



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

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

June 30, 2018 and 2017

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Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Official Roster (unaudited)
June 30, 2018

Board Members

Mr. Jeff Apodaca

Mr. David W. Harris

The Honorable Tim Keller

Dr. Richard Larson

Mr. Terry Laudick

Mr. Carlos Perea

The Honorable John Sanchez

Dr. Garnett Stokes

Mr. Lonnie C. Talbert

Dr. Waneta Tuttle

Ms. Pat Vincent-Collawn

Mr. Charles Wellborn

Dr. Katharine Winograd

Report of Independent Auditors

The Board of Directors
Innovate ABQ, Inc.
and
Mr. Wayne A. Johnson, 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, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, 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 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 audits. We conducted our audits 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 audits 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 Innovate ABQ as of June 30, 2018 and 2017, and the 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 the management's discussion and analysis on pages 4 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2018 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 solely 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 effectiveness of Innovate ABQ's 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
September 14, 2018

Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2018
(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, 2018, 2017, and 2016. 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 non-operating 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, 2018, 2017, and 2016 is provided in the following table:

	2018	2017	2016
Current assets	\$ 729,421	\$ 1,182,491	\$ 86,824
Net capital assets	7,453,479	6,920,667	6,884,654
Total assets	<u>\$ 8,182,900</u>	<u>\$ 8,103,158</u>	<u>\$ 6,971,478</u>
Current liabilities	<u>\$ 117,320</u>	<u>\$ 27,953</u>	<u>\$ 187</u>
Net investment in capital assets	\$ 7,453,479	\$ 6,920,667	\$ 6,884,654
Restricted	-	100,000	-
Unrestricted	612,101	1,054,538	86,637
Total net position	<u>8,065,580</u>	<u>8,075,205</u>	<u>6,971,291</u>
Total liabilities and net position	<u>\$ 8,182,900</u>	<u>\$ 8,103,158</u>	<u>\$ 6,971,478</u>
Operating revenue	\$ 839,079	\$ 1,566,821	\$ 22,425
Operating expenses	848,704	518,997	268,647
Operating (loss) income	(9,625)	1,047,824	(246,222)
Nonoperating revenue	-	56,090	268,835
Capital contribution	-	-	6,948,678
Change in net position	(9,625)	1,103,914	6,971,291
Net position, beginning of year	8,075,205	6,971,291	-
Net position, end of year	<u>\$ 8,065,580</u>	<u>\$ 8,075,205</u>	<u>\$ 6,971,291</u>

Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2018
(unaudited)

Statement of Net Position

Assets – As of June 30, 2018 Innovate ABQ had cash in the amount of \$485,083. As of June 30, 2017, cash was \$1,177,268. All cash is held in an operating bank account at a financial institution. Cash decreased primarily due to the final payments for the completion of two new buildings.

Liabilities and Net Position – Innovate ABQ's net position of at June 30, 2018, 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, 2018, Innovate ABQ generated operating revenue in the amount of \$839,079, which included final donations for the Makerspace building, reimbursement revenue, and lease revenue. 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. Nonoperating revenue was in the amount of \$0 and \$56,090, during the fiscal years ended June 30, 2018 and 2017, respectively. During fiscal year ended June 30, 2017, it 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, 2018 was \$848,704. This was an increase of \$329,707 due to increased costs related to the two new buildings and hiring two employees. Total operating expenses in 2017 was \$518,997, primarily related to the payment for property taxes and increased operations expenses such as audit fees, legal fees, and rent.

Capital Assets

Innovate ABQ had net capital assets as of June 30, 2018 and 2017 of \$7,453,479 and \$6,920,667, respectively. The capital assets include seven acres of land and three separate buildings at 101 Broadway NE, Albuquerque, NM. During the years ended June 30, 2018 and 2017, Innovate ABQ incurred \$114,884 and \$93,405, respectively, of depreciation expense. Additional information concerning Innovate ABQ's capital assets may be found in footnote 6 to the financial statements.

