

CNM In[?]enuity, Inc.

(A Component Unit of Central New Mexico Community College)

Financial Statements

For the Fiscal Years Ended June 30, 2017 and 2016

(With Independent Auditor's Reports Thereon)

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)

Table of Contents

Introductory Section	2
Official Roster	3
Financial Section.....	4
Independent Auditor’s Report	5
Management’s Discussion and Analysis	7
Statements of Net Position	11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows.....	13
Notes to Financial Statements	15
Other Information	25
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.....	26
Schedule of Findings and Responses	28
Exit Conference	29

INTRODUCTORY SECTION

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)

Official Roster
Governing Board

Name	Title
Katharine Winograd	President
Kirby Jackson	Vice President
Katherine Ulibarri	Treasurer
Kyle Lee	Secretary
Dominic Pruitt	Member
Steve Maestas	Member
Bill Miera	Member
Henry South	Member
Lorna Wiggins	Member

Administrative Officials

Samantha Sengel	Chief Advancement Officer
Wanda Helms	CNM Comptroller

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
CNM Ingenuity, Inc.
and
Mr. Wayne Johnson, New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of the CNM Ingenuity, Inc. (Ingenuity) (a nonprofit organization and component unit of Central New Mexico Community College), as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Ingenuity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ingenuity as of June 30, 2017 and 2016, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 7-10 be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the 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 on or provide any assurance.

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 Ingenuity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ingenuity's internal control over financial reporting and compliance.



Albuquerque, New Mexico

October 31, 2017

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Management's Discussion and Analysis (Unaudited)
June 30, 2017 and 2016

As a component unit of Central New Mexico Community College (College), CNM Ingenuity, Inc. (Ingenuity) applies the provisions of Governmental Accounting Standards Board (GASB) Statement No. 37, *Basic Financial Statements, and Management's Discussion and Analysis for State and Local Government – an amendment of GASB Statements No. 21 and No. 34*.

Overview of the Basic Financial Statements

Ingenuity's annual report consists of Management's Discussion and Analysis (MD&A), which provides a broad narrative overview of its financial activities for the fiscal years ended June 30, 2017, and June 30, 2016, as well as an overview of the financial statements listed below. Management has prepared the financial statements and the related footnote disclosures along with this discussion and analysis.

1. Statements of net position
2. Statements of revenues, expenses, and changes in net position
3. Statements of cash flows
4. Notes to financial statements

The financial statements provide an overall picture of Ingenuity's financial situation and should be read in conjunction with the MD&A.

The statement of net position provides both long-term and short-term information about Ingenuity's overall financial status. The statement of revenues, expenses, and changes in net position provide information about the operating revenues and expenses, and the non-operating revenues of Ingenuity. The statement of cash flows provides information about the sources and uses of cash by Ingenuity. The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Condensed Assets, Liabilities, and Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 12,820,463	\$ 1,358,763	\$ 1,729,732
Noncurrent assets	3,332,956	1,865,979	1,544,465
Total assets	<u>16,153,419</u>	<u>3,224,742</u>	<u>3,274,197</u>
Current liabilities	1,771,786	851,036	336,684
Total liabilities	<u>1,771,786</u>	<u>851,036</u>	<u>336,684</u>
Net position:			
Net investment in capital	3,032,770	1,799,972	1,544,465
Unrestricted	11,112,917	573,734	1,393,048
Temporarily restricted	235,946	-	-
Total net position	<u>\$ 14,381,633</u>	<u>\$ 2,373,706</u>	<u>\$ 2,937,513</u>

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Management's Discussion and Analysis (Unaudited)
June 30, 2017 and 2016

Revenues, Expenses and Changes in Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenue:			
Program revenue	\$ 2,560,454	\$ 1,998,271	\$ 432,530
Contract and grant revenue	474,853	296,067	111,967
Rental revenue	100,314	41,739	-
Gift revenue	242,159	10,886	251,000
Total operating revenue	<u>3,377,780</u>	<u>2,346,963</u>	<u>795,497</u>
Operating expense:			
General and administrative	3,096,823	2,784,761	1,646,328
Amortization	19,399	13,774	-
Depreciation	87,000	113,408	52,434
Total operating expense	<u>3,203,222</u>	<u>2,911,943</u>	<u>1,698,762</u>
Operating income (loss)	<u>174,558</u>	<u>(564,980)</u>	<u>(903,265)</u>
Non-operating revenue			
Transfers from (to) CNM	11,814,000	-	-
Interest income	3,869	1,173	869
Gain on sale of assets	15,500	-	-
Total non-operating revenue	<u>11,833,369</u>	<u>1,173</u>	<u>869</u>
Increase (decrease) in net position	12,007,927	(563,807)	(902,396)
Net position, beginning of year	2,373,705	2,937,514	3,839,909
Net position, end of year	<u>\$ 14,381,632</u>	<u>\$ 2,373,707</u>	<u>\$ 2,937,513</u>

