



**SUPPORTING TECHNOLOGY TRANSFER AND
CATALYZING ECONOMIC DEVELOPMENT AT
THE UNIVERSITY OF NEW MEXICO**

(A Blended Component Unit of the University of New Mexico)

Financial Statements

June 30, 2019 and 2018

(With Report of Independent Auditors Thereon)

STC.UNM
(A Blended Component Unit of the University of New Mexico)

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STC.UNM
(A Blended Component Unit of the University of New Mexico)

Official Roster (unaudited)

June 30, 2019

Officers

Ms. Sandra Begay	Chair
Ms. Terri Cole	Vice Chair
Dr. Joseph L. Cecchi	Vice Chair
Dr. John H. Stichman	Secretary/Treasurer
Ms. Elizabeth Kuuttila	CEO & Chief Economic Development Officer
Ms. Denise M. Bissell	Assistant Secretary

Committee Chairs

Ms. Sandra Begay	Chair, Executive Committee and Nominating Committee
Dr. John H. Stichman	Chair, Finance and Compensation Committee
Ms. Maria Griego-Raby	Chair, Endowment Fund Committee
Mr. Chuck Wellborn	Chair, Co-Investment Fund Committee

Board Members

Ms. Sandra Begay	Mr. Richard Wood
Dr. Joseph L. Cecchi	Ms. Terri Cole
Dr. Robert H. Fisher	Ms. Elizabeth Kuuttila
Ms. Maria Griego-Raby	Mr. David W. Gibson
Mr. Jamie Koch	Dr. Julie E. Coonrod
Dr. Richard S. Larson	Dr. Gabriel P. Lopez
Ms. Cindy McGill	Mr. Robert H. Nath
Dr. Gregg L. Mayer	Dr. Eric R. Prossnitz
Dr. Paul B. Roth	Mr. Pedro F. Suarez
Dr. John H. Stichman	Mr. Chuck I. Wellborn
Mr. Gary Tonjes	Mr. J.E. (Gene) Gallegos
Dr. Craig G. White	Ms. Kimberly C. Sawyer
Dr. Alton D. Romig, Jr.	Dr. Garnett S. Stokes
Dr. John C. Stormont	

Report of Independent Auditors

The Board of Directors
STC.UNM
And
Mr. Brian S. Colón, Esq.
New Mexico State Auditor

Report on the Financial Statements

We have audited the accompanying financial statements of STC.UNM, which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of STC.UNM as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the year 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 3 through 5 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 10, 2019 on our consideration of STC.UNM'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 STC.UNM'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 STC.UNM's internal control over financial reporting and compliance.

Mess Adams LLP

Albuquerque, New Mexico
September 10, 2019

STC.UNM
(A Blended Component Unit of the University of New Mexico)

Management's Discussion and Analysis

June 30, 2019 and 2018

This management's discussion and analysis (MD&A) of the STC.UNM (formerly known as Science & Technology Corporation @ UNM) (the Corporation) provides an overview of the Corporation's financial performance for the fiscal years ended June 30, 2019, 2018 and 2017.

Overview of the Financial Statements

The statements of net position of the Corporation provide both long-term and short-term information about the Corporation's overall financial status. The statements of revenues, expenses, and changes in net position provide information about the operating revenues and expenses and nonoperating revenues and expenses of the Corporation. The statements of cash flows provide information about the sources and uses of cash by the Corporation.

Condensed Financial Information

	<u>June 30</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current assets	\$ 2,890,863	2,924,649	2,390,591
Capital assets, net	33,040	28,443	16,556
Investment in stock	1,519	1,519	20,371
Total assets	<u>\$ 2,925,422</u>	<u>2,954,611</u>	<u>2,427,518</u>
Current liabilities	<u>1,919,454</u>	<u>1,824,675</u>	<u>1,433,210</u>
Net position			
Investment in capital assets	\$ 33,040	28,443	16,556
Unrestricted	972,928	1,101,368	977,752
Total liabilities and net position	<u>\$ 2,925,422</u>	<u>2,954,486</u>	<u>2,427,518</u>
Operating revenues	\$ 4,441,927	4,524,951	4,226,568
Operating expenses	4,604,146	4,440,054	4,139,557
Operating (loss) income	<u>(162,219)</u>	<u>84,897</u>	<u>87,011</u>
Nonoperating revenues	<u>38,376</u>	<u>50,606</u>	<u>64,009</u>
Change in net position	<u>(123,843)</u>	<u>135,503</u>	<u>151,020</u>
Net position, beginning of year	<u>1,129,811</u>	<u>994,308</u>	<u>843,288</u>
Net position, end of year	<u>\$ 1,005,968</u>	<u>1,129,811</u>	<u>994,308</u>

