

MOSS ADAMS

STC.UNM

**(A Component Unit of The
University of New Mexico)**

**Financial Statements With
Independent Auditors' Report
Thereon**

June 30, 2008 and 2007

Moss Adams LLP
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STC.UNM
(A Component Unit of The University of New Mexico)

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

Official Roster

As of June 30, 2008

Officers

Dr. Joseph Cecchi	Chair
Ms. Terri Cole	Vice Chair
Ms. Sandra Begay-Campbell	Secretary/Treasurer
Ms. Elizabeth Kuuttila	President and CEO
Ms. Denise Bissell	Assistant Secretary

Committee Chairs

Dr. Joseph Cecchi	Chair, Executive Committee and Nominating Committee
Ms. Cindy McGill	Chair, Community Relationships Committee
Ms. Sandra Begay-Campbell	Chair, Finance and Compensation Committee

Board Members

Ms. Sandra Begay-Campbell	Dr. Joseph Cecchi
Mr. Don Chalmers	Ms. Terri Cole
Dr. James Cramer	Dr. Robert Fisher
Dr. Julia Fulghum	Ms. Maria Griego-Raby
Mr. David Harris	Ms. Elizabeth Kuuttila
Dr. Gabriel Lopez	Ms. Diana MacArthur
Dr. Gregg Mayer	Ms. Cindy McGill
Mr. Fred Mondragon	Dr. Pope Moseley
Dr. Suzanne Ortega	Dr. John Pieper
Dr. Paul Roth	Dr. David Schmidly
Dr. John H. Stichman	Mr. Pedro Suarez
Mr. Gary Tonjes	Mr. Chuck Wellborn
Dr. Albert Westwood	Ms. Teri Willey

Independent Auditors' Report

Board of Directors
STC.UNM
and
Mr. Hector H. Balderas,
New Mexico State Auditor

We have audited the accompanying basic financial statements of STC.UNM (a component unit of The University of New Mexico) (Corporation) as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2008 and 2007, and the changes in financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2008 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters.

Board of Directors
STC.UNM
and
Mr. Hector H. Balderas,
New Mexico State Auditor

The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 4 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Moss Adams LLP

Albuquerque, New Mexico
August 25, 2008

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007

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, 2008 and 2007.

Overview of the Financial Statements

The Statements of Net Assets of the Corporation provide both long-term and short-term information about the Corporation's overall financial status. The Statements of Revenue, Expenses, and Changes in Net Assets (deficit) 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

	June 30		
	2008	2007	2006
Current assets	\$ 1,130,636	\$ 941,897	\$ 1,034,101
Capital assets, net	84,550	28,871	32,116
Current liabilities	664,200	485,438	625,376
Total operating revenues	2,605,276	2,764,508	2,736,585
Total operating expenses	2,574,005	2,753,568	2,917,449
Total nonoperating revenue and expenses	34,408	35,348	24,510
Change in net assets	65,679	46,288	(156,354)
Net assets, end of year	554,839	489,160	442,872

Financial Position

The Corporation's current assets increased by \$188,739 as of June 30, 2008 to \$1,130,636, compared to \$941,897 as of June 30, 2007; whereas, current assets decreased to \$941,897 as of June 30, 2007, compared to \$1,034,101 as of June 30, 2006. The changes from year to year are primarily due to the activity level in the accounts receivable from licensee companies. Capital asset purchases during fiscal years 2008, 2007 and 2006 were \$77,902, \$8,273 and \$12,279, respectively, for leasehold improvements, computer equipment and furniture. Current liabilities increased by \$178,762 in fiscal year 2008 compared to fiscal year 2007 due to increase in accounts payable and accrued royalty sharing payable to inventors at year-end. Current liabilities decreased by \$139,938 in fiscal year 2007 compared to fiscal year 2006 due to decrease in amounts due to UNM for royalty sharing and patent cost reimbursements, as well as decrease in accrued royalty sharing payable to inventors and others under inter-institutional agreements as of year-end.

**STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
JUNE 30, 2008 AND 2007**

Capital Assets

During the years ended June 30, 2008, 2007 and 2006, the Corporation acquired \$77,902, \$8,273 and \$12,279 respectively, in capital assets and had depreciation expense of \$22,222, \$11,518 and \$10,902, respectively.

Comparison of Fiscal 2008 to Fiscal 2007 Results of Operations

Total operating revenue for fiscal year 2008 of \$2,605,276 decreased from \$2,764,508 for fiscal year 2007, a net decrease of \$159,232. The net change is due to a combination of several factors: decrease in license income of \$155,330, decrease in McCune Charitable Foundation grant for STC's Gap Funding Program of \$50,000, and increase in patent cost reimbursement income of \$51,098.

