University of Utah	10036241/PO0000175538	47.RD	-	57,998
University of Southern California	73540954	47.050	-	24,000
Regents of New Mexico State University	Q01628	47.075	-	11,112
The Trustees of Columbia University	51(GG009393)/G11717	47.050	-	48,915
University of New Mexico	063026-8746-IIA-1301346	47.080	-	807,943
	063030-8746	47.079	-	50,374
Total NSF- R&D Cluster Pass Through			-	3,940,378

See Notes to Schedule of Expenditures of Federal Awards.

New Mexico Institute of Mining and Technology

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the Year Ended June 30, 2017

Federal Grantor Program Title	Funding Agency Identification Number/Contract ID	Catalog of Federal Domestic Assistance (CFDA) Number	Fiscal Year Subrecipient Expenditures	Fiscal Year Expenditures
Department of Education				
NM Higher Education Department	17-950-1200-00003	84.RD	-	77,831
Total Dept of Ed R&D Cluster - Pass Through			-	77,831
National Aeronautics and Space Administration				
Jet Propulsion Laboratory	1531581	43.RD	-	3,417
	Subcontract NO 1563003	43.RD	-	31,052
	SUBCONTRACT# 1478543	43.RD	-	24,273
Regents of New Mexico State University	Q01719	43.008	-	25,039
	Q01840	43.008	-	17,477
	Q01810	43.008	-	18,654
	Q01719	43.008	-	10,417
NMC, Inc.	Subaward NO. 425-01	43.001	-	15,028
Smithsonian Astrophysical Observatory	GO5-16008X	43.001	-	8,083
Total NASA- R&D Cluster Pass Through			-	153,440
Department of Energy				
Los Alamos National Laboratory	412548	81.RD	-	55,968
	403248	81.RD	-	9,671
	336772	81.RD	-	109,027
	315137	81.RD	-	46,117
	368937	81.RD	-	216,870
	309981	81.RD	-	20,920
	406287	81.RD	-	48,698
	398501	81.RD	-	9,092
	366164	81.RD	-	1,818
Lawrence Livermore National Laboratory	B623288	81.RD	-	2,395
	B619912	81.RD	-	673
University of Utah	NO. 10044393-NMT	81.087	-	7,115
Research Partnership to Secure Energy for America	12123-16	81.RD	-	37,061
Sandia National Laboratories	1766480	81.RD	-	25,285
	1759564	81.RD	-	11,188
	1545638	81.RD	-	9,692
	1744802	81.RD	-	18,064
	1627927	81.RD	-	6,385
	PO 1687838	81.RD	-	24,733
	1701853	81.RD	-	3,685
	1761394	81.RD	-	991
	1376548	81.RD	-	36
	1690027	81.RD	-	8,000
	1415664	81.RD	-	13,481
	1613716	81.RD	-	691
	1699343	81.RD	-	7,055
	PO 1415058	81.RD	-	10,541
	1739875	81.RD	-	47,657
	1689232	81.RD	-	31,696
	1699642	81.RD	-	1,755
	1592826	81.RD	-	47,698
	1689953	81.RD	-	11,411
	PO 1520051	81.RD	-	6,322
	1204100	81.RD	-	7,154
	1740730	81.RD	-	462
Total DOE- R&D Cluster Pass Through			-	859,407

See Notes to Schedule of Expenditures of Federal Awards.

New Mexico Institute of Mining and Technology

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the Year Ended June 30, 2017