STC.UNM
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Management's Discussion and Analysis

June 30, 2019 and 2018

Financial Position

The Corporation's current assets decreased by \$33,786 as of June 30, 2019 to \$2,890,863 compared to \$2,924,649 as of June 30, 2018; and current assets increased by \$534,058 as of June 30, 2018 to \$2,924,649 compared to \$2,390,591 as of June 30, 2017. The decrease from fiscal year 2018 to fiscal year 2019 was primarily attributable to increased current year operating costs offset by investment gains and increased accounts receivable from patent activity.

Current liabilities increased by \$94,779 as of June 30, 2019 to \$1,919,454 compared to \$1,824,675 as of June 30, 2018; and increased by \$391,465 as of June 30, 2018 to \$1,824,675 compared to \$1,433,210 as of June 30, 2017. The change from fiscal year 2018 to fiscal year 2019 is primarily attributable to an increase in Due to University of New Mexico associated with the timing of the payments for license and royalty income and increased accrued expenses associated with increased operating costs.

Capital Assets

Capital asset purchases during fiscal years 2019, 2018, and 2017 were \$12,662, \$21,520, and \$3,922, respectively, for buildings, software, leasehold improvements, computer equipment, and furniture and had depreciation expense of \$8,065, \$8,995, and \$8,413, respectively.

Comparison of Fiscal 2019 to Fiscal 2018 Results of Operations

Total operating revenues decreased by \$83,024 from \$4,524,951 in fiscal year 2018 to \$4,441,927 for fiscal year 2019. The majority of the decrease is directly attributable to decreased licensing and royalty activity through the fiscal year. Licensing and royalty revenues, net decreased by \$139,319 in fiscal year 2019 compared to fiscal year 2018. Additionally, other revenues increased by \$85,896 in fiscal year 2019 compared to fiscal year 2018 which was primarily offset by decreased economic development funding of \$50,000 associated with a grant award from New Mexico Gas Company.

Total operating expenses increased by \$164,092 for fiscal year 2019 compared to fiscal year 2018. General and administrative expenses increased by \$175,879 from the prior year due to increased personnel costs in an effort to expand technology transfer and economic development initiatives under the Air Force Research Laboratory (AFRL) and Economic Development Administration (EDA) grants and other income generating activities. Licensing distributions decreased by \$92,624 and economic development initiative expenses decreased by \$29,796 which were primarily offset by an increase in patent costs of \$111,563 from the prior year.

Comparison of Fiscal 2018 to Fiscal 2017 Results of Operations

Total operating revenues increased by \$298,383 from \$4,226,568 in fiscal year 2017 to \$4,524,951 for fiscal year 2018. The majority of the increase is directly attributable to increased licensing and royalty activity through the fiscal year. Licensing and royalty revenues, net increased by \$235,275 in fiscal year 2018 compared to fiscal year 2017. Additionally, patent costs reimbursements decreased by \$93,392 compared to fiscal year 2017 which was primarily offset by increased economic development funding associated with a grant award from New Mexico Gas Company and increased sponsorship funding associated with the Corporation's subaward activities.

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Management's Discussion and Analysis

June 30, 2019 and 2018

Total operating expenses increased by a net of \$300,497 for fiscal year 2018 compared to fiscal year 2017. General and administrative expenses increased by \$276,296 from the prior year due to increased rents and costs associated with the relocation of the Corporation. Licensing distributions increased by \$58,327 and economic development initiative expenses increased by \$58,391 which were primarily offset by a decrease in patent costs of \$93,099 from the prior year.

