

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

Financial Statements

June 30, 2017 and 2016

(With Report of Independent Auditors Thereon)

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

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

Official Roster

June 30, 2017

(unaudited)

Board Members

Mr. Jeff Apodaca

The Honorable Richard J. Berry

Dr. Chaouki Abdallah

Mr. David W. Harris

Mr. Richard Larson

Mr. Terry Laudick

Mr. Carlos Perea

The Honorable John Sanchez

Mr. Lonnie C. Talbert

Ms. Pat Vincent-Collawn

Dr. Waneta Tuttle

Mr. Charles Wellborn

Dr. Katharine Winograd



REPORT OF INDEPENDENT AUDITORS

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, which comprise the statements of net position as of June 30, 2017 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Innovate ABQ's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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

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

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, 2017, and the changes in its net position and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Year Financial Statements

The financial statements of Innovate ABQ as of June 30, 2016 were audited by other auditors whose report dated November 9, 2016, expressed an unmodified opinion on those statements.

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 5 through 7 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.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017 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.

Mess Adams LLP

Albuquerque, New Mexico
October 18, 2017

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

Management's Discussion and Analysis

June 30, 2017

(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, 2017 and 2016. As fiscal year 2016 was the first full year of operations for Innovate ABQ, no fiscal year 2015 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 and the nonoperating revenues and expenses 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.

Financial Information

Innovate ABQ's condensed financial information as of and for the fiscal years ended June 30, 2017 and 2016 is provided in the following table:

	2017	2016
Current assets	\$ 1,182,491	86,824
Net capital assets	6,920,667	6,884,654
Total assets	\$ 8,103,158	6,971,478
Current liabilities	\$ 27,953	187
Net position	8,075,205	6,971,291
Total liabilities and net assets	\$ 8,103,158	6,971,478
Operating revenue	\$ 1,566,821	22,425
Operating expenses	518,997	268,647
Operating income (loss)	1,047,824	(246,222)
Nonoperating revenue	56,090	268,835
Capital contribution	—	6,948,678
Change in net position	1,103,914	6,971,291
Net position, beginning of year	6,971,291	—
Net position, end of year	\$ 8,075,205	6,971,291

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

Management's Discussion and Analysis

June 30, 2017

(unaudited)

Statement of Net Position

Assets – As of June 30, 2017 Innovate ABQ had cash in the amount of \$1,177,268, of which \$100,000 is restricted cash. As of June 30, 2016, cash was \$85,859. All cash is held in an operating bank account at a financial institution. Cash increased primarily due to donations received for the FUSE Makerspace building and a ground lease payment.

Liabilities and Net Position – Innovate ABQ's net position of at June 30, 2017 and 2016 was allocated between unrestricted, restricted, and net investment in capital assets.

Statement of Revenues, Expenses, and Changes in Net Position

Revenues – During the fiscal year ended June 30, 2017, Innovate ABQ generated operating revenue in the amount of \$1,566,821, which included donations for the renovation of a Makerspace building and building lease revenue. During the fiscal year ended June 30, 2016, Innovate ABQ generated operating revenue in the amount of \$22,425, which primarily consisted of parking lot lease revenue. Nonoperating revenue in the amount of \$56,090 and \$268,835, during the fiscal years ended June 30, 2017 and 2016, respectively, was a gain on the disposal of a portion of a building and a contribution from STC.UNM to establish Innovate ABQ in 2016.

Expenses – Total operating expenses for fiscal year ended June 30, 2017 was \$518,997. This was an increase of \$250,350 due to the payment for property taxes and increased operations expenses such as audit fees, legal fees, and rent. Total operating expenses in 2016 were \$268,647, primarily related to project costs incurred in the establishment of the corporation.

Capital Assets

Innovate ABQ had net capital assets as of June 30, 2017 and 2016 of \$6,920,667 and \$6,884,654, respectively. The capital assets include seven acres of land and two buildings at 101 Broadway NE, Albuquerque, NM. During the year ended June 30, 2017 and 2016, Innovate ABQ incurred \$93,405 and \$64,025, respectively, 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, Lobo Rainforest, will house STC.UNM and the Innovation Academy once construction has been completed. The new facility will also house dorm rooms for upper-level UNM 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.

Innovate ABQ is also currently involved, through an outside developer, in developing and leasing one of the two buildings at 101 Broadway NE, Albuquerque, NM. A development completion date has not been determined.