Federal Grantor Program Title	Funding Agency Identification Number/Contract ID	Catalog of Federal Domestic Assistance (CFDA) Number	Fiscal Year Subrecipient Expenditures	Fiscal Year Expenditures
Environmental Protection Agency (EPA)				
	PO66700-000028000	66.802	-	176,544
Total EPA - R&D Cluster Pass Through			-	176,544
US Department of the Interior				
Water Resources Research Insti	Q01841	15.805	-	15,064
Total DOI- R&D Cluster Pass Through			-	15,064
Department of Health and Human Services				
Regents of New Mexico State University	Q01679	93.859	-	7,162
	Q01679	93.RD	-	10,313
	Q01679	93.RD	-	20,011
	Q01679	93.RD	-	43,534
	Q01679	93.RD	-	46,980
University of New Mexico	Q01679	93.RD	-	42,956
	Q01679	93.859	-	64,997
	Q01679	93.RD	-	93,055
	Q01679	93.RD	-	100,052
	Q01679	93.RD	-	92,938
	986090-8746	93.859	-	10
Total DHHS- R&D Cluster Pass Through			-	522,008
Total R&D Cluster Pass Through			-	5,975,183
OTHER - PASS THROUGH				
Department of Health and Human Services				
University of New Mexico	MOA 8/8/12	93.U15	-	6,954
University of New Mexico	028344-8746	93.U16	-	99,971
Total DHHS- Other Pass Through			-	106,925
Department of Defense(DoD)				
Battelle	PO US001-000534776	12.U17	-	8,622
Total DOD- Other Pass Through			-	8,622
National Science Foundation				
UNAVCO, Inc.	S13-EAR1261833-S1	47.050	-	98,678
UNAVCO, Inc.	S16-ICER1639709-S1	47.050	-	16,414
Incorporated Research Institutions for Seismology	04-NMT-SAGE	47.050	-	1,815,329
Texas A&M Research Foundation	K011076	47.U18	-	2,009
Regents of New Mexico State University	Q01617	47.076	-	32,639
University of New Mexico	063026-8746-IIA-1301346	47.080	-	156,700
Total NSF- Other Pass Through			-	2,121,769

See Notes to Schedule of Expenditures of Federal Awards.

New Mexico Institute of Mining and Technology

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – CONTINUED

For the Year Ended June 30, 2017

Federal Grantor Program Title	Funding Agency Identification Number/Contract ID	Catalog of Federal Domestic Assistance (CFDA) Number	Fiscal Year Subrecipient Expenditures	Fiscal Year Expenditures
Department of Homeland Security-Emergency Management				
New Mexico DHSEM	EMT-2016-05-0005-S01	97.042	-	2,089
	EMT-2007-PC-0007-001-NMIMT	97.042	-	(0)
	FEMA-4152-DR-NM-020	97.039	-	51,012
	EMW-2015-EP-00066-S01 NMIT	97.042	-	5,419
Total DHSEM- Other Pass Through			-	58,520
National Aeronautics and Space Administration				
Regents of New Mexico State University	Q01807	43.008	-	45,000
Total NASA- Other Pass Through			-	45,000
Department of Energy				
Sandia National Laboratories	1241903	81.U19	-	5,198
	1783417	81.U20	-	11,178
	COLLAB-2016-214	81.U21	-	23,979
	1570695	81.U22	-	16,362
	1722806	81.U23	-	28,306
	1684753	81.U24	-	35,302
	368937	81.U25	-	5,596
	1399125	81.U26	-	21,592
	1760015	81.U27	-	89,205
	1810652	81.U28	-	399
	1667614	81.U29	-	56,444
	1667607	81.U30	-	65,350
	1696042	81.U31	-	47,611
	1767696	81.U32	-	48,197
	BRIDGE FUNDING	81.U33	-	427
	1607119	81.U34	-	5,165
	1419759	81.U35	-	86,936
	1577116	81.U36	-	162,353
	1713249	81.U37	-	91,868
Lawrence Livermore National Laboratory	B616490	81.U38	-	297
	B620663	81.U39	-	3,225
Los Alamos National Laboratory	PEAR FORM 10/28/2016	81.U40	-	855
Total DOE- Other Pass Through			-	805,845
Department of Education				
University of New Mexico	208089-8746	84.U41	-	3,336
Total Dept of Ed- Other Pass Through			-	3,336
Total Other Pass Through			-	3,150,017
STUDENT FINANCIAL ASSISTANCE CLUSTER				
Pell Grant	SFA	84.063	-	2,104,660
Supplemental Educational Opportunity Grant (SEOG)	SFA	84.007	-	202,298
College Work Study	SFA	84.033	-	176,469
Perkins Loan	SFA	84.038	-	2,413,452
Direct Subsidized Stafford Loan (DSL)	SFA	84.268	-	1,632,990
Direct Unsubsidized Stafford Loan (DSLU)	SFA	84.268	-	2,418,142
Direct Parent Loan for Undergraduate Students (DPLUS)	SFA	84.268	-	254,887
Total SFA Cluster			-	9,202,898
Total Schedule of Expenditures of Federal Awards			\$ 2,717,930	\$ 58,633,474