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Management's Discussion and Analysis (Unaudited)
June 30, 2017 and 2016

Financial Analysis

Ingenuity's total assets of \$16,153,419 as of June 30, 2017, represent an increase of 401% from the previous year total of \$3,224,742. Ingenuity's total liabilities of \$1,771,786 as of June 30, 2017, represent an increase of 108% from the previous year total of \$851,036. This results in a net position of \$14,381,633, an increase of 506% from the previous year net position of \$2,373,706. During the year ended June 30, 2015, CNM Ingenuity STEMulus Center merged with programs at the Workforce Training Center, fully integrating operations in June of 2016, formerly run as part of the main college. This transition reflected the enterprise and commercialization responsibilities of CNM Ingenuity as a non-traditional training innovation leader, public private partnership entity, and a commercialization organization to lead in the diversification of revenues and opportunities for the state of New Mexico to participate with CNM.

These statements include all assets, liabilities and deferrals using the accrual basis of accounting, which is consistent with the accounting method used by private-sector institutions. All of the current year's revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. The preceding table summarized Ingenuity's assets, liabilities and net position as of June 30, 2017, and June 30, 2016. In addition, a summary of the results of the revenues, expenses and changes in net position for June 30, 2017, and June 30, 2016, is presented. Those results are summarized as follows:

Operating revenues totaled \$3,377,780 in FY17, which is an improvement of \$1,030,818 over FY16's amount of \$2,346,962 or an increase of 44%. Most notable was an increase in program revenue of \$562,184 (see Statements of *Revenues, Expenses and Changes in Net Position*). Many of the programs under Ingenuity became operational in FY16, coupled with the inclusion of the non-credit (Workforce Training) courses with a focus on fewer classes, but more highly demanded courses that provided a substantial increase in program revenues in FY16 and has continued to increase through FY17. Additionally, Revenues saw a substantial increase with the expansion of Deep Dive Coding offerings, with the addition of two new coding stacks as a part of program offerings.

Operating expenses totaled \$3,203,222. The two most significant categories are contract services and salaries, and benefits comprising 18% and 44% respectively. This highlights the inclusion of Workforce Training as part of Ingenuity. Contract services represents a substantial expense because several of the programs utilize instructional facilitators, independent contractors, and contracted services to support the significant expansion of a comprehensive marketing and web strategy for CNM Ingenuity program offerings. The salaries and benefits decreased to \$1,411,733 in FY17 from \$1,456,800 in FY16 by utilizing staff required to support all course and program offerings efficiently

For FY17 and FY16, non-operating revenues include interest income and transfers from CNM. There are no non-operating expenses for either fiscal year.

Economic Outlook

Ingenuity was created in 2014 to diversify the College's revenues through traditional and emergent training methods, cooperative public private agreements in technology and entrepreneurship, and the increased utilization of CNM assets. CNM Ingenuity has successfully expanded the College's innovative program offerings. Ingenuity established its foundation in 2015 that maintains and in all cases the last fiscal year, increased through program offerings and participation under its three primary missions: Public Private Partnerships, Training Innovation and Business Solutions. These missions are categorized through CNM Ingenuity's brands: STEMulus Center, Workforce Development and Business Solutions.

During FY17, four primary programs led Ingenuity's operations at the STEMulus Center. The FUSE Makerspace (FUSE) is a collaborative workspace where hobbyists, engineers, entrepreneurs and artists can use high-end, state-

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Management's Discussion and Analysis (Unaudited)
June 30, 2017 and 2016

of-the-art CNM equipment to bring their ideas to fruition. FUSE works on a paid membership model and acts as an incubation center for a number of small business ventures, and partners with the College's prototyping certificate program. Deep Dive Coding, Ingenuity's computer coding boot camp, graduated four cohorts of students in FY17, each with increasing enrollment and tuition that is approved for credit at the College. Deep Dive Coding, maturing to an umbrella brand, has three different coding programs (each with multiple cohorts) by the end of 2017. The IGNITE Community Accelerator, the business accelerator for Ingenuity, completed two cohorts in 2017 with two more scheduled for 2018. Through IGNITE, 22 small businesses graduated from the program in 2017. CNM's Fast Track Business Degree and Entrepreneurial Mindset programs are also operated by Ingenuity.

