



INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Financial Statements

June 30, 2016

(With Independent Auditors' Report Thereon)

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Table of Contents

	Page
Official Roster	1
Independent Auditors' Report	2
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses, and Changes in Net Position	8
Statement of Cash Flows	9
Notes to Financial Statements	10
Required Governmental Reporting:	
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 <i>Government Auditing Standards</i>	15
Schedule of Findings and Responses	17
Exit Conference	19

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Official Roster

June 30, 2016

Officers

Mr. Terry Laudick	Chair
Ms. Pat Vincent-Collawn	Vice Chair
Mr. Charles Wellborn	Secretary/Treasurer

Committee Chairs

Mr. Terry Laudick	Chair – Oversight of Development Framework Committee
Dr. Waneta Tuttle	Chair – Development Plan Committee
Mr. Jeff Apodaca	Chair – Enhance Access to Capital Committee
Ms. Jessica Eaves Mathews	Chair – Ensure Operational Viability Committee
Mr. Charles Wellborn	Chair – Bylaws/Governance/MOUs/MOAs Committee
Mr. Carlos Perea	Chair – CEO Search Committee

Board Members

Mr. Jeff Apodaca	Mr. Carlos Perea
The Honorable Richard J. Berry	The Honorable John Sanchez
Dr. Robert Frank	Mr. Lonnie C. Talbert
Mr. David W. Harris	Ms. Pat Vincent-Collawn
Mr. Richard Larson	Dr. Waneta Tuttle
Mr. Terry Laudick	Mr. Charles Wellborn
Ms. Jessica Eaves Mathews	Dr. Katharine Winograd



KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

Independent Auditors' Report

The Board of Directors
Innovate ABQ, Inc.
and
Mr. Timothy Keller
New Mexico State Auditor:

Report on the Financial Statements

We have audited the accompanying financial statements of Innovate ABQ, Inc. (Innovate ABQ), a component unit of the University of New Mexico, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Innovate ABQ'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 U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 Innovate ABQ as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Required Supplementary Information

U.S. generally accepted accounting principles require that management’s discussion and analysis on pages 4 through 6 be presented to supplement the 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 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 financial statements, and other knowledge we obtained during our audit of the 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2016 on our consideration of Innovate ABQ’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 Innovate ABQ’s internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
November 9, 2016

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

This management's discussion and analysis (MD&A) provides an overview of the financial position and activities of Innovate ABQ, Inc. (Innovate ABQ) as of June 30, 2016 and for the year then ended. As fiscal year 2016 is the first full year of operations for Innovate ABQ, no prior year comparative information is available. This discussion should be read in conjunction with the accompanying financial statements and notes. Management has prepared the basic financial statements and the related note disclosures along with this discussion and analysis. As such, the financial statements, notes, and this discussion are the responsibility of Innovate ABQ's management.

Overview of the Basic Financial Statements

The statement of net position of Innovate ABQ provides both long-term and short-term information about Innovate ABQ's overall financial position. The statement of revenues, expenses, and changes in net position provides information about the operating revenues and expenses, the nonoperating revenues and expenses, and other changes in net position of Innovate ABQ. The statement of cash flows provides information related to the cash inflows and outflows of Innovate ABQ. The notes to the basic financial statements provide more detailed information about amounts reported in the basic financial statements.

Condensed Financial Information

Innovate ABQ's condensed financial information as of June 30, 2016 and the year then ended is provided in the following table:

Current assets	\$	86,824
Capital assets, net		6,884,654
Total assets		<u>6,971,478</u>
Current liabilities		187
Net position		<u>6,971,291</u>
Total liabilities and net position	\$	<u>6,971,478</u>
Operating revenues	\$	22,425
Operating expenses		<u>268,647</u>
Operating loss		(246,222)
Nonoperating revenue		268,835
Capital contribution		<u>6,948,678</u>
Change in net position		6,971,291
Net position, beginning of year		<u>—</u>
Net position, end of year	\$	<u>6,971,291</u>

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

Statement of Net Position

Assets – As of June 30, 2016, Innovate ABQ has total assets in the amount of \$6,971,478, which primarily consists of \$85,859 of cash, none of which is restricted, and \$6,884,654 of capital assets, net. All cash is held in an operating bank account at a financial institution. Cash receipts in fiscal year 2016 primarily consisted of receipts related to a parking lot leased to a third party by Innovate ABQ, and the receipt of cash transferred to Innovate ABQ by STC.UNM as part of the contribution in November 2015.