Factors Impacting Future Periods

Innovate ABQ is in planning stages for three additional phases of construction, focusing on the remodel of a former church building into a bioscience company incubator, an accelerated software workforce training program, and a community meeting space. A development completion date has not been determined.

In addition to its placemaking projects, Innovate ABQ has begun work on launching pilot programs that help integrate and enhance the Albuquerque entrepreneurial community. The initial programs include a visa sponsorship program that facilitates foreign startups to relocate to the Albuquerque area and partner with UNM and CNM, the Native American Leadership Academy, an outreach program to the emerging Native American leaders who are resident on our campus, and a program that helps connect entrepreneurs to relevant mentors.

Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis
June 30, 2018
(unaudited)

Anticipated revenue sources for 2018 include continued funding from Bernalillo County, funding from an EDA grant, and rental income and reimbursements 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

	June 30,	
	2018	2017
CURRENT ASSETS		
Cash	\$ 485,083	\$ 1,077,268
Restricted cash	-	100,000
Accounts receivable	237,877	-
Prepaid insurance	6,461	5,223
Total current assets	729,421	1,182,491
CAPITAL ASSETS		
Land	3,957,684	3,957,684
Land improvements	59,334	-
Buildings	3,801,246	2,691,760
Construction in progress	17,055	538,179
Less accumulated depreciation	(381,840)	(266,956)
Net capital assets	7,453,479	6,920,667
Total assets	\$ 8,182,900	\$ 8,103,158
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	\$ 25,524	\$ 2,953
Accrued property taxes	66,796	-
Security deposit liability	25,000	25,000
Total current liabilities	117,320	27,953
NET POSITION		
Net investment in capital assets	7,453,479	6,920,667
Restricted	-	100,000
Unrestricted	612,101	1,054,538
Total net position	8,065,580	8,075,205
Total liabilities and net position	\$ 8,182,900	\$ 8,103,158

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,	
	2018	2017
OPERATING REVENUES		
Donations	\$ 582,564	\$ 1,469,553
Reimbursement revenue	134,989	17,907
Lease revenue	121,526	79,361
Total operating revenues	<u>839,079</u>	<u>1,566,821</u>
OPERATING EXPENSES		
Operations expense	253,445	268,437
Project expense	480,375	157,155
Depreciation expense	114,884	93,405
Total operating expenses	<u>848,704</u>	<u>518,997</u>
Operating (loss) income	<u>(9,625)</u>	<u>1,047,824</u>
NONOPERATING REVENUE		
Gain on disposal of capital assets	-	56,090
Total nonoperating revenue	<u>-</u>	<u>56,090</u>
Change in net position	(9,625)	1,103,914
NET POSITION, beginning of year	<u>8,075,205</u>	<u>6,971,291</u>
NET POSITION, end of year	<u>\$ 8,065,580</u>	<u>\$ 8,075,205</u>

Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Statements of Cash Flows

	Years Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers of goods or services	\$ (645,691)	\$ (428,049)
Donations	582,564	1,469,553
Receipts for lease revenue	11,423	104,361
Receipts for reimbursement revenue	7,215	18,872
Net cash (used in) provided by operating activities	(44,489)	1,164,737
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction of capital assets	(647,696)	(538,179)
Disposal of capital assets	-	464,851
Net cash (used in) capital and related financing activities	(647,696)	(73,328)
Net (decrease) increase in cash	(692,185)	1,091,409
CASH, beginning of year	1,177,268	85,859
CASH, end of year	\$ 485,083	\$ 1,177,268
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		
Operating (loss) income	\$ (9,625)	\$ 1,047,824
Depreciation expense	114,884	93,405
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:		
Change in accounts receivable	(237,877)	965
Change in prepaid insurance	(1,238)	(5,223)
Change in accounts payable	22,571	2,766
Change in accrued property taxes	66,796	-
Change in security deposit liability	-	25,000
Net cash (used in) provided by operating activities	\$ (44,489)	\$ 1,164,737
Reconciliation of cash to the statement of net position		
Cash, unrestricted	\$ 485,083	\$ 1,077,268
Cash, restricted	-	100,000
Cash on statement of cash flows	\$ 485,083	\$ 1,177,268

Innovate ABQ, Inc.