During 2017, Workforce Development has continued to be a significant component of Ingenuity's strategy. Non-credit workforce development training was provided to 2,192 participants representing 40 organizations. Ingenuity will grow this programming in FY18, with a focus on increasing marketing and advertising of larger programs both currently operating and in development. Among these programs are Financial Coaching, Linesman School, Commercial Driver's License, Nursing Transition to Practice, Registered Behavioral Technician, Supervisor Academy and Cyber Academy. Ingenuity has developed a strategic plan to increase its affiliate relationships for non-credit open enrollment training where possible. Further, CNM Ingenuity sees an opportunity to streamline the process of developing and providing open enrollment courses through automation, increasing participation from the community in an increasing variety of classes.

The Business Solutions segment of Ingenuity had an excellent year in FY17 with further expansion planned for FY18. Space Solutions, an initiative to make under-utilized CNM space available for lease and for use by community partnerships, continued to expand operations in this last year. This has led to many new arrangements with industry partners and it has led to formal partnerships with the New Mexico and Albuquerque film offices. Ingenuity Testing Services remains the largest and most successful high-stakes testing center in New Mexico.

A highlight of the dynamic work at CNM Ingenuity was its successful spin out of a program to form a private corporation. As the lead investor, CNM Ingenuity funded the formation of Ingenuity Software Labs, a software development company, started as a program within CNM Ingenuity to support Deep Dive Coding graduates getting real work programming experience. The rate of growth and demand for software development, as well as the ability to create a partnership with the for profit independent entity, resulted in the spin out of the program, a first for a community college in New Mexico.

Ingenuity continues to mature and build its brand. As the public has become better informed of the services and opportunities provided by the organization, through both a focused marketing initiative and more familiarity over the passage of time, the leadership team is pleased that Ingenuity has met its goal to turn a profit in FY 17, which is two years earlier than projected.

Contact Information

Additional information can be obtained by contacting CNM Ingenuity, Inc., at (505) 224-5953, 525 Buena Vista Dr. SE, Albuquerque, NM 87106.

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Assets:		
<i>Current Assets:</i>		
Cash and cash equivalents (Note 2)	\$ 1,889,271	\$ 1,170,504
Accounts receivable, net of doubtful allowance (Note 3)	280,886	186,046
Pledge receivable, current portion net of discount (Note 4)	49,039	-
Due from CNM (Note 12)	10,502,419	-
Inventory (Note 5)	24,000	-
Prepaid expense	74,848	2,213
Total current assets	12,820,463	1,358,763
<i>Capital Assets, net (Note 6):</i>	3,032,770	1,799,972
<i>Long-Term Assets:</i>		
Long term pledge receivable, net of discount (Note 3)	186,908	-
Advance royalties (Note 7)	46,608	66,007
Equity investment in Ingenuity Software Labs, Inc. (Note 7)	66,670	-
Total noncurrent assets	300,186	66,007
Total assets	\$ 16,153,419	\$ 3,224,742
Liabilities:		
<i>Current Liabilities:</i>		
Accounts payable	\$ 123,847	\$ 67,286
Accrued liabilities	1,015	-
Due to CNM (Note 12)	212,012	221,404
Deposits payable	8,440	-
Unearned revenue (Note 8)	1,426,472	562,346
Total liabilities	1,771,786	851,036
Net position:		
Net investment in capital assets	3,032,770	1,799,972
Unrestricted	11,112,917	573,734
Temporarily restricted	235,946	-
Total net position	\$ 14,381,633	\$ 2,373,706

See accompanying notes to financial statements.

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating revenue:		
Program revenue	\$ 2,560,454	\$ 1,998,270
Contract and grant revenue	474,853	296,067
Rental revenue	100,314	41,739
Gift revenue	242,159	10,886
Total operating revenue	<u>3,377,780</u>	<u>2,346,962</u>
Operating expense:		
General and administrative (Note 9)	3,096,823	2,784,761
Amortization	19,399	13,774
Depreciation	87,000	113,408
Total operating expense	<u>3,203,222</u>	<u>2,911,943</u>
Operating income (loss)	<u>174,558</u>	<u>(564,981)</u>
Non-operating revenue		
Transfers from (to) CNM (Note 12)	11,814,000	-
Interest income	3,869	1,173
Gain on sale of assets	15,500	-
Total non-operating revenue	<u>11,833,369</u>	<u>1,173</u>
Increase (decrease) in net position	12,007,927	(563,808)
Net position, beginning of year	2,373,706	2,937,514
Net position, end of year	<u>\$ 14,381,633</u>	<u>\$ 2,373,706</u>