Economic Conditions

The uncertainty of the general economic condition impacts university technology transfer offices such as the Corporation. The stability of the economy will be critical in the venture capital industry, which provides funding for start-up companies that may license university intellectual property.

Contacting the Company's Management

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

If you have any questions about this report or need additional financial information, contact STC.UNM at 101 Broadway Blvd NE, Suite 1100, Albuquerque, New Mexico 87102.

STC.UNM
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Statements of Net Position
June 30, 2019 and 2018

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 1,052,063	1,174,759
Investments	761,791	729,741
Accounts receivable, net	1,077,009	1,020,149
Total current assets	2,890,863	2,924,649
Capital assets:		
Furniture and equipment	302,538	289,876
Accumulated depreciation	(269,498)	(261,433)
Total capital assets, net	33,040	28,443
Investment in stock	1,519	1,394
Total assets	\$ 2,925,422	2,954,486
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 185,903	189,309
Due to University of New Mexico	474,193	412,050
Accrued royalty sharing, net	1,036,260	1,056,099
Accrued expenses	223,098	167,217
Total current liabilities	1,919,454	1,824,675
Net position:		
Investment in capital assets	33,040	28,443
Unrestricted	972,928	1,101,368
Total net position	1,005,968	1,129,811
Total liabilities and net position	\$ 2,925,422	2,954,486

See accompanying notes to financial statements.

STC.UNM
(A Blended Component Unit of the University of New Mexico)
Statements of Revenues, Expenses, and Changes in Net Position
Years ended June 30, 2019 and 2018

	2019	2018
Operating revenues:		
Operational funding from UNM	\$ 794,000	794,000
Patent funding from UNM	952,000	952,000
Economic development funding from UNM and others	288,000	338,000
Patent cost reimbursement, net	623,274	621,413
Licensing and royalties, net	1,330,759	1,470,078
Rental income	131,465	112,927
Other	322,429	236,533
Total operating revenues	4,441,927	4,524,951
Operating expenses:		
Patent costs incurred	1,554,123	1,442,560
Licensing distributions	770,075	862,699
Depreciation	8,065	8,995
Economic development initiative	373,623	403,419
General and administrative	1,898,260	1,722,381
Total operating expenses	4,604,146	4,440,054
Operating (loss) income	(162,219)	84,897
Nonoperating revenues:		
Interest income	24,612	18,394
Net increase in fair value of investments	13,764	32,212
Total nonoperating revenues	38,376	50,606
Change in net position	(123,843)	135,503
Net position, beginning of year	1,129,811	994,308
Net position, end of year	\$ 1,005,968	1,129,811

See accompanying notes to financial statements.

STC.UNM
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Statements of Cash Flows

Years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Payments to suppliers and employees	\$ (2,219,408)	(2,146,417)
Receipts for operational funding revenue from UNM	794,000	794,000
Receipts for patent funding revenue from UNM	952,000	952,000
Receipts for co-investment funding from UNM	-	100,000
Payment to start up companies for co-investment funding	-	(100,000)
Receipts for economic development initiatives funding revenue from UNM	288,000	338,000
Receipts from other	322,429	268,034
Payment for patent costs incurred	(1,554,123)	(1,442,560)
Receipts for patent cost reimbursements	623,274	656,993
Receipts from licensees	1,273,899	1,036,601
Payment for licensing distribution expense	(727,771)	(450,617)
Receipt of rental income	131,465	112,927
Net cash (used in) provided by operating activities	(116,235)	118,961
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(12,662)	(21,520)
Proceeds from sale of capital assets	-	638
Net cash (used in) capital and related financing activities	(12,662)	(20,882)
Cash flows from investing activities:		
Investments purchased	(349,664)	(257,510)
Investment proceeds	355,990	261,476
Investment in stock	(125)	-
Proceeds from sale of stock	-	18,977
Net cash provided by investing activities	6,201	22,943
Net change in cash and cash equivalents	(122,696)	121,022
Cash and cash equivalents, beginning of year	1,174,759	1,053,737
Cash and cash equivalents, end of year	\$ 1,052,063	1,174,759
Reconciliation of operating income to net cash (used in) provided by operating activities:		
Operating (loss) income	\$ (162,219)	84,897
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Depreciation	8,065	8,995
Bad debt expense	52,486	116,188
Changes in operating assets and liabilities:		
Accounts receivable, net	(109,346)	(482,584)
Accounts payable	(3,406)	(40,271)
Due to University of New Mexico	62,143	40,754
Accrued royalty sharing, net	(19,839)	371,328
Accrued expenses	55,881	19,654
Net cash (used in) provided by operating activities	\$ (116,235)	118,961

See accompanying notes to financial statements.