See Notes to Schedule of Expenditures of Federal Awards.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2017

NOTE A – GENERAL

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the Institute under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Institute, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Institute. The Institute receives annual Facilities and Administrative Forward Indirect Cost Rates approved by the Office of Naval Research before the beginning of each year.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Amounts related to pass-through grants are classified as private grants and contracts in the accompanying statement of revenues, expenses, and changes in net position.

NOTE C – INDIRECT COST RATE

The Institute has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE D – FEDERAL LOAN PROGRAM

The Perkins Loan Program (CFDA #84.038) is administered directly by the Institute and balances and transactions relating to this program are included in the Institute's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. Total outstanding loans under this U.S. Department of Education program at June 30, 2017, were \$2,094,078.

**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 Regents
New Mexico Institute of Mining and Technology
Socorro, New Mexico
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 business-type activities, each discretely presented component unit and the fiduciary fund, and related notes, which collectively comprise the basic financial statements of the New Mexico Institute of Mining and Technology (the Institute), as of and for the year ended June 30, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institute'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 Institute's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institute'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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Institute'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 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as findings 2017-001 and 2017-002, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institute's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and 2.2.2 NMAC and which are described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004.

The Institute's Response to Findings

The Institute's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Institute'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 Institute'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 Institute's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

ATKINSON & CO., LTD

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 31, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE, REQUIRED BY THE UNIFORM GUIDANCE**

Board of Regents
New Mexico Institute of Mining and Technology
Socorro, New Mexico
and
Mr. Timothy Keller
New Mexico State Auditor

Report on Compliance for Each Major Federal Program

We have audited the Institute's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Institute's major federal programs for the year ended June 30, 2017. The Institute's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Institute's major federal programs based on our audits of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institute's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Institute's compliance.

Opinion on Each Major Federal Program

In our opinion the Institute complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-004. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the Institute is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institute's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institute's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

ATKINSON & CO., LTD

Atkinson & Co., Ltd.

Albuquerque, New Mexico
October 31, 2017

SUMMARY OF PRIOR AND CURRENT AUDIT FINDINGS

Year Ended June 30, 2017

Prior Year Findings

Status

Findings – Financial Statement

2013-002	Purchase Order and Other Authorizations	Resolved
2015-001	Endowment Account Reconciliation and Review	Repeated and Modified
2016-001	System Access Rights	Repeated and Modified
2016-004	Implementation of Software Updates	Resolved
2016-005	Component Unit (Foundation) Financial Close and Reporting – Lack of Segregation of Duties	Resolved
2016-006	Component Unit (Trust) Lack of Segregation of Duties	Resolved

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

2016-007	Expenditures in Excess of Budget	Repeated and Modified
2016-008	Investment Policy Out of Date	Resolved
2016-009	Violations of Purchase Card Policies	Resolved

Findings – Federal Award Findings and Questioned Costs

2016-002	Post Federal Award Requirements - Device Security and Personally Identifiable Information	Repeated and Modified
2016-003	Special Tests and Provisions: Verification - Incomplete Written Policies and Implementation	Resolved

Current Year Findings

Findings – Financial Statement

- 2017-001 (2016-001) System Access Rights (Significant Deficiency)
- 2017-002 (2015-001) Endowment Account Reconciliation and Review (Significant Deficiency)

Findings in Accordance with 2.2.2 NMAC (State Audit Rule)

- 2017-003 (2016-007) Expenditures in Excess of Budget (Other Noncompliance)

Findings – Federal Award Findings and Questioned Costs

- 2017-004 (2016-002) Post Federal Award Requirements - Device Security and Personally Identifiable Information (Other Noncompliance)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2017

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiencies identified? X Yes ___ None reported

Non-compliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiencies identified? ___ Yes X None reported

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ___ Yes X No

Identification of Major Programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
97.005	State and Local Homeland Security National Training Program
12.800	Air Force Defense Research Sciences Program
12.615	Research and Technical Assistance