Liabilities and Net Position – Innovate ABQ's net position of \$6,971,291 at June 30, 2016 was allocated between unrestricted net position of \$86,637 and net position invested in capital assets of \$6,884,654.

Statement of Revenues, Expenses, and Changes in Net Position

Revenues – During the fiscal year ended June 30, 2016, Innovate ABQ generated operating revenues in the amount of \$22,425, which primarily consisted of parking lot lease revenue. Innovate ABQ generated nonoperating revenue in the amount of \$268,835, which was a contribution from STC.UNM to establish Innovate ABQ, consisting of cash, grant receivable, and prepaid expenses. In addition, Innovate ABQ received a capital contribution in the amount of \$6,948,678 from STC.UNM, consisting of land and buildings. Additional information about the contribution from STC.UNM can be found in footnote 4 to the financial statements.

Expenses – Total operating expenses of \$268,647 were incurred during the fiscal year ended June 30, 2016, primarily related to project costs incurred in the establishment of the corporation.

Capital Assets

Innovate ABQ had capital assets, net as of June 30, 2016 of \$6,884,654. The capital assets include seven acres of lands and two buildings at 101 Broadway NE, Albuquerque, NM. During the fiscal year ended June 30, 2016, Innovate ABQ incurred \$64,025 of depreciation expense. Additional information concerning Innovate ABQ's capital assets may be found in footnote 5 to the financial statements.

Factors Impacting Future Periods

Innovate ABQ is currently involved, through an outside developer, in the development and construction of a new building to support innovation within New Mexico. The new building will house STC.UNM and the Innovation Academy once construction has been completed. The new facility will also house dorm rooms for UNM upper-level students. This project is being accomplished in collaboration with UNM, the City of Albuquerque, Nusenda Credit Union, the Economic Development Administration, Bernalillo County, Central New Mexico Community College, private companies, and start-ups. It is scheduled to be completed in August 2017. Upon completion, the property will be transferred by ground lease to the University of New Mexico.

Contacting Innovate ABQ's Financial Management

This report is meant to accurately describe the financial condition and position of Innovate ABQ.

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2016

(Unaudited)

If you have questions about this report or need additional financial information, contact:

Innovate ABQ, Inc.
801 University Boulevard SE, Suite 207
Albuquerque, New Mexico 87106-4345

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Statement of Net Position

June 30, 2016

Assets

Current assets:		
Cash on deposit with bank	\$	85,859
Accounts receivable		<u>965</u>
Total current assets		<u>86,824</u>
Capital assets:		
Land		3,957,684
Buildings		3,133,320
Accumulated depreciation		<u>(206,350)</u>
Total capital assets, net		<u>6,884,654</u>
Total assets	\$	<u><u>6,971,478</u></u>

Liabilities and Net Position

Current liabilities:		
Accounts payable	\$	<u>187</u>
Total current liabilities		<u>187</u>
Net position:		
Unrestricted		86,637
Investment in capital assets		<u>6,884,654</u>
Total net position		<u>6,971,291</u>
Total liabilities and net position	\$	<u><u>6,971,478</u></u>

See accompanying notes to financial statements.

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)
Statement of Revenues, Expenses, and Changes in Net Position
Year ended June 30, 2016

Operating revenues:		
Lease revenue		\$ <u>22,425</u>
Total operating revenues		<u>22,425</u>
Operating expenses:		
Project expense		141,221
Operations expense		63,401
Depreciation		<u>64,025</u>
Total operating expenses		<u>268,647</u>
Operating loss		(246,222)
Nonoperating revenue:		
Contributions from STC.UNM		<u>268,835</u>
Total nonoperating revenue		<u>268,835</u>
Change in net position before capital contribution		22,613
Capital contribution		<u>6,948,678</u>
Change in net position		6,971,291
Net position, beginning of year		<u>—</u>
Net position, end of year		<u><u>\$ 6,971,291</u></u>

See accompanying notes to financial statements.