STC.UNM
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Notes to Financial Statements

June 30, 2019 and 2018

(1) Organization

STC.UNM (the Corporation) is a component unit of The University of New Mexico (UNM). The Corporation was organized on April 26, 1993 to facilitate the commercialization of UNM faculty inventions and to manage UNM's Science & Technology Park in Albuquerque, New Mexico. On December 14, 2004, UNM and STC.UNM entered into a revised Memorandum of Agreement (MOA) containing the expectations and performance obligations UNM is seeking from the Corporation. The MOA may be terminated at any time by either party, at which point all property of the Corporation shall be transferred to UNM or other successor organization designated by resolution of the UNM Board of Regents. The Corporation was incorporated under the State of New Mexico's University Research Park and Economic Development Act. As of June 30, 2019, the governing board consisted of 27 members, including 11 members of certain officers and faculty of UNM, the President of the Corporation, and 16 members of the community. The Corporation has no component units.

(2) Summary of Significant Accounting Policies

(a) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

As a component unit of UNM, the Corporation prepared its financial statements in accordance with the accounting disclosure requirements under the Governmental Accounting Standards Board (GASB) pronouncements as the Corporation meets the criteria of a governmental not-for-profit. 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.

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

Operating revenues and expenses are those incurred that primarily relate directly to facilitating commercialization of UNM faculty, staff, and student inventions, as well as economic development initiatives and venture development income. All other revenues and expenses are considered nonoperating.

(b) *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures during the reporting period. Accordingly, actual results could differ from those estimates.

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Notes to Financial Statements

June 30, 2019 and 2018

(c) Cash and Cash Equivalents

Cash and cash equivalents include deposits and funds invested in overnight repurchase securities. The Corporation is not subject to statutory or policy restrictions on the types of deposits held.

For purposes of the statements of cash flows, the Corporation considers all cash on hand and in banks and all highly liquid securities with original maturities less than 90 days to be cash equivalents.

(d) Accounts Receivable

Accounts receivable represent the amount earned based on existing terms under license agreements but uncollected on accrued royalties earned from customers.

Accounts receivable are carried at original amount billed less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. There was an allowance for doubtful accounts of \$52,486 and \$92,867 recorded during 2019 and 2018.

An account receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on past due accounts receivable.

(e) Capital Assets

Capital assets are carried at cost. Depreciation is provided on the straight-line method based on estimated useful lives of three to seven years, except for depreciation of buildings, which have a useful life of 30 years. Capital assets costing over \$1,000 and with a useful life greater than a year are capitalized. Repairs and maintenance expenses are charged to expense as incurred.

(f) Patent Costs

UNM, a related party, provides annual funding for patent costs. The funding revenue is deferred on receipt. As patent costs are incurred, expense is recognized and an equal amount of the deferred revenue is recognized as income.

(g) Revenue Recognition

Upfront, nonrefundable licensing fees are recognized when earned. These fees are ordinarily earned when a license agreement is signed and the Corporation has no further obligations with respect to the license. Minimum annual royalty and license maintenance fee income is accrued as it is earned, if it is determined that collection is reasonably assured.

Operational and patent cost funding from UNM is recognized when all eligibility requirements have been met. Patent cost reimbursement is recognized when earned.

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Notes to Financial Statements

June 30, 2019 and 2018

Economic development funding and other professional service income is on a cost-reimbursement basis and thus revenue is recognized equal to the amount of allowable expenses incurred.

Accounts receivable, net was \$1,077,009 and \$1,020,149 as of June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018 the Corporation had bad debt expense related to royalties and licenses of \$25,123 and \$69,699. As of June 30, 2019 and 2018, the Corporation had \$27,363 and \$46,489 of bad debt expense related to patent cost reimbursement. The Corporation netted bad debt expense with the corresponding revenue.