(A Component Unit of the University of New Mexico)

Notes to Financial Statements

Note 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, 2018 focused on efforts to renovate 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.

Note 2 – Summary of Significant Accounting Policies and Practices

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'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 non-operating.

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

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 non-liquid 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.

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.

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.

Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies and Practices (continued)

Revenue Recognition

Innovate ABQ's revenue for the fiscal year ended June 30, 2018 originated from the following sources: (1) a grant from Bernalillo County, (2) lease revenue, (3) donations for the FUSE Makerspace building, and (4) reimbursements from UNM and CNM. Revenue for 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 is recognized when earned and when any applicable eligibility requirements have been met.

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 years ended June 30, 2018 or 2017.

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 and 20 years for land improvements.

Note 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, 2018, the bank balance and the book balance in Innovate ABQ's checking account with Bank of Albuquerque were \$485,234 and \$485,083, respectively. 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. Of the bank balance, \$250,000 is insured by the Federal Deposit Insurance Corporation.

Note 4 – Accounts Receivable

For the year ending June 30, 2018, Innovate ABQ had accounts receivable of \$237,877 from CNM and UNM. For the year ending June 30, 2017, Innovate ABQ had no accounts receivable.

Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 5 – 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 did not purchase goods and services of companies that board members are employed by during the period from Inception through June 30, 2018.

Note 6 – Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance at June 30, 2017	Additions/ Completions	Retirements/ Disposals	Transfers	Balance at June 30, 2018
Capital assets					
Non depreciable					
Construction in progress	\$ 538,179	\$ 588,362	\$ -	\$(1,109,486)	\$ 17,055
Land	3,957,684	-	-	-	3,957,684
Total non depreciable	<u>4,495,863</u>	<u>588,362</u>	<u>-</u>	<u>(1,109,486)</u>	<u>3,974,739</u>
Depreciable					
Land improvements	-	59,334	-	-	59,334
Buildings	2,691,760	-	-	1,109,486	3,801,246
Total depreciable	<u>2,691,760</u>	<u>59,334</u>	<u>-</u>	<u>1,109,486</u>	<u>3,860,580</u>
Total capital assets	<u>7,187,623</u>	<u>647,696</u>	<u>-</u>	<u>-</u>	<u>7,835,319</u>
Accumulated depreciation					
Land improvements	-	(2,719)	-	-	(2,719)
Building	(266,956)	(112,165)	-	-	(379,121)
Total accumulated depreciation	<u>(266,956)</u>	<u>(114,884)</u>	<u>-</u>	<u>-</u>	<u>(381,840)</u>
Net capital assets	<u>\$ 6,920,667</u>	<u>\$ 532,812</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,453,479</u>

Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Notes to Financial Statements

Note 6 – Capital Assets (continued)

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>Transfers</u>	<u>Balance at June 30, 2017</u>
Capital assets					
Non depreciable					
Construction in progress	\$ -	\$ 538,179	\$ -	\$ -	\$ 538,179
Land	3,957,684	-	-	-	3,957,684
Total non depreciable	<u>3,957,684</u>	<u>538,179</u>	<u>-</u>	<u>-</u>	<u>4,495,863</u>
Depreciable					
Buildings	3,133,320	-	(441,560)	-	2,691,760
Total capital assets	<u>7,091,004</u>	<u>538,179</u>	<u>(441,560)</u>	<u>-</u>	<u>7,187,623</u>
Accumulated depreciation	<u>(206,350)</u>	<u>(93,405)</u>	<u>32,799</u>	<u>-</u>	<u>(266,956)</u>
Net capital assets	<u>\$ 6,884,654</u>	<u>\$ 444,774</u>	<u>\$ (408,761)</u>	<u>\$ -</u>	<u>\$ 6,920,667</u>

Note 7 – 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 Corporation's claimed exemption. For the years ended June 30, 2018 and June 30, 2017, Innovate ABQ has paid taxes under protest in the amount of \$129,847 and \$40,365, respectively. Innovate ABQ believes that the real estate is exempt from taxation and intends to continue to pursue the exemption.