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)
Statement of Cash Flows
Year ended June 30, 2016

Cash flows from operating activities:	
Payments to suppliers of goods or services	\$ (196,158)
Receipts for rental income	22,425
Net cash used in operating activities	<u>(173,733)</u>
Cash flows from noncapital financing activities:	
Receipt of cash from STC.UNM	229,631
Receipts for EDA grants receivable	29,961
Net cash provided by noncapital financing activities	<u>259,592</u>
Net increase in cash and cash equivalents	85,859
Cash and cash equivalents, beginning of year	<u>—</u>
Cash and cash equivalents, end of year	<u><u>\$ 85,859</u></u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (246,222)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Noncash transfer of prepaid asset from STC.UNM	9,242
Change in accounts payable	187
Change in accounts receivable	(965)
Depreciation expense	64,025
Net cash used in operating activities	<u><u>\$ (173,733)</u></u>
Noncash item:	
Capital asset contribution	\$ 6,948,678

See accompanying notes to financial statements.

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Notes to the Financial Statements

June 30, 2016

(1) Description of Business

Innovate ABQ, Inc. (Innovate ABQ), a discretely presented component unit of The University of New Mexico (UNM), is owned, controlled, and was established by UNM's Board of Regents. The governing board consists of at least three members, appointed by the Board of Regents.

Innovate ABQ was incorporated in the State of New Mexico on October 29, 2014 under Section 503(c)(3) of the Internal Revenue Code. It was incorporated under the State of New Mexico's University Research Park and Economic Development Act.

Innovate ABQ was created as a public/private partnership for the development of an innovation district located synergistically between the main UNM campus and downtown Albuquerque, New Mexico. The Innovation district project (the Project) includes the acquisition of real estate and the subsequent planning for and development of this real estate into a research and high technology business district that will serve as a catalyst for a new innovation economy in New Mexico and for other educational initiatives for the University. The vision for the Project is the creation of an integrated, highly connected technology community that will foster innovation, technological advancement, and entrepreneurial activity. The community will include compatible research and commercial labs, science and technology companies, educational programs, business services, support services, commercial and retail businesses, residential living space, and related facilities. A goal of the Project is to create a one-stop-shop environment for companies, entrepreneurs and investors in an innovation community connected to the University and to downtown Albuquerque. The Project will encourage, bolster and enhance innovative economic development, job creation, and technology creation and transfer. It will also strengthen the economic base of Albuquerque through business and job creation and improve the lives and economic well-being of the citizens of the City of Albuquerque and the students, faculty and graduates of UNM.

Under Article III, Section (b) of the Articles of Incorporation of Innovate ABQ, Innovate ABQ was organized and is to be operated for the benefit of, to perform functions of, and to carry out the purposes of UNM. UNM desires that Innovate ABQ serve as the lead organization for the development project in accordance with the terms and conditions of the Memorandum of Agreement between the Regents of the University of New Mexico and Innovate ABQ.

Under the Memorandum of Agreement between the UNM Regents and Innovate ABQ signed on June 12, 2015, Innovate ABQ may plan, direct, and coordinate its business activities in accordance with a mutually agreed-upon development proposal and development agreement between Innovate ABQ and UNM.

Primary activities performed by Innovate ABQ during the fiscal year ended June 30, 2016 focused on efforts to develop and construct Phase I of the Lobo Rainforest building.

From the inception of the Project in fiscal year 2014 to November 20, 2015, STC.UNM, a component unit of UNM, was charged by the University of New Mexico to support the creation of the Innovate ABQ project. Additional information about the contribution from STC.UNM on November 20, 2015 can be found in note 4.

Innovate ABQ does not have any component units.

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Notes to the Financial Statements

June 30, 2016

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Accounting and Presentation

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles. The significant accounting policies are summarized below.

Innovate ABQ's financial statements comply with the accounting disclosure and reporting requirements under Governmental Accounting Standards Board (GASB) pronouncements, as Innovate ABQ meets the criteria of a governmental entity.