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Cash received from program revenue	\$ 2,519,047	\$ 2,476,125
Cash received from contract and grant revenue	1,285,546	296,067
Cash received from rental activity	100,314	-
Cash received from gifts	6,212	10,886
Cash received for customer deposits	8,440	-
Payments to employees (salaries and benefits)	(1,411,733)	(1,456,801)
Payments to vendors	(1,735,960)	(1,253,290)
Net cash provided by operating activities	771,866	72,987
Cash flows from noncapital financing activities:		
Transfers from CNM	1,314,000	-
Net cash provided by noncapital financing activities	1,314,000	-
Cash flows from capital and related financing activities:		
Purchase of real estate	(1,319,798)	(368,914)
Proceeds from sale of equipment	15,500	-
Net cash used by capital and related financing activities	(1,304,298)	(368,914)
Cash flows from investing activities:		
Interest earned on cash and cash equivalents	3,869	1,173
Equity investment in Ingenuity Software Labs, Inc.	(66,670)	-
Net cash provided (used) by investing activities	(62,801)	1,173
Net increase (decrease) in cash and cash equivalents	718,767	(294,754)
Cash and cash equivalents, beginning of year	1,170,504	1,465,258
Cash and cash equivalents, end of year	\$ 1,889,271	\$ 1,170,504

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Statements of Cash Flows
Years Ended June 30, 2017 and 2016

Statement of Cash Flows continued:

	2017	2016
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Operating Income (Loss)	\$ 174,558	\$ (564,981)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	87,000	113,408
Amortization	19,399	13,774
Change in assets and liabilities:		
Accounts receivable, net of allowance	(94,840)	(3,854)
Pledge receivable, net of discount	(235,947)	-
Inventory	(24,000)	-
Prepaid expenses	(72,635)	287
Accounts payable	56,561	35,031
Accrued liabilities	1,015	-
Due to CNM	(11,811)	53,412
Deposits payable	8,440	-
Unearned revenue	864,126	425,910
Total adjustments	597,308	637,968
Net cash provided by operating activities	\$ 771,866	\$ 72,987

See accompanying notes to financial statements

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Notes to Financial Statements
June 30, 2017 and 2016

(1) Summary of Significant Accounting Policies

a. Organization

CNM Ingenuity, Inc., (“Ingenuity”), was founded on March 17, 2014 under the New Mexico University Research Park and Economic Development Act. It is a New Mexico not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. Ingenuity is specifically classified as a 509(c)(3) or Type 1 charitable organization. Type I supporting organizations are operated, supervised, or controlled by one or more publicly supported organizations. Ingenuity is operated exclusively for the benefit and support of, to perform the functions of, and carry out the purposes of Central New Mexico Community College (CNM).

The corporation is operated, supervised, and controlled by CNM. Ingenuity and CNM entered into a Memorandum of Agreement (“MOA”) dated March 2014 that defines their relationship. The MOA states that CNM will provide critical resources until Ingenuity becomes self-supporting. It also provides that Ingenuity’s activities will be conducted for the benefit of CNM and must be consistent with CNM’s long-range plans.

Pursuant to the University Research Park and Economic Development Act Sections 21-28-1 through 21-28-25, New Mexico Statutes annotated, 1978 Compilation, as amended, (the “Research Park Act”), this Corporation is formed for all lawful purposes under the Research Park Act.

Notwithstanding the paragraph above, all purposes of Ingenuity as stated in the Articles of Incorporation shall be limited exclusively to charitable, educational and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954, or the corresponding provision of any future U.S. Internal Revenue law.

Complete financial statements can be obtained from the administrative office at the College at 525 Buena Vista SE, Albuquerque, NM 87106.

b. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

As a component unit of the College, Ingenuity presents its financial statements in accordance with generally accepted accounting standards as established by the Governmental Accounting Standards Board (GASB).

Ingenuity applies business-type activity accounting and Ingenuity’s financial statements have been prepared 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.

Ingenuity follows Government Accounting Standards Board (GASB) Statement No. *35 Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities; an amendment of GASB Statement 34*. The financial statement presentation required by these statements provides a comprehensive perspective of Ingenuity’s assets, liabilities and net position, revenues, expenses, changes in net position, and cash flows.