Total operating expenses decreased by \$179,563 for fiscal year 2008 compared to fiscal year 2007 due primarily to decrease in royalty sharing expense attributable to lower license income realized in the current year. In addition, the allowance for bad debts set up in fiscal year 2007 of \$30,000 was reversed in fiscal year 2008.

Comparison of Fiscal 2007 to Fiscal 2006 Results of Operations

Total operating revenue for fiscal year 2007 of \$2,764,508 increased from \$2,736,585 for fiscal year 2006, a net increase of \$27,923. The net change is due to several factors: grant received from the McCune Charitable Foundation for STC's Gap Funding Program, increase in patent cost reimbursement income of \$31,063, and decrease in license income of \$63,340.

Total operating expenses decreased by \$163,881 for fiscal year 2007 compared to fiscal year 2006 due primarily to decrease in patent costs incurred of \$66,123 from prior year which is directly related to cost savings realized by filing provisional patent applications in-house at STC, and decrease in licensing distribution expense of \$94,308 attributable to more patent cost reimbursement income. Decrease in general and administrative costs of \$115,129 from prior year are offset by increase in gap funding program expense of \$50,000, and provision to set up an allowance for doubtful accounts of \$30,000.

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 801 University Boulevard SE, Suite 101, Albuquerque, NM 87106.

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENTS OF NET ASSETS
June 30, 2008 and 2007

Assets	2008	2007
Current assets:		
Cash and cash equivalents	\$ 773,835	729,313
Accounts receivable, less allowance for doubtful accounts of \$0 for 2008 and \$30,000 for 2007	356,801	211,584
Other assets	-	1,000
Total current assets	<u>1,130,636</u>	<u>941,897</u>
Capital assets:		
Furniture and equipment	183,627	105,726
Accumulated depreciation	(99,077)	(76,855)
Total capital assets, net	<u>84,550</u>	<u>28,871</u>
Investment in stock	3,853	3,830
Total other assets	<u>3,853</u>	<u>3,830</u>
	<u>\$ 1,219,039</u>	<u>974,598</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 241,854	100,671
Deferred revenue	1,000	1,280
Due to University of New Mexico	139,341	136,934
Accrued royalty sharing	225,130	168,175
Accrued payroll related expenses	56,875	78,378
Total current liabilities	<u>664,200</u>	<u>485,438</u>
Net assets:		
Unrestricted	470,289	460,289
Invested in capital assets	84,550	28,871
Total net assets	<u>554,839</u>	<u>489,160</u>
	<u>\$ 1,219,039</u>	<u>974,598</u>

See Notes to Financial Statements.

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET ASSETS
Years Ended June 30, 2008 and 2007

	2008	2007
Operating Revenues:		
Operational funding from UNM	\$ 1,034,000	1,034,000
Patent funding from UNM	732,200	732,200
Patent cost reimbursement	270,882	219,784
Licensing and royalties	563,194	718,524
Grant income	-	50,000
Other income	5,000	10,000
Total operating revenue	2,605,276	2,764,508
Operating expenses:		
Patent costs incurred	821,656	727,885
Patent cost reimbursement to UNM	135,441	219,784
Licensing distributions	327,682	457,517
Gap fund expense	-	50,000
Depreciation	22,222	11,518
Bad debt expense (recovery)	(30,000)	30,000
General and administrative	1,297,004	1,256,864
Total operating expenses	2,574,005	2,753,568
Operating income	31,271	10,940
Nonoperating revenues and expenses:		
Interest income	27,200	36,283
Rental income	7,208	-
Loss on write-down of investment assets	-	(935)
Total nonoperating revenues and expenses	34,408	35,348
Change in net assets	65,679	46,288
Net assets, beginning of year	489,160	442,872
Net assets, end of year	\$ 554,839	489,160

See Notes to Financial Statements.