(h) Income Taxes

The Corporation 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.

(i) Accrued Employee Benefits

The Corporation's employees may accumulate paid personal time, which is payable to the employee upon termination or retirement. Personal time costs are recognized as a liability when earned by the employee.

(j) Investments

The investment portfolio is valued based on quoted market values. The portfolio primarily consists of mutual funds. Investments in stock consist of ownership interest in start-up companies and are carried at cost basis.

(k) Net Position

Net position is classified as follows:

Invested in capital assets (net of related debt) 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 is the net position that has third-party (statutory or granting agency) limitations on its use. There was no restricted net position as of June 30, 2019 and 2018.

Unrestricted net position represents liquid assets available for use.

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Notes to Financial Statements

June 30, 2019 and 2018

(1) Impact of Recently Issued Accounting Standards

GASB Statement No. 87 – Leases. This statement defines a lease as a contract that conveys control of the right to use another entity’s nonfinancial asset (e.g., buildings, land, vehicles, equipment) as specified in the contract for a period of time in an exchange or exchange-like transaction. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources (revenues) or outflows of resources (expenses) based on the payment provisions of the contract. A lessee is required to recognize a lease liability, measured at the present value of payments expected to be made during the lease term, and an intangible right-to-use lease asset, measured at the amount of the initial measurement of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. A lessor is required to recognize a lease receivable, measured at the present value of lease payments expected to be received during the lease term, and a deferred inflow of resources, measured at the value of the lease receivable plus any payments received at or before the commencement of the lease term that relate to future periods. This statement includes an exception for short-term leases (those with a maximum possible term of 12 months or less), contracts that transfer ownership, leases of assets that are investments, and certain regulated leases. GASB Statement No. 87 is effective for periods beginning after December 15, 2019 (fiscal year 2021), and earlier application is encouraged. The Corporation is currently evaluating the impact GASB Statement No. 87 will have on its financial statements.

(3) Cash, Cash Equivalents, and Investments

	2019	2018
Cash and cash equivalents:		
Cash on deposit at financial institution	\$ 1,044,272	1,167,331
Cash equivalents not considered deposits:		
Money market accounts	7,691	7,328
Petty cash	100	100
Total cash and cash equivalents	\$ 1,052,063	1,174,759
Investments:		
Mutual funds:		
Domestic fixed income	\$ 80,914	70,365
International fixed income	-	20,681
Domestic equity	436,731	417,386
International equity	244,146	163,336
Real estate	-	57,973
Total investments	\$ 761,791	729,741

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Notes to Financial Statements

June 30, 2019 and 2018

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the entity's deposits may not be returned to it. The Corporation maintains cash and cash equivalents in interest-bearing transaction accounts with financial institutions and, as such, the accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Corporation does not believe there is any significant credit risk related to their deposits. The Corporation does not require collateral on its cash deposits in excess of \$250,000.

As of June 30, the Corporation's deposits were exposed to custodial credit risk as follows:

Bank Name/ Account	Account Type	Financial Statement Balance	Outstanding Checks	Bank Balance
Bank of the West:				
Operating	Checking	\$ 1,044,272	344,601	\$ 1,388,873
Money market account		7,691	—	7,691
Less FDIC insurance				(257,691)
Uninsured and uncollateralized at June 30, 2019				<u>\$ 1,138,873</u>

The following schedule details the Corporation's deposit accounts at June 30, 2018:

Bank Name/ Account	Account Type	Financial Statement Balance	Outstanding Checks	Bank Balance
Bank of the West:				
Operating	Checking	\$ 1,167,331	211,204	\$ 1,378,535
Money market account		7,328	—	7,328
Less FDIC insurance				(257,328)
Uninsured and uncollateralized at June 30, 2018				<u>\$ 1,128,535</u>

(b) Investment Policy

The Corporation's investment objective option is to "Aggressive" under the "Passive Meet/Beat Market" TIAA Portfolio Advisor Investment Strategy. TIAA has a general investment account policy developed for the Corporation's funds. The policy establishes an understanding as to the investment goals, objectives, and management policies for this specific portfolio. The objective of the fund is an emphasis on the total return of the portfolio with some consideration on additional customization options. Investments are primarily in equity securities and other asset classes, with growth as the primary objective. Fixed income securities are utilized for risk control. Real assets are utilized for diversification and complementary strategies may be utilized to improve the return/risk relationship of the portfolio. The risk of tolerance of the Corporation can currently be described as "aggressive/long-term". The performance of the portfolio will be monitored, measured, and reported by TIAA to the Corporation.