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Notes to Financial Statements
June 30, 2017 and 2016

c. Management's Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the following: reported amounts of assets and liabilities; deferred outflows and inflows of resources; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

d. Cash and Cash Equivalents

Ingenuity has only cash and money market fund deposits. Therefore, all funds on deposit are considered cash and cash equivalents.

e. Investments

Investment in stock is carried at cost basis. In the event that Ingenuity acquires the ability to exercise significant influence over operating and financial policies of an investee, the investment will be accounted for using the equity method of accounting.

f. Receivables

Ingenuity's receivables represent revenues earned from student tuitions and fees, grants and contracts, and third party receivables. Receivables at June 30, 2017 consisted primarily of contracts, grants, and third Party receivables with a small balance due from student receivables. At June 30, 2017, there is an allowance for doubtful accounts of \$11,000 on contract billings older than one year. All other receivables are current and considered collectible at June 30, 2017. There is no doubtful allowance at June 30, 2016.

g. Capital Assets

Expenditures for land, land improvements, buildings, infrastructure, art and equipment are recorded at cost. Donated assets are recorded at their estimated fair market values at the date of donation. Depreciation expense is calculated using the straight-line method and the following estimated useful lives:

Buildings and improvements	5-35 years
Land improvements	5-35 years
Infrastructure	5-35 years
Furniture and equipment	5-15 years
Vehicles & Fixtures	5-10 years

Maintenance and repairs, which materially add to the value of the property or appreciably prolong its life, are recorded as increases to the appropriate asset account. Ingenuity capitalizes all fixed assets with a cost of \$5,000 or more and a useful life of greater than one year. Ingenuity conducts a regular inventory of fixed assets and maintains a central list of fixed assets, which includes date of purchase, registration numbers, warranty information, original cost, and estimated life. Non-capitalized equipment with values of \$1,000 or more and all laptops, tablets and cellphones, regardless of cost, are tagged and tracked.

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Notes to Financial Statements
June 30, 2017 and 2016

h. Agreements

A memorandum of agreement between Ingenuity and the College was entered into on March 11, 2014. The agreement formalizes the relationship between Ingenuity and the College and establishes the purpose for Ingenuity as supporting the college in providing educational opportunities through a variety of noncredit programs and career-focused training for non-traditional students. Ingenuity seeks to complement the College by providing educational avenues that enhance degree opportunities or fill workforce gaps in the local economy. The College agreed to provide staff support, office and meeting space, related physical support services, and other services at no cost to Ingenuity as contributed services. The estimated value of these services is not reflected in the accompanying financial statements.

i. Contributed Services

Ingenuity does not have employees. However, program, administrative and support staff from CNM have been budgeted and allocated to Ingenuity activities in addition to information technology services. In FY17, CNM's contributed services were \$1,189,932, an increase of \$184,586 from FY16 amount of \$1,005,346.

j. Net Position

Unrestricted net position consists of resources that are not limited or restricted by donors for designated purposes. Unrestricted net position arises from exchange transactions and the receipt of unrestricted revenues.

Board designated net position consists of a reserve established by the Board of Directors for operational purposes and the support of CNM.

Temporarily restricted net position consists of resources restricted by the passage of time or are contractually or legally bound to be spent in accordance with restrictions imposed by external third parties, primarily grant funding agencies.

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

k. Classification of Revenues and Expenses

Operating income reported in the financial statements includes revenues and expenses related to the primary continuing operations of Ingenuity. Operating revenues consists of program revenue, contracts and grants, rental revenue and gifts. Principal operating expenses include program and administrative services.

Non-operating revenue consists of interest income earned in the money market account and support transfers received from CNM.

l. Revenue Recognition and Donations and Pledges

Ingenuity recognizes revenue on the accrual basis or as earned. Appropriate unearned deferrals for unrestricted program and restricted grant revenue have been made at year-end for revenue attributable

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Notes to Financial Statements
June 30, 2017 and 2016

and that will be earned in the next fiscal year proportionate to the instructional term. Unearned Revenue is shown as a liability on the balance sheet.

m. Income Taxes

Ingenuity is an organization described in Internal Revenue Code (IRC) Section 501(c)(3) and as such is exempt from federal and state income tax on its related income. Furthermore, as a publicly supported organization, it is classified as a public charity and not a private foundation under Section 509(c)(3). Ingenuity had immaterial unrelated business income during fiscal years 2017 and none in 2016; therefore, no provision for income taxes is included in the financial statements.

n. Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

(2) Cash and Cash Equivalents

a. 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. Ingenuity's operating and money market accounts had deposits totaling \$1,886,993 as of June 30, 2017, and \$1,171,945 as of June 30, 2016. Ingenuity maintains sufficient balances in the Operating Account. Ingenuity limits the amount of credit exposure to one financial institution and believes that no significant concentration of credit risk exists with respect to cash and cash equivalents.

b. Banking

Ingenuity's financial policy delineates that it utilizes only federally insured local banking institutions. Accounts are maintained at the same fiscal agent institution utilized by CNM. The amount on deposit with any one institution may not, in the usual course of business, exceed the FDIC insurance limit without Board of Director approval. Funds in excess of the FDIC insurance limit are maintained in a Board of Director authorized money market account.