Dollar threshold used to distinguish between type A and type B programs \$1,668,206

Auditee qualified as low-risk auditee? X Yes ___ No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2017

B. FINANCIAL STATEMENT FINDINGS

2017-001 (2016-001) SYSTEM ACCESS RIGHTS (SIGNIFICANT DEFICIENCY)

CONDITION

Active user rights are not periodically reviewed by department heads or managers. In late FY17, the Information Technology (ITC) Department finished the report of active users and level of user rights to be distributed to the department heads/supervisors to monitor and communicate back to the IT Department any necessary changes. This process, together with existing checkout and transfer processes will cover NMT faculty and staff. ITC is also working with the Payroll Office to establish a procedure to use Banner to automate termination of user rights for students. Both these procedures had yet to be implemented as of 6/30/17.

CRITERIA

The Banner User Security Policy establishes guidelines for setup (new users), change and removal of user rights to Banner forms and for periodic audit of assigned levels of user rights. New users are given system access permission rights only after supervisors and/or directors approved completed Banner Access Request Forms.

CAUSE

No method of review of user rights was in place.

EFFECT

Without periodic review of user rights by supervisors, managers or department heads it is possible for those employees who have terminated or transferred to retain any Banner access they may have had.

RECOMMENDATION

We recommend that the Institute implement the established procedures in a timely fashion.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

The process of creating an effective and readable report of user rights to Banner forms, tables and processes took longer than anticipated. In late FY 2017, the ITC Department finished the report of active users and level of user rights to be distributed to the department heads/supervisors to monitor and communicate back to the IT Department any necessary changes. This process, together with existing checkout and transfer processes will cover NMT faculty and staff. However, during the development of the report it was determined that the checkout and transfer procedures for student employees with Banner update access was not adequate. ITC is working with the Payroll Office to establish a procedure to use Banner to automate termination of user rights for students. This procedure will be reviewed by the appropriate administrative offices for suitability and effectiveness and then be tested. This two-pronged approach will resolve the issue of user rights termination for both faculty/staff and students. Estimated completion in FY18.

POINT OF CONTACT

Director ITC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2017

B. FINANCIAL STATEMENT FINDINGS – CONTINUED

**2017-002 (2015-001) ENDOWMENT ACCOUNT RECONCILIATION AND REVIEW
(SIGNIFICANT DEFICIENCY)**

CONDITION

The Institute self-reported that it recently discovered two new concerns related to endowment account reconciliation and review which relate to previous years from FY05 – FY14 prior to the first reported finding 2015-001. Finding 2015-001 reported on the transfer of \$6,423,000 from the comptroller's operating cash account to the NM State Investment Council (SIC) to reconcile and segregate endowment monies to match donor account balances in FY15.

As a result of conditions reported in Finding 2015-001 as reported during FY15 and FY16, statements sent to certain donors may have misstated endowment earnings and balances. The first concern is that it appears statements were sent to donors reporting that their endowment gifts and contributions were being invested and were accruing earnings, when instead donations made during that time period were sitting in an institutional operating cash account. The second concern is that it appears internal accounting entries regarding the donations, totaling \$6,423,000, may have inaccurately shown gains from investment earnings. During FY05 to FY14, it appears endowment contributions used for donor purposes related to these contributions originated from the Institute instead of these investment accounts.

Corrective Action Update: With external support, NMT is in the process of reconstructing what occurred related to the FY05 through FY14 endowment funds and the accounting for such funds. The Institute is also attempting to reconstruct endowment activity before 2005, when Banner, the institutional ERP, was implemented. When complete, the outcome of this effort will be reviewed by management for determination of further corrective action necessary, if any. The process for endowment internal account reconciliation, review, recording and reporting endowment activity has been implemented in response to both prior year findings, as noted above. However, as the process continues to be implemented and improved upon, other new issues have been noted above.

Additional reconstruction may be necessary for years prior to 2005. It may also be possible that NMT funds (I&G and/or reserve funds) were used to distribute the equivalent of a return on investments to the recipients of these funds through 2015.