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

Management's Discussion and Analysis

June 30, 2017

(unaudited)

Anticipated revenue sources for 2018 include continued funding from Bernalillo County, continued donations for the Makerspace building, and rent from the new Lobo Rainforest building.

Contacting Innovate ABQ's Financial Management

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

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)

Statements of Net Position

Years ended June 30, 2017 and 2016

Assets	<u>2017</u>	<u>2016</u>
Current assets:		
Cash	\$ 1,077,268	85,859
Restricted cash	100,000	—
Accounts receivable	—	965
Prepaid insurance	5,223	—
Total current assets	<u>1,182,491</u>	<u>86,824</u>
Capital assets:		
Construction in progress	538,179	—
Land	3,957,684	3,957,684
Buildings	2,691,760	3,133,320
Less accumulated depreciation	<u>(266,956)</u>	<u>(206,350)</u>
Net capital assets	<u>6,920,667</u>	<u>6,884,654</u>
Total assets	<u>\$ 8,103,158</u>	<u>6,971,478</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 2,953	187
Security deposit liability	<u>25,000</u>	<u>—</u>
Total current liabilities	<u>27,953</u>	<u>187</u>
Net position:		
Net investment in capital assets	6,920,667	6,884,654
Restricted	100,000	—
Unrestricted	<u>1,054,538</u>	<u>86,637</u>
Total net position	<u>\$ 8,075,205</u>	<u>6,971,291</u>

See accompanying notes to financial statements.

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Donations	\$ 1,469,553	—
Reimbursement revenue	17,907	—
Lease revenue	79,361	22,425
Total operating revenues	1,566,821	22,425
Operating expenses:		
Operations expense	268,437	63,401
Project expense	157,155	141,221
Depreciation expense	93,405	64,025
Total operating expenses	518,997	268,647
Operating income (loss)	1,047,824	(246,222)
Nonoperating revenue:		
Gain on disposal of capital assets	56,090	—
Contributions from STC.UNM	—	268,835
Total nonoperating revenue	56,090	268,835
Change in net position before capital contribution	1,103,914	22,613
Capital contribution	—	6,948,678
Change in net position	1,103,914	6,971,291
Net position, beginning of year	6,971,291	—
Net position, end of year	\$ 8,075,205	6,971,291

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Payments to suppliers of goods or services	\$ (428,049)	(196,158)
Donations	1,469,553	—
Receipts for lease income	104,361	22,425
Receipts for reimbursement revenue	18,872	—
Net cash provided by (used in) operating activities	1,164,737	(173,733)
Cash flows from capital and related financing activities:		
Construction of capital assets	(538,179)	—
Disposal of capital assets	464,851	—
Capital contributions	—	—
Receipt of cash from STC.UNM	—	229,631
Receipts for EDA grants receivable	—	29,961
Net cash (used in) provided by capital and related financing activities	(73,328)	259,592
Net increase in cash	1,091,409	85,859
Cash, beginning of year	85,859	—
Cash, end of year	\$ 1,177,268	85,859
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 1,047,824	(246,222)
Depreciation expense	93,405	64,025
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Noncash transfer of prepaid asset from STC.UNM	—	9,242
Change in accounts receivable	965	(965)
Change in prepaid insurance	(5,223)	—
Change in accounts payable	2,766	187
Change in security deposit liability	25,000	—
Net cash provided by (used in) operating activities	\$ 1,164,737	(173,733)
Noncash items:		
Capital asset contribution	\$ —	6,948,678
Reconciliation of cash to the statement of net position		
Cash, unrestricted	\$ 1,077,268	85,859
Cash, restricted	100,000	—
Cash on statement of cash flows	\$ 1,177,268	85,859

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

Notes to the Financial Statements

June 30, 2017

(1) Description of Business

Innovate ABQ, Inc. (Innovate ABQ), a component unit of The University of New Mexico (UNM), is owned, controlled, and was established by UNM's Board of Regents.

Innovate ABQ was incorporated in the State of New Mexico on October 29, 2014. 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, Inc., 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, Inc.

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 year ended June 30, 2017 focused on efforts to develop and construct Phase I of the Lobo Rainforest building, renovation of the Makerspace building, and efforts to renovate and lease one of the two buildings at 101 Broadway NE, Albuquerque, NM.

Innovate ABQ does not have any component units.