Innovate ABQ's financial statements are reported using a flow of economic resources measurement focus and the full accrual basis of accounting. Accordingly, lease revenues are recognized when they are earned and contributions when any applicable eligibility requirements have been met. Expenses are recognized as soon as a liability is incurred.

Operating revenues and expenses are those incurred that relate directly to project management services. All other revenues and expenses are considered nonoperating. Innovate ABQ's revenue for the fiscal year ended June 30, 2016 originated from the following sources: (1) parking lot lease, and (2) contributions from STC.UNM. Parking lot lease revenue was recognized for the period beginning November 2015 and ending March 2016.

The accompanying financial statements include only the accounts of Innovate ABQ.

(b) Net Position

For accounting and reporting purposes, Innovate ABQ reports its net position in the following net asset categories as applicable:

- Net investment in capital assets is intended to reflect the portion of net position that is associated with nonliquid capital assets less outstanding capital asset-related debt. The Corporation does not have any debt related to its capital assets.
- Unrestricted net position represents the remaining net position not considered net investment in capital assets.

(c) Use of Estimates

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the financial statement dates and the reported amounts of revenues and expenses during the reporting period. Due to uncertainties inherent in the estimation process, actual results could differ from those estimates.

(d) Cash and Cash Equivalents

For purposes of the statement of cash flows, Innovate ABQ considers cash and cash equivalents to be cash deposits and amounts held by its fiscal agent.

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Notes to the Financial Statements

June 30, 2016

(e) Income Taxes

Innovate ABQ has received a determination letter from the Internal Revenue Service (IRS) that it is an organization described in Internal Revenue Code Section 501(c)(3). As such, it would be exempt from federal income tax on income generated from activities related to its exempt function. Innovate ABQ has no unrelated business income during the fiscal year ended June 30, 2016.

(f) Capital Assets

Purchased capital assets are recorded at original cost. Capital assets acquired in the capital contribution from STC.UNM were recorded at STC.UNM's carrying value. In accordance with New Mexico State Statute, Section 12-6-10, NMSA 1978, Innovate ABQ's capitalization policy for moveable equipment includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings and infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Items with a cost of less than \$5,000 are expensed in the year of acquisition. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which is generally 30 years for buildings.

(g) Accounting Standards

During the fiscal year ended June 30, 2016, Innovate ABQ adopted GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76), which supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 identifies the hierarchy of general accepted accounting principles for state and local governments.

(3) Cash

Innovate ABQ's cash balance includes cash on deposit with a financial institution. Innovate ABQ has no statutory policy requirements related to cash 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. At June 30, 2016, the bank balance and the book balance in Innovate ABQ's checking account with Bank of Albuquerque were \$151,432 and \$85,859, respectively. Of the bank balance, the entire amount is insured by the Federal Deposit Insurance Corporation.

(4) Related-Party Transactions

Effective June 12, 2015, UNM and Innovate ABQ entered into a Memorandum of Agreement (MOA) containing the expectations and performance obligations that UNM is seeking from Innovate ABQ. Pursuant to the MOA, UNM provides to Innovate ABQ, at no cost to Innovate ABQ, office facilities, general business support, staff, and certain other support. Revenues and expenses have not been recorded in the accompanying basic financial statements for this support. The MOA may be terminated by UNM, at which point all property of Innovate ABQ shall be transferred to UNM or other successor organization designated by resolution of the UNM Board of Regents.

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Notes to the Financial Statements

June 30, 2016

On November 20, 2015, Innovate ABQ received a capital contribution of land and buildings located at 101 Broadway Boulevard NE, and a non-capital asset contribution of cash, grant receivable, and prepaid insurance from STC.UNM. The capital contribution from STC.UNM totaled \$6,948,678, which consisted of \$3,957,684 for the land and \$2,990,994 for the building. The non-capital asset contribution from STC.UNM totaled \$268,835, which consisted of \$29,961 for the grant receivable, \$229,631 for the cash, and \$9,243 in prepaid insurance. These assets were recorded at STC.UNM's carrying value at the date of transfer.