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Notes to Financial Statements

June 30, 2019 and 2018

(c) **Interest Rate Risk and Credit Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Credit risk is the risk that the credit quality of investments fluctuates or downgrades from the time of purchase or the risk that an issuer of an investment will not fulfill its obligations. The Corporation's investments subject to interest rate and credit risk are the fixed income mutual funds. The Corporation's investment policy limits interest rate risk by limiting the percentage of assets invested in bond funds and by requiring the weighted average duration of its portfolio of bond funds to not exceed the duration of the Barclays Aggregate Bond Index by more than two years. The Corporation's investment policy limits credit risk by requiring that domestic investment grade bond funds held have a credit rating of BBB or above at purchase, and by limiting the percentage of assets invested in bond funds.

The Corporation had the following investments and maturities at June 30, 2019 and 2018.

June 30, 2019						
<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Investment Maturities (in Years)</u>				<u>Not Available</u>
		<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>	
Fixed income:						
Domestic bond mutual funds	\$ 80,914	—	7,757	73,157	—	—
International bond mutual funds	—	—	—	—	—	—
	<u>\$ 80,914</u>	<u>—</u>	<u>7,757</u>	<u>73,157</u>	<u>—</u>	<u>—</u>

June 30, 2018						
<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Investment Maturities (in Years)</u>				<u>Not Available</u>
		<u>Less Than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More Than 10</u>	
Fixed income:						
Domestic bond mutual funds	\$ 70,365	—	—	70,365	—	—
International bond mutual funds	20,681	—	—	—	—	20,681
	<u>\$ 91,046</u>	<u>—</u>	<u>—</u>	<u>70,365</u>	<u>—</u>	<u>20,681</u>

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The following tables provide information on the credit ratings associated with the Corporation's investments in debt securities at June 30, 2019 and 2018.

		June 30, 2019								
<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>Below B</u>	<u>NR</u>	<u>Not Available</u>
Fixed income:										
Domestic bond mutual funds	\$ 80,914	—	65,451	7,757	—	—	7,706	—	—	—
International bond mutual funds	—	—	—	—	—	—	—	—	—	—
	<u>\$ 80,914</u>	<u>—</u>	<u>65,451</u>	<u>7,757</u>	<u>—</u>	<u>—</u>	<u>7,706</u>	<u>—</u>	<u>—</u>	<u>—</u>
		June 30, 2018								
<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>Below B</u>	<u>NR</u>	<u>Not Available</u>
Fixed income:										
Domestic bond mutual funds	\$ 70,365	22,235	—	21,910	—	—	26,220	—	—	—
International bond mutual funds	20,681	—	—	—	—	—	20,681	—	—	—
	<u>\$ 91,046</u>	<u>22,235</u>	<u>—</u>	<u>21,910</u>	<u>—</u>	<u>—</u>	<u>46,901</u>	<u>—</u>	<u>—</u>	<u>—</u>

(d) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. All foreign investments of the Corporation are in mutual funds, as disclosed elsewhere in this note.

(e) Net Increase in Fair Value of Investments

During the years ended June 30, the Corporation experienced realized gains and unrealized losses on investments held as follows:

2019:	
Realized losses	\$ 1,805
Unrealized gains	-
Net increase in fair value of investments	<u>\$ 1,805</u>
2018:	
Realized gains	\$ (3,569)
Unrealized losses	35,781
Net increase in fair value of investments	<u>\$ 32,212</u>

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(f) Fair Value Measurement

The Corporation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- *Level 1* inputs are quoted prices (unadjusted) for identical assets in active markets, accessible at the measurement date. Level 1 inputs include exchange markets, dealer markets, brokered markets, and principal-to-principal markets.
- *Level 2* inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active.
- *Level 3* inputs are unobservable inputs for an asset.