(2) Summary of Significant Accounting Policies and Practices

(a) Basis of Accounting and Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies are summarized below.

INNOVATE ABQ, INC.
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Notes to the Financial Statements

June 30, 2017

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, revenues are recognized when they are earned and 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.

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, net of accumulated depreciation, 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.
- Restricted net position represents assets whose use is restricted.
- Unrestricted net position represents liquid assets available for use.

(c) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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 a financial institution.

(e) Revenue Recognition

Innovate ABQ's revenue for the fiscal year ended June 30, 2017 originated from the following sources: (1) agreement with the City of Albuquerque, (2) Bernalillo County grant, (3) lease revenue, and (4) donations for the FUSE Makerspace building. Revenue for fiscal year ended June 30, 2016 originated from the following sources: (1) parking lot lease, and (2) capital contributions from STC.UNM. Revenue is recognized when earned and when any applicable eligibility requirements have been met.

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

Notes to the Financial Statements

June 30, 2017

(f) 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 period from Inception through June 30, 2017.

(g) Capital Assets

Capital assets are recorded at original cost. 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.

(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, 2017, the bank balance and the book balance in Innovate ABQ's checking account with Bank of Albuquerque were \$1,488,698 and \$1,177,268, respectively. 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, \$250,000 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. 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.

On April 1, 2016, Innovate ABQ and Lobo Development Corporation (Lobo Development) entered into a Memorandum of Agreement (MOA) containing arrangements for Lobo Development to provide bookkeeping and operations management services to Innovate ABQ on an as-needed basis. Pursuant to the MOA, Innovate ABQ will pay Lobo Development \$20,000 per year for these services for the year ended June 30, 2017, and \$25,000 per year thereafter. The MOA may be terminated by either Innovate ABQ or Lobo Development.

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

Notes to the Financial Statements

June 30, 2017

Innovate ABQ did not purchase goods and services of companies that board members are employed by during the period from Inception through June 30, 2017.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows:

	<u>Balance at June 30, 2016</u>	<u>Additions/ completions</u>	<u>Retirements/ disposals</u>	<u>Balance at June 30, 2017</u>
Construction in progress	\$ —	538,179	—	538,179
Land	3,957,684	—	—	3,957,684
Capital assets being depreciated:				
Buildings	3,133,320	—	(441,560)	2,691,760
Accumulated depreciation	(206,350)	(93,405)	32,799	(266,956)
Net capital assets	<u>\$ 6,884,654</u>	<u>444,774</u>	<u>(408,761)</u>	<u>6,920,667</u>

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

	<u>Balance at June 30, 2015</u>	<u>Additions/ completions</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)
Net capital assets	<u>\$ —</u>	<u>6,884,654</u>	<u>—</u>	<u>6,884,654</u>

(6) Commitments and Contingencies

Innovate ABQ, through UNM, participates in the State of New Mexico Risk Management Program (Risk Management) that provides general liability at Innovate ABQ's expense. Property insurance is provided by a private company at Innovate ABQ's expense.

On June 12, 2015, Innovate ABQ and the County of Bernalillo, New Mexico, entered into a Memorandum of Understanding (MOU) for grant funding to be provided to Innovate ABQ by the County. The MOU contains a "clawback" provision, which would be triggered in the event that Innovate ABQ disposes of covered real estate through (1) the sale or other transfer to a third party other than (a) an affiliate of Innovate ABQ or (b) the City of Albuquerque, or (2) the unauthorized use of the real estate. If the "clawback" provision is triggered, Innovate ABQ would be required return a portion of the received grant funding. Management has no intention to dispose of, or enact unauthorized use of, the covered real estate.

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

INNOVATE ABQ, INC.
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Notes to the Financial Statements

June 30, 2017

Corporation's claimed exemption. As a result of the denial, the County issued a property tax bill to Innovate ABQ based upon the assessed value of the real estate on January 1, 2016. Innovate ABQ paid taxes under protest in the amount of \$40,365 to the Bernalillo County Assessor for the 2016 tax bill. Innovate ABQ believes that the real estate is exempt from taxation and intends to continue to pursue the exemption.