Innovate ABQ did not purchase goods and services of companies that board members are employed by during the fiscal year ended June 30, 2016.

(5) Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	<u>Balance at June 30, 2015</u>	<u>Additions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2016</u>
Land	\$ —	3,957,684	—	3,957,684
Capital assets being depreciated:				
Buildings	—	3,133,320	—	3,133,320
Accumulated depreciation	—	(206,350)	—	(206,350)
Capital assets, net	<u>\$ —</u>	<u>6,884,654</u>	<u>—</u>	<u>6,884,654</u>

(6) Contingencies

Innovate ABQ is insured under the UNM's Risk Management for general liability insurance, and through a private carrier for property insurance.

In April 2016, Innovate ABQ filed an Application for Exemption of Property Tax for Non-Governmental Entities with the Bernalillo County Assessor's office claiming an exemption from property taxes on the Corporation's real estate. In August 2016, the Bernalillo County Assessor issued a letter denying the Corporation's claimed exemption. As a result of the denial, the County has issued a property tax bill to Innovate ABQ based upon the assessed value of the real estate on January 1, 2016. Innovate ABQ believes that the real estate is exempt from taxation and intends to vigorously pursue the exemption. No reserve related to this issue has been recorded in the June 30, 2016 financial statements.

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)

Notes to the Financial Statements

June 30, 2016

(7) Subsequent Events

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is November 9, 2016.



KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

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*

The Board of Directors
Innovate ABQ, Inc.
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 Innovate ABQ, Inc. (Innovate ABQ), a component of the University of New Mexico, which comprise the statement of net position as of June 30, 2016, and the related statement of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Innovate ABQ'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 Innovate ABQ's internal control. Accordingly, we do not express an opinion on the effectiveness of Innovate ABQ's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses at item 2016-001 to be a material weakness.

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. We did not identify any deficiencies in internal control that we consider to be significant deficiencies.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Innovate ABQ'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*.

Management's Response to the Finding

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

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

KPMG LLP

Albuquerque, New Mexico
November 9, 2016

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)
Exit Conference

Findings – Financial Statement Audit

Prior Year

N/A

Current Year

2016-001 Journal Entry Review Process

Other Findings as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978

Prior Year

N/A

Current Year

N/A

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)
Exit Conference

2016-001 Journal Entry Review Process – Material Weakness

Condition and Criteria

All organizations should establish effective control procedures over the review and approval of journal entries.

During the fiscal year ended June 30, 2016, the journal entries made related to the contribution from STC.UNM to Innovate ABQ, Inc. were not adequately reviewed by management. This resulted in two incorrect journal entries being posted which led to a material misstatement in contributions revenue of \$259,243 that was not detected by management.

Effect

The lack of proper review and approval of journal entries surrounding this transaction resulted in a material misstatement.

Cause

Innovate ABQ's journal entry review control is not operating effectively as the review and approval of the journal entries related to the contribution did not identify the two incorrect journal entries.

Recommendation

We recommend that Innovate ABQ ensure that all journal entries are subject to review and approval by management at an appropriate level of detail ensure entries are recorded correctly and in accordance with the applicable accounting literature.

Management's Response

The following operating procedure has been agreed to between the bookkeeper and the Interim President of the corporation. The Interim President will review and approve each manual journal entry prior to entry by the bookkeeper. In addition, the Interim President will review journal entry reports each month to ensure accurate manual entries. All manual journal entries and approvals will be maintained in the appropriate "Journal Entries" file for each fiscal year.

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)
Exit Conference

An exit conference was held on October 17, 2016. During this meeting, the contents of this report were discussed with the following individuals:

Innovate ABQ, Inc.

Terry Laudick	Interim President/Board Chair
Keelie L. Garcia	Administrative Operations Manager
Pat Vincent-Collawn	Vice Chair
Charles Wellborn	Secretary/Treasurer
Katherine Winograd	Board Member

KPMG LLP

Suzette Longfellow	Managing Director
Ruth Senior	Senior Associate

Innovate ABQ, Inc. is responsible for the contents of the financial statements. KPMG LLP assisted with the preparation of the financial statements.