Investments that do not have a readily determinable fair value are recorded using net asset value (NAV). NAV is generally provided by the investment managers, but the Corporation considers the reasonableness of the NAV, based on market information, to arrive at the fair value estimates for each investment.

The Corporation has the following recurring fair value measurements as of June 30, 2019:

	Fair Value	Quote Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:				
Mutual funds:				
Domestic fixed income	\$ 80,914	80,914	—	—
Domestic equity	436,731	436,731	—	—
International equity	244,146	244,146	—	—
Total investments	<u>\$ 761,791</u>	<u>761,791</u>	<u>—</u>	<u>—</u>

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The Corporation has the following recurring fair value measurements as of June 30, 2018:

	<u>Fair Value</u>	<u>Quote Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Investments:				
Mutual funds:				
Domestic fixed income	\$ 70,365	70,365	—	—
International fixed income	20,681	20,681	—	—
Domestic equity	417,386	417,386	—	—
International equity	163,336	163,336	—	—
Real estate	57,973	57,973	—	—
Total investments	<u>\$ 729,741</u>	<u>729,741</u>	<u>—</u>	<u>—</u>

(4) Capital Assets

The Corporation has the following capital assets as of June 30:

2019				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 289,876	12,662	—	302,538
Accumulated depreciation	(261,433)	(8,065)	—	(269,498)
Capital assets, net	<u>\$ 28,443</u>	<u>4,597</u>	<u>—</u>	<u>33,040</u>
2018				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Furniture and equipment	\$ 268,994	21,520	(638)	289,876
Accumulated depreciation	(252,438)	(8,995)	—	(261,433)
Capital assets, net	<u>\$ 16,556</u>	<u>12,525</u>	<u>(638)</u>	<u>28,443</u>

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(5) Commitments and Contingencies

(a) Occupancy Agreement

The Corporation entered into an occupancy agreement with UNM for lease of the new office facilities, effective August 15, 2017 with an end date of August 31, 2027. Future minimum payments required under the occupancy agreements are as follows:

Year ending June 30, 2020	\$	233,332
Year ending June 30, 2021		233,332
Year ending June 30, 2022		233,332
Year ending June 30, 2023		252,776
Year ending June 30, 2024		256,665
Year ending June 30, 2025 to 2028		812,773
	\$	<u><u>2,022,210</u></u>

Rent expense in fiscal years 2019 and 2018 was \$233,332 and \$214,186, respectively.

The Corporation entered into sublease agreement with a third party, effective September 1, 2017 through August 15, 2022. The future minimum receipts required under the sublease are \$86,403 each fiscal year. The Corporation also enters into various short-term monthly agreements with venture lab tenants for virtual and physical space. The Corporation recorded \$131,465 and \$112,927 of rental/occupancy income associated with these agreements in fiscal years 2019 and 2018, respectively.

(b) Risk Management

The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and natural disasters. The Corporation is insured under the UNM's Risk Management for liability and casualty insurance, and through a private carrier for director and officer liability insurance. There have been no significant reductions in coverage from the prior year and there have been no settlements in any of the past years.

(6) Defined Contribution Plan

The Corporation sponsors a defined contribution retirement plan for eligible employees. Employees may contribute up to the maximum allowed by the IRS. In fiscal years 2019 and 2018, the Corporation matched employee contributions below 7.975% commensurately; employee contributions that equaled or exceeded 7.975% were matched up to 12.4% of the employee's base salary. There is no vesting period. The Corporation's contributions were \$114,999 and \$78,397 in fiscal years 2019 and 2018, respectively. Employee contributions were \$77,915 and \$72,539 in fiscal years 2019 and 2018, respectively.

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June 30, 2019 and 2018

(7) Incentive Compensation Plan

The Corporation has an incentive compensation plan in which the finance and compensation committee of the Corporation's Board of Directors (STC Board) has the discretion to provide a cash and/or equity incentive award based on performance. Cash bonuses awarded to employees were \$105,170 and \$65,876 in fiscal years 2019 and 2018, respectively. Equity incentive awards are provided to eligible employees in shares. The total shares awarded to employees for various companies during fiscal years 2019 and 2018 were 51,026 and 6,906, respectively.