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Notes to Financial Statements
June 30, 2017 and 2016

c. Banking continued

Below is a summary of insured accounts at June 30, 2017, and June 30, 2016.

	<u>2017</u>	<u>2016</u>
Wells Fargo checking account balance	\$ 226,081	\$ 494,840
Total Wells Fargo checking account balance	226,081	494,840
FDIC Insurance	250,000	250,000
Uninsured and under collateralized balance	<u>\$ -</u>	<u>\$ 244,840</u>
Wells Fargo money market account balance	<u>\$ 1,660,912</u>	<u>\$ 677,105</u>

(c) Detail of the cash and cash equivalents at:

		June 30, 2017		
<u>Account name</u>	<u>Account type</u>	<u>Bank Balance</u>	<u>Reconciling</u>	<u>Book Balance</u>
Wells Fargo:				
Operating	Cash	\$ 226,081	2,278	\$ 228,359
Money Market	Cash	1,660,912	-	1,660,912
Cash and Cash Equivalents		<u>\$ 1,886,993</u>	<u>\$ 2,278</u>	<u>\$ 1,889,271</u>

		June 30, 2016		
<u>Account name</u>	<u>Account type</u>	<u>Bank balance</u>	<u>Reconciling</u>	<u>Reconciled</u>
Wells Fargo:				
Checking	Cash	\$ 494,840	\$ (61,405)	\$ 493,399
Money Market	Cash	677,105	-	677,105
Cash and Cash Equivalents		<u>\$ 1,171,945</u>	<u>\$ (61,405)</u>	<u>\$ 1,170,504</u>

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Notes to Financial Statements
June 30, 2017 and 2016

(3) Accounts Receivable

Accounts receivable consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Contract/grant receivable	\$ 200,207	\$ 96,369
Less: allowance for doubtful	(11,000)	-
3rd Party receivable	85,067	75,377
Student receivable	6,612	14,301
Total Accounts Receivable	<u>\$ 280,886</u>	<u>\$ 186,047</u>

(4) Pledge Receivable

Ingenuity received a 5-year pledge for \$250,000, payable in \$50,000 annual installments. The pledge has been discounted at 1.96% (AFR Mid-Term Rate) for present value and no allowance for risk has been used as the donor has a long history with CNM and CNM Foundation, Inc of honoring their pledges. The 5-year discounted schedule is as follows:

<u>Year Ended June 30,</u>	<u>Face Value</u>	<u>Discount</u>	<u>Present Value</u>
2018	\$ 50,000	\$ (961)	\$ 49,039
2019	50,000	(1,904)	48,096
2020	50,000	(2,828)	47,172
2021	50,000	(3,735)	46,265
2022	50,000	(4,625)	45,375
	<u>\$ 250,000</u>	<u>\$ (14,053)</u>	<u>\$ 235,947</u>
Current Portion	\$ 50,000	\$ (961)	\$ 49,039

(5) Inventory

Inventory at June 30, 2017 consists of small equipment and miscellaneous items purchased on an as-is basis from a storage company. The contents of two large storage units were bought on May 1, 2017 for \$24,000 with the intended use to be used either as small equipment available for use by FUSE Makerspace members or rented out to movie studios as props for period pieces. Sorting through and categorizing the contents is expected to be completed in early FY18 at which time the inventory will be expensed as it becomes available for use. The \$24,000 acquisition cost will be allocated according to the eventual use.

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Notes to Financial Statements
June 30, 2017 and 2016

(6) Capital Assets

Capital assets consisted of the following:

	Balance June 30, 2016	Additions and transfers	Dispositions and transfers	Balance June 30, 2017
Capital assets (not depreciated):				
Land	412,719	323,070	-	735,789
Construction in process	87,091	-	-	87,091
Depreciable capital assets:				
Land Improvements	29,325			29,325
Buildings and improvements	1,034,434	996,728	-	2,031,162
Furniture & fixtures	324,371	-	-	324,371
Equipment	77,874	-	-	77,874
	<u>1,965,814</u>	<u>1,319,798</u>	<u>0</u>	<u>3,285,612</u>
Less accumulated depreciation:				
Land Improvements	-	1,100	-	1,100
Buildings	100,449	43,295	-	143,744
Furniture & fixtures	47,435	27,031	-	74,466
Equipment	17,958	15,574	-	33,532
	<u>\$ 165,842</u>	<u>\$ 87,000</u>	<u>\$ -</u>	<u>\$ 252,842</u>
Net Carrying Amount	<u>1,799,972</u>	<u>1,232,798</u>	<u>-</u>	<u>3,032,770</u>

(7) Advanced Royalties and Investment in Ingenuity Software Labs, Inc.