On July 7, 2016, Innovate ABQ and Signet iABQ LLC entered into a Ground Lease. Per the Ground Lease, Innovate ABQ leased the property located at 101 Broadway NE, Albuquerque, NM to Signet iABQ LLC to design, develop, and construct a building. The Ground Lease has a thirty-year term, which begins effective August 15, 2017. On July 8, 2016, Signet iABQ LLC and UNM entered into a Master Lease. Per the Master Lease, Signet iABQ LLC will lease the property located at 101 Broadway NE, Albuquerque, NM to UNM upon completion of the building. The Master Lease has a thirty-year term, which begins effective August 15, 2017. On May 17, 2017, Innovate ABQ and UNM entered into a Development Agreement, which covers the specifications for the development of the ground and building located at 101 Broadway NE, Albuquerque, NM. Based on the terms of the Development Agreement, after the termination of the Master Lease between UNM and Signet iABQ LLC, Innovate ABQ and UNM will enter into a Successor Ground Lease for a thirty-year term for the property located at 101 Broadway NE, Albuquerque, NM.

Innovate ABQ, in the normal course of business, is subject to claims and litigation. Management believes that there are no outstanding claims or assessments against Innovate ABQ which would be subject to a material unfavorable outcome.

Memorandum of Understanding (MOU) – Fuse Makerspace

On January 5, 2017, Innovate ABQ, CNM Ingenuity, Inc., and Goodman iABQ, Inc., entered into a Memorandum of Understanding (MOU). Under the MOU, CNM Ingenuity has committed to relocate the Fuse Makerspace program to Innovate ABQ's Noonday Building. Innovate ABQ has committed to use up to \$100,000 in donations received for the relocation of Fuse Makerspace and redevelopment of the Noonday Building to relocate Fuse Makerspace's capital assets and office equipment to the Noonday Building. The \$100,000 is classified as restricted cash in the accompanying financial statements.

(7) Subsequent Events

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is October 18, 2017.

**REPORT OF INDEPENDENT AUDITORS 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, 2017, 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 October 18, 2017.

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.

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

Our consideration of 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2017-001 that we consider to be material weaknesses.

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

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*.

Innovate ABQ's Response to Findings

Innovate ABQ's response to the findings identified in our audit are 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 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 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.

Mess Adams LLP

Albuquerque, New Mexico
October 18, 2017

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses

2017-001 Capital Assets – Material Weakness

Condition

During the fiscal year ended June 30, 2017, the construction costs related to a building renovation were recorded as an expense, rather than capitalized to construction in process. This resulted in an overstatement of expense, and an understatement of capital assets of \$538,179. An audit adjustment was required to correct the balances.

Additionally, during the fiscal year ended June 30, 2017, a portion of a building was demolished. The demolition was not recorded as a disposal, and after demolition the portion of the building continued to be depreciated. Innovate ABQ received a payment of \$464,851 related to the disposal of the capital asset, the full amount of which was recorded as revenue, rather than offset by the disposal of the cost basis of the capital asset and related accumulated depreciation. This resulted in an overstatement of lease revenue of \$464,851, overstatement of capital assets of \$441,560, overstatement of accumulated depreciation of \$43,839, overstatement of depreciation expense of \$11,039, and an understatement of nonoperating revenue of \$56,090. An audit adjustment was required to correct the balances.

Criteria

All organizations should establish and implement effective internal control procedures over capital assets to ensure that additions and disposals are identified and recorded.

Effect

Capital asset additions and disposals were not properly recorded, which resulted in audit adjustments.

Cause

Innovate ABQ was operating on a cash basis and did not properly implement financial close and reporting procedures in order to properly identify capital asset additions and disposals.

Recommendation

We recommend that Innovate ABQ update their internal control procedures to ensure that all capital asset additions and disposals are identified and properly recorded.

Management's Response

Innovate ABQ, Inc. will retain an outside accounting firm annually to review and ensure that all capital asset additions and disposals are identified and properly recorded. This will be completed by June 2018.

Person responsible: Administrative Operations Manager

INNOVATE ABQ, INC.
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings

Prior Year Finding – 2016-001 Journal Entry Review Process – Material Weakness

Current Status: Resolved

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

An exit conference was held on September 14, 2017. During this meeting, the contents of this report were discussed with the following individuals:

Innovate ABQ, Inc.

Terry Laudick	Interim President/Board Chair
Chuck Wellborn	Secretary/Treasurer
Keelie L. Garcia (via phone)	Administrative Operations Manager

Moss Adams LLP

Lisa Todd	Partner
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Innovate ABQ is responsible for the contents of the financial statements. Moss Adams LLP assisted with the preparation of the financial statements.