(8) STC Quasi-Endowment

The STC Board approved, as amended, an internal STC.UNM endowment policy for management of large one-time license-fee related payments received by the Corporation. The endowment policy, as amended, states that if the Corporation's net position balance exceeds \$500,000 then the excess balance may be allocated as follows: 80% to the STC.UNM Quasi-Endowment, the interest from which could be used to fund STC operations; and 20% to the STC.UNM Strategic Initiatives Fund to be used for the inventor recognition awards program, the gap fund program, and other strategic initiatives of the Corporation, as determined by the STC Board's Executive Committee. Reallocation of balances between the Quasi-Endowment, Strategic Initiatives Fund, and other net position balances may be made at the discretion of the STC.UNM Finance Committee. The STC Board designated endowment of \$500,000 is accounted for and included under unrestricted net position.

(9) Co-Investment Fund

Based on a working relationship with the UNM Foundation, a related party, during fiscal year 2014, the STC Board approved the STC.UNM Policy on Investment from Co-Investment Fund. The UNM Foundation revised its Consolidated Investment Fund Policy (the Policy) to set aside \$1,000,000 for their investment in private start-up companies, which were started based on technology transferred and licensed from the Corporation. Under the Policy, any positive returns realized and received by the Co-Investment Fund in the future shall be shared 10% by the Corporation and 90% by the UNM Foundation. The Policy agreement was amended on October 21, 2016 removing the \$1,000,000 threshold.

During fiscal year 2019, the Corporation approved two proposals from start-up companies and provided successful co-investments totaling \$200,000 based on direct pass-through funding from the UNM Foundation to the Corporation per the terms of the policy.

During fiscal year 2018, the Corporation approved one proposal from a start-up company and provided successful co-investments totaling \$100,000 based on direct pass-through funding from the UNM Foundation to the Corporation per the terms of the policy.

(10) Subsequent Events

On July 12, 2019, the Corporation entered into a Patent Monetization Agreement and related documents with RSIP Licensing Series I, LLP, a Virginia limited partnership (the "RSIP

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Notes to Financial Statements

June 30, 2019 and 2018

Agreements”) to fund expenses incurred by or on behalf of the Corporation in pursuing certain infringement claims as specified in the RSIP Agreements. The terms of the RSIP Agreements are subject to confidentiality provisions set out in the agreement. In addition, certain of the related agreements are subject to the Attorney-Client Privilege.

Subsequent events are evaluated by management through the date the accompanying financial statements are available to be issued, which is September 10, 2019.

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
STC.UNM
And
Mr. Brian S. Colón, Esq.
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 STC.UNM, which comprise the statement of financial position as of June 30, 2019, 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 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered STC.UNM's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of STC.UNM's internal control. Accordingly, we do not express an opinion on the effectiveness of STC.UNM's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 10, 2019

STC.UNM
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Summary of Auditor's Results (as Required by 2.2.2.10 NMAC L(1) f)
June 30, 2019 and 2018

Financial Statements

Type of report the auditor issued on whether the financial

statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Compliance and other matters noted?

Yes No

STC.UNM
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Schedule of Findings
Year ended June 30, 2019

No matters were reported.

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Schedule of Prior Audit Findings
Year ended June 30, 2019

No prior audit findings

STC.UNM
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Exit Conference
Year ended June 30, 2019

An exit conference was held on September 10, 2019. During this meeting, the contents of this report were discussed with the following individuals:

STC.UNM (a component unit of the University of New Mexico)

Elizabeth Kuuttila, CEO and Chief Economic Development Officer

Sandra Begay, Board Chair

John Stichman, Board Secretary/Treasurer

Gregg Mayer, Board Member

Teresa Costantinidis, Board Member

Kimberly Peña, CFO

Preston Hendrix, Controller

Moss Adams LLP

Lisa Todd, Partner

Sheila Herrera, Senior Manager

STC.UNM (a component unit of the University of New Mexico) is responsible for the contents of the financial statements. Moss Adams LLP assisted with the preparation of the financial statements.