In August 2014, Ingenuity entered into an agreement with Deep Dive Coders LLC to purchase its assets and to collaborate with the owner in starting an Ingenuity coding boot camp known as Ingenuity Software Labs. Assets were purchased for \$47,500 and a 10-year tiered royalty agreement was entered into with the former owner. The former owner receives cash royalty payments for 1% of net coding boot camp tuition for 10 years, paid quarterly with the agreement expiring in August 2024. In addition, an advance royalty payment of \$90,000 was given to the former owner to be earned at a rate of 4% of net tuition over the same period as long as the former owner remains an employee of either CNM or Ingenuity. The agreement states that in the event the former owner ceases to be an employee, the advance royalty earning rate drops to 2% of net tuition. As of June 30, 2017 and 2016, the unearned balance of the advance royalty was \$46,608 and \$66,007, respectively.

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Notes to Financial Statements
June 30, 2017 and 2016

As of June 30, 2017 the former owner of Deep Dive Coders, LLC ceased to be an employee of CNM or Ingenuity leaving to startup a new for-profit company, Ingenuity Software Labs, Inc. (ISL), in partnership with Ingenuity. The focus of ISL is to engage in the coding market by hiring experienced programmers and to employ Ingenuity coding student interns providing them entry into the coding employment market. ISL is a New Mexico corporation authorized to issue 234,000 common shares and 66,000 preferred shares of stock of which 12,223 shares were issued on June 23, 2017 to Ingenuity giving it an 18% interest in ISL and a seat on the board. There are two other individual shareholders holding the remaining 82%. The stock is reported at June 30, 2017 at cost and is a controlling interest that will be reported on the equity method of accounting in subsequent years. The Equity Method requires increasing or decreasing the investment for the shareholder's share of net income or loss. There are to be two more stock issue rounds in which Ingenuity will purchase additional shares of 25,972 and 16,805 that will increase Ingenuity's holdings to 38% and 45%, respectively.

(8) Unearned Revenue

Unearned revenue consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Coding Academy	\$ 158,633	\$ 115,777
Contract & grants	1,254,744	395,065
Cyber Academy	3,408	14,913
Financial Coaching	-	17,500
Gift cards issued	521	-
Open enrollment	9,166	19,091
Total Unearned Revenue	<u>\$ 1,426,472</u>	<u>\$ 562,346</u>

(9) General and Administrative Expenses

General and Administrative expenses consisted of the following for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Capital assets < \$5,000	\$ 114,515	\$ 32,872
Contract labor	567,626	571,182
Course materials	148,279	147,556
Lease expense	102,457	93,391
Other expenses	701,515	424,872
Salaries & benefits	1,411,733	1,456,800
Supplies	50,698	58,088
Total General and Administrative Expenses	<u>\$ 3,096,823</u>	<u>\$ 2,784,761</u>

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Notes to Financial Statements
June 30, 2017 and 2016

(10) Noncancelable Operating Lease

Ingenuity leases several suites in First Plaza Galleria located at 20 First Plaza Center, Albuquerque NM under a 5-year noncancelable lease dated June 15, 2014. The lease expires on June 30, 2019 and contains a 5-year renewal option. The following is a schedule of future minimum lease payments as of June 30, 2017.

	<u>Year ending June 30:</u>	
2018		\$ 96,885
2019		<u>109,132</u>
		<u>\$ 206,017</u>

(11) Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations. Ingenuity concluded that it was appropriate to classify its advance royalty payments as a long-term asset. Previously, such investments had been classified as prepaid expense. This change in classification does not materially affect previously reported cash flows from operations or from financing activities in the Statements of Cash Flows, and had no effect on the previously reported Revenues, Expenses and changes in Net Position Statement for any period.

(12) Related Party Transactions

CNM provides contributed services at no charge to Ingenuity for personnel dedicated partially or fully in support of Ingenuity's operations. The College also allows Ingenuity to occupy office space in its buildings for its administrative and program related activities at no charge.