CRITERIA

When a gift is given to the Institute, it is not considered consummated until the Institute agrees to the conditions and notifies the donor of the acceptance of the gift. If the gift or bequest is received without disclaimer by the Institute, the Institute has an obligation to administer the gift or bequest in a manner specified by the donor. The Institute generates annual statements of endowment reporting to each donor separately which includes reporting on beginning balances, additional donations, capital gains/losses, interest earned and interest to spending account and expenses for the investment fund.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2017

B. FINANCIAL STATEMENT FINDINGS – CONTINUED

**2017-002 (2015-001) ENDOWMENT ACCOUNT RECONCILIATION AND REVIEW
(SIGNIFICANT DEFICIENCY) – CONTINUED**

CRITERIA – CONTINUED

Per the Institute's investment policy, endowment corpus (principal) should be set aside for investment purposes and income earned from these invested funds should be used as designated by the donor or governing body, the annual amount of which is based on the Institute's spending policy and reported annually to each donor. The purpose and authorized spending of endowment funds should be documented and monitored to ensure that funds are being used appropriately.

CAUSE

During the years FY05 through FY14, there was a lack of reconciliation between the Institute's general ledger and statements provided to donors. As previously reported, staffing changes over the years and summary or ad hoc detailed review of periodic accounting entries contributed to both concerns. As the endowment calculations were a manual process, the risk of error is higher than for an automated process.

EFFECT

Annual donor statements of endowments may have been provided to donors with misstated returns on their endowment investments and misstated endowment balances.

Internal journal entries related to these donor accounts were made that incorrectly showed that there were returns on investment for each donor account.

RECOMMENDATION

We recommend management perform a detailed review of past donor statements reporting endowment gifts, contributions, distributions, appreciation and investment earnings. We continue to recommend that someone other than the preparer of the calculations and adjusting entries perform a detailed review and approval of annual donor statements of endowment reports.

The Institute has already made the effort to reconcile endowment accounts to invested funds and to ensure that gains, losses, and spending allocations are properly recorded. We recommend documenting policies and procedures related to monitoring and accounting for endowments to ensure that institutional knowledge is available for successors to prevent future misstatements. We also recommend that management's reporting to the Board of Regents on endowment and investment activities and related information be enhanced.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

As was confirmed in the 2015-001 audit finding for FY15, which was modified and repeated in the FY16 audit, New Mexico Tech is reconstructing what occurred related to both findings. There may be additional actions required once this reconstruction is complete.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2017

B. FINANCIAL STATEMENT FINDINGS – CONTINUED

**2017-002 (2015-001) ENDOWMENT ACCOUNT RECONCILIATION AND REVIEW
(SIGNIFICANT DEFICIENCY) – CONTINUED**

Regarding the audit recommendation, with the hiring of a new individual in Sponsored Programs, the Institute is now capable of having someone other than the preparer of the endowment calculations to provide a detailed review of the annual donor statements. While the approval and distribution of the final donor statements will most likely remain an Advancement function, annual donor statements would not be submitted for distribution until the detailed review takes place.

The Institute updated its Investment Policy in June 2017. This updated policy was approved by the Board of Regents. The Institute is also in the process of significantly updating the related investment and distribution procedures. The new investment procedures will include regularly scheduled portfolio rebalancing and regular reviews of the institutional asset allocation strategy. The Institute is also reviewing its current policies and procedures related to the distribution of New Mexico Tech held endowments. As recommended, the Institute will also review and update current endowment accounting and monitoring policies and procedures. Estimated completion in FY18.

POINT OF CONTACT

Vice President for Administration and Finance

Completion date end of FY18.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2017

C. FINDINGS IN ACCORDANCE WITH 2.2.2 NMAC (STATE AUDIT RULE)

**2017-003 (2016-007) EXPENDITURES IN EXCESS OF BUDGET
(OTHER NONCOMPLIANCE)**

CONDITION

The Institute's actual expenditures exceeded the approved budget in the following areas:

- Unrestricted Current Funds – Capital outlay \$192,276
- Restricted Current Funds – Independent operations \$23,463

Budget adjustments in each of these areas were made mid-year, but ultimately forecasts were not sufficient. Management's process to review and adjust budgets has greatly improved over the previous year resulting in a much smaller amount of expenditures exceeding the approved budget levels.