Note 7 – Commitments and Contingencies (continued)

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 began 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 began 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 committed to relocate the Fuse Makerspace program to Innovate ABQ's Noonday Building. Innovate ABQ 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. In fiscal year ended June 30, 2017, \$100,000 was classified as restricted cash. This amount has been expended on its intended use as of the fiscal year ended June 30, 2018.

Note 8 – Subsequent Events

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is September 14, 2018.

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. Wayne A. 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 Innovate ABQ, Inc. (Innovate ABQ), a component of the University of New Mexico, which comprise the statement of net position as of June 30, 2018, 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 September 14, 2018.

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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item 2018-001 that we consider to be a significant deficiency.

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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mess Adams LLP

Albuquerque, New Mexico
September 14, 2018

Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
June 30, 2018

2018-001 Financial Close and Reporting – Significant Deficiency

Condition

During our audit, the following issues were noted as it relates to Innovate ABQ's financial close and reporting process:

- During the fiscal year ended June 30, 2018, amounts were improperly reclassified from buildings to CIP. Additionally, no depreciation was recorded on the assets for the year. An audit adjustment was required to reclassify \$2,039,074 out of CIP and into depreciable asset categories. An audit adjustment of \$89,725 was required to record the annual depreciation on these assets.
- Additionally, unadjusted property tax expense for the year ended June 30, 2018 was overstated by \$131,721. Of this amount, \$64,924 should have been accrued as of June 30, 2017. The remaining \$66,796 should have been recorded in fiscal year ended June 30, 2019. An audit adjustment was made to correct the \$66,796 relating to fiscal year ended June 30, 2019. The amount relating to fiscal year ended June 30, 2017 is considered an uncorrected misstatement in Innovate ABQ's financial statements.

Criteria

All organizations should establish and implement effective internal control procedures over financial close and reporting to ensure that all reporting of financial information be timely, complete, and accurate.

Effect

Possible misstatements of the financial statements and untimely financial reporting.

Cause

Lack of effective review and approval over the financial close and reporting process.

Recommendation

We recommend management evaluate all aspects of the financial close and reporting process and establish effective internal controls and procedures to ensure timely and accurate financial statements.

Management's Response

Innovate ABQ, Inc. engaged an outside accounting firm on April 2, 2018 to review and ensure that all capital asset transactions were properly recorded and to review other fiscal year transactions through June 30, 2018. The accounting firm instructed Innovate ABQ, Inc. to classify the entire capital assets for two buildings as CIP and to discontinue annual depreciation of these assets. The accounting firm also instructed Innovate ABQ, Inc. to accrue the entire 2018 calendar year's assessed property taxes at the beginning of the 2018 calendar year.

Innovate ABQ will engage a local accounting firm, which has expertise in New Mexico University Research Park Corporation accounting, by January 2019 to work with the Operations Manager to ensure timely and accurate financial statements.

Person responsible: President

Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Summary Schedule of Prior Audit Findings
June 30, 2018

Prior Year Finding 2017-001 Capital Assets – Material Weakness

Current Status: Resolved

Innovate ABQ, Inc.
(A Component Unit of the University of New Mexico)
Exit Conference
June 30, 2018

An exit conference was held on September 13, 2018. During this meeting, the contents of this report were discussed with the following individuals:

Innovate ABQ, Inc.

John Freisinger	Executive Director
Chuck Wellborn	Secretary/Treasurer
Keelie L. Garcia	Administrative Operations Manager

Moss Adams LLP

Lisa Todd	Partner
Corrine Zajac-Clarkson	Senior Manager
Lauren Kistin	Manager

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