During the year, Ingenuity reimbursed CNM for salaries of personnel involved in the direct delivery of program services; utilities for the office space occupied and engaged CNM to perform as a sub-awardee under grants. Those payments were \$1,849,298 and \$1,799,058 for the fiscal years ending June 30, 2017 and 2016, respectively.

CNM also engages Ingenuity to perform as a sub-awardee under grants and paid Ingenuity \$893,693 and \$880,724 for the fiscal years ending June 30, 2017 and 2016, respectively.

CNM also provides non-operating funds to Ingenuity for capital asset acquisitions and fund a reserve. There were such transfers amounting to \$1,314,000 during the fiscal year ended June 30, 2017 and none during fiscal year ended June 30, 2016. At June 30, 2017, Ingenuity recorded a non-operating transfer receivable for \$10,500,000 that was received subsequent to year-end. Ingenuity's due to CNM was \$212,012 and \$221,404 at June 30, 2017 and 2016, respectively representing direct program services, utilities and grant expenses.

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Notes to Financial Statements
June 30, 2017 and 2016

(13) Contingencies and Subsequent Events

Contingencies:

There are no significant contingencies that would materially affect the financial position of Ingenuity.

Subsequent Events

On July 7, 2017, Ingenuity purchased 5,000 units in Mendology LLC, a New Mexico limited liability company for \$125,000. Mendology was formed on February 14, 2017 by the developer of massage therapy protocols and inventor of multiple patent pending devices to support the training of licensed massage therapists by providing feedback to the therapist and their patient. Mendology protocols transform subjective massage protocols into objective and evidence based programs increasing the credibility and viability of the massage therapy profession as a medical alternative to medication. Ingenuity will assist in developing a curriculum and licensing program to proliferate this training and the use of the devices as elements of training massage therapists. Ingenuity's units represent a non-controlling 5% ownership in the LLC that has three other members including the developer.

Ingenuity's investment in Mendology will be reported in subsequent financial statements according to the GAAP Equity Method of accounting in subsequent years as required for limited liability companies regardless of control. The Equity Method of accounting requires recording the investment at initial cost and increasing or decreasing the investment by the member's share of net income.

On October 9, 2017, Ingenuity purchased 100,000 shares in OptiPulse, Inc a New Mexico Corporation for \$100,000. OptiPulse has invented a new technology that enables long distance, 10 gigabit data transmission at a fraction of the cost of fiber. Their patented Light Grid technology opens new frontiers in high speed communications for business, consumer, and military markets. Ingenuity and OptiPulse will work together to develop training programs for manufacturing of the OptiPulse products and to develop a distributor training program to train the installation and use of the OptiPulse products. OptiPulse has agreed to partner with CNM and CNM Ingenuity to identify students to help intern, apprentice and work for OptiPulse in manufacturing and business office tasks.

Separate from the investment, OptiPulse has entered a 2-year lease with CNM Ingenuity at CNM Ingenuity's 1008 Coal facility to establish its R&D and first manufacturing production line.

Ingenuity's investment in OptiPulse, Inc. will be reported in subsequent financial statement according to the GAAP Equity Method of accounting in subsequent years as required. The Equity Method of accounting requires recording the investment at initial cost and increasing or decreasing the investment by the member's share of net income.

OTHER INFORMATION

INDEPENDENT AUDITOR'S 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

To the Board of Directors of
CNM Ingenuity, Inc.
and
Mr. Wayne Johnson, 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 CNM Ingenuity, Inc. (Ingenuity) (a nonprofit organization and a component unit of the Central New Mexico Community College), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Ingenuity's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Ingenuity'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ingenuity's internal control. Accordingly, we do not express an opinion on the effectiveness of Ingenuity'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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ingenuity's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Albuquerque, New Mexico
October 31, 2017

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Schedule of Findings and Responses
June 30, 2017 and 2016

No matters were noted.

CNM INGENUITY, INC.
(A Component Unit of Central New Mexico Community College)
Exit Conference
June 30, 2017 and 2016

Exit Conference

An exit conference was held in a closed session on October 19, 2017, to discuss the audit report and current and prior year auditor's comments. The parties agreed to the factual accuracy of the comments contained herein. In attendance were the following individuals:

Representing Central New Mexico Community College Ingenuity

Katherine Ulibarri	CNMI Treasurer/Chair Finance & Audit Committee
Kyle Lee	CNMI Secretary/Executive Director
Kirby Jefferson	Director, CNMI Board of Directors
Samantha Sengel	Chief Advancement & Communications Officer
Wanda Helms	CNM Comptroller

Representing Axiom CPA's.

Jaime Rumbaoa	Partner
Bryan Runyan	Supervisor