CRITERIA

Per 5.3.4.10 NMAC, total expenditures may not exceed amounts shown in the approved budgets at the level of budgetary control. Adequate internal controls to minimize budget overspending should ensure that budgets are not exceeded by any amount.

CAUSE

Budget forecasting and review process was not effective.

EFFECT

The Institute is not in compliance with state budget statutes.

RECOMMENDATION

We recommend that budget review procedures be done timely throughout the year to allow for budget adjustments to be requested and approved prior to year-end.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We concur with this finding. Although actual amounts spent may have been in excess of the approved budgeted amount there were funds available to cover the expenditures meaning there were no true cost overruns. Budget to actual reviews were performed throughout the fiscal year and a mid-year Budget Adjustment Request was prepared to add budgetary authority to these two specific areas; however, the adjustments were short of what was required.

In the future, management will continue to review budget to actual figures on an interim basis through the use of newly developed quarterly reporting reviews which will encompass all expenditure areas. Any issues identified as a result of these reviews will be researched and considered for a mid-year budget adjustment request. Methods of forecasting year-to-date data will also be refined and updated. Estimated completion in FY18.

POINT OF CONTACT

Associate Vice President for Finance and Administration

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED

Year Ended June 30, 2017

D. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2017-004 (2016-002) POST FEDERAL AWARD REQUIREMENTS - DEVICE SECURITY AND PERSONALLY IDENTIFIABLE INFORMATION (OTHER NONCOMPLIANCE)

Funding Agency: All
Program: All
CFDA No.: All
Period: 7/1/16-6/30/17

CONDITION

Based on audit procedures performed, we gained an understanding from the IT Department that computers and other devices do not currently have remote wipe capability nor are they encrypted. ITC has developed and submitted a procedure to address these issues. The 'Computer Security Controls and Access to Sensitive and Protected Information' procedure was approved by the administration on June 17, 2017, and will be effective July 1, 2017. The policy was not effective for the fiscal year under audit which caused the finding to be repeated.

CRITERIA

The Institute's Information Technology and Communications (ITC) Banner User Security Policy (last updated in October 2014) had not been updated to add policies and procedures for protection of Protected Personally Identifiable Information (PII) to be compliant with 2 CFR 200.303(e) which requires non-federal entities to take reasonable measures to safeguard PII and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality.

CAUSE

Unknown.

EFFECT

Portable devices could contain PII which increases the risk of theft and increases the consequences of both theft and loss. The Institute is not in compliance with federal award requirements.

RECOMMENDATION

Management has updated IT policies to be compliant with federal regulations and created a strategy for safeguarding PII. The policy was not effective for the fiscal year under audit which caused the finding to be repeated.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION

The 'Computer Security Controls and Access to Sensitive and Protected Information' procedure was approved by the administration on June 17, 2017 and was effective July 1, 2017.

POINT OF CONTACT

Director ITC

New Mexico Institute of Mining and Technology

EXIT CONFERENCE

June 30, 2017

An exit conference was held on October 25, 2017, with the following in attendance:

For the New Mexico Institute of Mining and Technology and all component units:

Dr. Stephen Wells	President (via phone)
Dr. Cleve McDaniel	Vice President for Finance and Administration
Jerry Armijo	Regent, Secretary/Treasurer
Donald Monette	Regent
Gayle Bailey	Director of Sponsored Projects
Joe Franklin	Director of Information Technology
Angie Gonzales	Associate Director of Human Resources
Charles Hendrickson	Associate Vice President for Finance and Administration
Jenny Ma	Accountant
Carrie Marsyla	Senior Accounting Manager Sponsored Projects
Mike Stanley	Acting Director, EMRTC
Melissa Tull	Controller
Arleen Valles	Director of Finance

For Atkinson & Co., Ltd.:

Clarke Cagle, CPA, CCIFP, CGFM	Audit Director
Sarah Brack, CPA, CGFM, CGMA	Audit Manager

The financial statements were prepared by Atkinson & Co., Ltd. with the assistance of the Institute. The Institute is responsible for the contents of these financial statements.