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2008 and 2007

	2008	2007
Cash Flows From Operating Activities:		
Cash payments to suppliers and employees	\$ (1,288,236)	(1,257,750)
Cash received for operational funding revenue from UNM	1,034,000	1,034,000
Cash received for patent funding revenue from UNM	732,200	732,200
Cash payments for patent costs incurred	(709,421)	(715,188)
Cash received for patent cost reimbursements	211,612	224,961
Cash payments to UNM for patent cost reimbursements received	(166,584)	(224,733)
Cash received from licensees	506,586	830,135
Cash payments for licensing distribution expense	(237,142)	(600,434)
Cash received from grant	-	50,000
Cash payments for gap fund program	-	(50,000)
Cash received for one-time special project	5,000	10,000
Net cash provided by operating activities	<u>88,015</u>	<u>33,191</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition of capital assets	<u>(77,901)</u>	<u>(8,273)</u>
Net cash used in capital and related financing activities	<u>(77,901)</u>	<u>(8,273)</u>
Cash Flows From Investing Activities:		
Interest received	27,200	36,283
Rental income received	7,208	-
Net cash provided by investing activities	<u>34,408</u>	<u>36,283</u>
Net increase in cash and cash equivalents	44,522	61,201
Cash and cash equivalents, beginning of year	<u>729,313</u>	<u>668,112</u>
Cash and cash equivalents, end of year	<u>\$ 773,835</u>	<u>729,313</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 31,271	10,940
Adjustments to reconcile to net cash provided by operating activities		
Depreciation	22,222	11,518
Bad debt expense (recovery)	(30,000)	30,000
Stock investment income received in exchange for technology	(23)	(2,734)
Changes in operating assets and liabilities		
Accounts receivable	(115,217)	123,405
Other assets	1,000	-
Accounts payable	141,183	23,742
Due to UNM	2,407	(92,259)
Accrued royalty sharing	56,955	(60,239)
Accrued expenses	(21,503)	(12,462)
Deferred revenue	(280)	1,280
Net cash provided by operating activities	<u>\$ 88,015</u>	<u>33,191</u>

See Notes to Financial Statements.

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. STC.UNM (formerly known as Science & Technology Corporation @ 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. The governing board consists of 20 members, including certain officers and faculty of UNM, the president of the Corporation, and 10 members of the community.

Basis of 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.

As a proprietary fund, 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 revenue and expenses are those incurred which relate directly to facilitating commercialization of UNM faculty, staff and student inventions. All other revenue and expenses are considered nonoperating.

Accounting Standards. As a component unit of UNM, the Corporation follows proprietary fund accounting as set forth in Statement No. 20 of the Governmental Accounting Standards Board, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting. Under the provisions of that standard, the Corporation has elected not to apply Statements on Financial Accounting Standards issued by the Financial Accounting Standards Board after November 1989.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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. It does by policy require deposits to be collateralized at least 50%.

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

For purposes of the statement of cash flows, the Corporation considers all cash on hand and in banks and all highly liquid securities with maturities of three months or less to be cash equivalents.

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 is no allowance for doubtful accounts as of June 30, 2008. As of June 30, 2007, the allowance for doubtful accounts was \$30,000.

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 old accounts receivable.

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. 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.

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. Subsequent reimbursement of any patent costs by a third party to the Corporation is remitted to UNM. If the Corporation uses proceeds to reimburse UNM, the payment is considered patent expense and royalty income.

Revenue Recognition. Up-front, 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 income is accrued as it is earned, if it is determined that collection is reasonably assured. Licensing fees and minimum annual royalty income accrued were \$212,090 and \$155,538 as of June 30, 2008 and 2007, respectively.

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)

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

Income Taxes. The Corporation, as an organization described in Internal Revenue Code Section 501(c)(3), is exempt from federal income tax on its related income under Section 501(a). The Corporation engaged in no material unrelated activities and therefore no provision for income taxes has been made. The Corporation is a supporting organization of the University of New Mexico and not a private foundation.

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.

Investments in Stock. Investments in stock are carried at the estimated fair value. Management estimates the value of the stock utilizing the most recent rounds of financing completed and book value of the stock carried on the underlying companies' financial statements.

Net Assets. Net assets are classified as follows:

Invested in capital assets (net of related debt) is intended to reflect the portion of net assets which are associated with non-liquid, capital asset less outstanding capital asset related debt. STC.UNM does not have any debt related to its capital assets.

Restricted net assets are net assets that have third-party (statutory or granting agency) limitations on their use.

Unrestricted net assets represent liquid assets available for use.

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 2. CASH AND CASH EQUIVALENTS

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.

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

	2008	2007
Insured	\$ 100,000	100,000
Uninsured and collateralized with securities held by the financial institution's trust department, but not in the Corporation's name	609,754	558,377
Uninsured and uncollateralized	360,037	495,540
Total bank balance	<u>\$ 1,069,791</u>	<u>1,153,917</u>

The following schedule details the Corporation's deposit accounts and collateral pledged at June 30, 2008:

Bank Name/ Account	Account Type	Financial Statement Balance	Outstanding Checks	Bank Balance
Bank of America				
Operating	Checking	\$ 756,743	295,956	1,052,699
Payroll	Checking	17,092	-	17,092
		<u>773,835</u>	<u>295,956</u>	<u>1,069,791</u>
Less FDIC insurance				<u>100,000</u>
				<u>969,791</u>
Amount to be collateralized at 50%				<u>484,896</u>
Collateral				
FNCL, matures 9/1/33, Cusip 31385XLY1				303,709
FNMA, matures 5/1/33, Cusip 31385XAZ0				306,045
				<u>609,754</u>
Amount of excess collateral				<u>\$ 124,858</u>

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 3. CAPITAL ASSETS

	2008			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Furniture and equipment	\$ 105,725	77,902	-	183,627
Accumulated depreciation	76,854	(22,223)	-	99,077
Capital assets, net	<u>\$ 28,871</u>	<u>55,679</u>	-	<u>84,550</u>
	2007			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Furniture and equipment	\$ 97,452	8,273	-	105,725
Accumulated depreciation	65,336	(11,518)	-	76,854
Capital assets, net	<u>\$ 32,116</u>	<u>(3,245)</u>	-	<u>28,871</u>

NOTE 4. COMMITMENTS AND CONTINGENCIES

Occupancy Agreement. Effective January 31, 2008, the Corporation entered into an occupancy agreement with UNM for lease of office facilities. The occupancy agreement will expire on June 30, 2010. Future minimum payments required under the occupancy agreement are as follows:

Year ended June 30, 2009	\$77,625
Year ended June 30, 2010	\$77,625

Insurance Coverage. The Corporation is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; and errors and omissions and natural disasters. The Corporation is insured under the University of New Mexico'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 settlements have not exceeded coverage in the past three years.

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 5. DEFINED CONTRIBUTION PLAN

The Corporation sponsors a defined contribution retirement plan for eligible employees. Employees may contribute up to the maximum allowed by the Internal Revenue Service. The Corporation matched the employee's contribution up to 10.90% and 10.15% of the employee's base salary in 2008 and 2007, respectively. There is no waiting period for vesting. The Corporation contributions were \$67,333 and \$65,130 in 2008 and 2007, respectively. Employee contributions were \$68,198 and \$106,218 in 2008 and 2007, respectively.

NOTE 6. INCENTIVE COMPENSATION PLAN

The Corporation has in place an incentive compensation plan in which the finance and compensation committee of the Corporation's board of directors has the discretion to provide a cash and/or stock incentive bonus based on performance. Stock bonuses vest 20% per year beginning when the award is made. Cash bonuses awarded to employees were \$0 and \$29,250 in 2008 and 2007, respectively.

NOTE 7. STEP ENDOWMENT

On June 13, 2006, the Board of Regents of UNM amended and restated the Technology Innovation Program Endowment which was first established in 1985. The name of the endowment was changed to the UNM Science & Technology Enhancement Program Endowment (the "STEP Endowment"). The purpose of the STEP Endowment is to assist individuals and companies associated with UNM with technological innovation leading to the formation and establishment of New Mexico businesses through STC.UNM. STC has used the STEP Endowment to make Technology-to-Market Gap Fund grants in order to mature STC technologies to the point that they will be licensed by an established company or form the basis of a new company, preferably in New Mexico. During fiscal year 2008, three awards totaling \$75,000 were granted to UNM researchers. The Endowment account will continue to be retained at the UNM Foundation.

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
STC.UNM
and
Mr. Hector H. Balderas,
New Mexico State Auditor

We have audited the basic financial statements of STC.UNM (STC), a component unit of the University of New Mexico as of and for the year ended June 30, 2008, and have issued our report thereon dated August 25, 2008. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered STC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of STC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of STC's internal control over financial reporting.

A *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Board of Directors
STC.UNM
and
Mr. Hector H. Balderas,
New Mexico State Auditor

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether STC's financial statements are free of 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 *Governmental Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors and the New Mexico State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Moss Adams LLP

Albuquerque, New Mexico
August 25, 2008

STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2008

Prior Year

None

Current Year

None

**STC.UNM
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)
EXIT CONFERENCE
YEAR ENDED JUNE 30, 2008**

An exit conference was conducted on October 8, 2008 in which the contents of this report were discussed with the following:

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

Sandra Begay-Campbell	Chair, Finance and Compensation Committee, Board of Directors, STC
Joseph Cecchi	Chair, Board of Directors, STC; Dean, School of Engineering, University of New Mexico
David Harris	Exec. Vice President for Administration, University of New Mexico; Member of Finance and Compensation Committee, Board of Directors, STC
Elizabeth Kuuttila	President & CEO, STC; Member of Board of Directors, STC
Kyung Lee Salazar	Operations Manager/Controller, STC

Moss Adams LLP

Larry Carmony	Partner
Molly Griego	Supervisor