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**STC:UNM**

connecting  
the marketplace  
and the  
University of  
New Mexico

**FINANCIAL STATEMENTS**

**JUNE 30, 2010**

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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, 2010**

**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	Mr. Douglas M. Brown
Dr. Joseph L. Cecchi	Ms. Terri Cole
Dr. James D. Cramer	Dr. Robert H. Fisher
Dr. Julia E. Fulghum	Mr. J.E. (Gene) Gallegos
Ms. Maria Griego-Raby	Mr. David W. Harris
Ms. Elizabeth Kuuttila	Ms. Diana MacArthur
Dr. Kevin Malloy	Dr. Gregg L. Mayer
Ms. Cindy McGill	Mr. Fred Mondragon
Dr. Pope Moseley	Dr. Suzanne Ortega
Dr. John A. Pieper	Dr. Paul B. Roth
Dr. David J. Schmidly	Dr. John H. Stichman
Mr. Pedro F. Suarez	Mr. Gary Tonjes
Mr. Chuck I. Wellborn	Dr. Albert R.C. Westwood
Ms. Teri F. 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, 2010 and 2009, 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, 2010 and 2009, 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 October 11, 2010 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. 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.

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

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.

*Mess Adams LLP*

Albuquerque, New Mexico  
October 11, 2010

**STC.UNM**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2010 AND 2009**

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, 2010 and 2009.

**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**

	<b>June 30</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Current assets	\$ 1,297,432	\$ 952,913	\$ 1,130,636
Capital assets, net	36,842	56,740	84,550
Current liabilities	608,484	664,828	664,200
Total operating revenues	5,662,573	2,835,589	2,605,276
Total operating expenses	5,288,915	3,055,613	2,574,005
Total nonoperating revenue and expenses	7,307	17,983	34,408
Change in net assets	380,965	(202,041)	65,679
Net assets, end of year	733,763	352,798	554,839

**Financial Position**

The Corporation's current assets increased by \$344,519 as of June 30, 2010 to \$1,297,432, compared to \$952,913 as of June 30, 2009; whereas, current assets decreased \$177,723 to \$952,913 as of June 30, 2009, compared to \$1,130,636 as of June 30, 2008. The changes from year to year are primarily due to the activity level in the accounts receivable related to various license agreements from licensee companies. Capital asset purchases during fiscal years 2010, 2009 and 2008 were \$13,811, \$6,128 and \$77,902, respectively, for leasehold improvements, computer equipment and furniture. Current liabilities remained constant in fiscal year 2010 compared to fiscal year 2009, as well as fiscal year 2009 compared to fiscal year 2008.

**STC.UNM  
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
JUNE 30, 2010 AND 2009**

**Capital Assets**

During the years ended June 30, 2010, 2009 and 2008, the Corporation acquired \$13,811, \$6,128 and \$77,902 respectively, in capital assets and had depreciation expense of \$33,709, \$33,938 and \$22,222, respectively.

**Comparison of Fiscal 2010 to Fiscal 2009 Results of Operations**

Total operating revenue for fiscal year 2010 of \$5,662,573 increased from \$2,835,589 for fiscal year 2009, a net increase of \$2,826,984. The net change is primarily due to increase in license income of \$2,972,482 from prior year. One license agreement was the result of a settlement with a third-party company over STC's accusation of patent infringement. Another license agreement was entered into by STC with a third-party company for a portfolio of lithography technologies.

Total operating expenses increased by \$5,288,915 for fiscal year 2010 compared to fiscal year 2009 due to increase in patent cost expense of \$3,055,613 due to increase of \$2,177,921 in licensing and royalty sharing distribution expense as a result of higher license income resulted in fiscal year 2010.

**Comparison of Fiscal 2009 to Fiscal 2008 Results of Operations**

Total operating revenue for fiscal year 2009 of \$2,835,589 increased from \$2,605,276 for fiscal year 2008, a net increase of \$230,313. The net change is primarily due to increase in license income of \$242,187 from prior year.

Total operating expenses increased by \$481,608 for fiscal year 2009 compared to fiscal year 2008 due to increase in patent cost expense of \$291,865 due to more licensee-directed foreign patent application filings as well as increased invention disclosure activity, and increase of \$179,464 in licensing and royalty sharing distribution expense as a result of higher license income resulted in fiscal year 2009.

**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)**  
**STATEMENT OF NET ASSETS**  
**June 30, 2010 and 2009**

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 1,222,962	548,777
Accounts receivable	74,470	404,136
<b>Total current assets</b>	<u>1,297,432</u>	<u>952,913</u>
Capital assets:		
Furniture and equipment	203,566	189,755
Accumulated depreciation	(166,724)	(133,015)
<b>Total capital assets, net</b>	<u>36,842</u>	<u>56,740</u>
Investment in stock	7,973	7,973
<b>Total other assets</b>	<u>7,973</u>	<u>7,973</u>
<b>Total assets</b>	<u>\$ 1,342,247</u>	<u>1,017,626</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 168,553	203,360
Deferred revenue	1,550	1,288
Due to University of New Mexico	7,698	90,990
Accrued royalty sharing	215,423	284,260
Accrued expenses	215,260	84,930
<b>Total current liabilities</b>	<u>608,484</u>	<u>664,828</u>
Net assets (deficit):		
Unrestricted	102,921	296,058
Unrestricted - STC Quasi-Endowment	594,000	-
Invested in capital assets	36,842	56,740
<b>Total net assets</b>	<u>733,763</u>	<u>352,798</u>
<b>Total liabilities and net assets</b>	<u>\$ 1,342,247</u>	<u>1,017,626</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, 2010 and 2009

	2010	2009
Operating Revenues:		
Operational funding from UNM	\$ 954,000	1,034,000
Patent funding from UNM	732,200	732,200
Patent cost reimbursement	198,510	264,008
Licensing and royalties	3,777,863	805,381
<b>Total operating revenue</b>	<b>5,662,573</b>	<b>2,835,589</b>
Operating expenses:		
Patent costs incurred	1,062,666	1,113,521
Patent cost reimbursement to UNM	-	66,012
Licensing distributions	2,685,067	507,146
Depreciation	33,709	33,938
General and administrative	1,507,473	1,334,996
<b>Total operating expenses</b>	<b>5,288,915</b>	<b>3,055,613</b>
Operating income	373,658	(220,024)
Nonoperating revenue and expenses:		
Interest income	942	4,958
Rental income	6,365	13,025
<b>Total nonoperating revenue and expenses</b>	<b>7,307</b>	<b>17,983</b>
<b>Change in net assets</b>	<b>380,965</b>	<b>(202,041)</b>
Net assets, beginning of year	352,798	554,839
<b>Net assets, end of year</b>	<b>\$ 733,763</b>	<b>352,798</b>

*See Notes to Financial Statements.*

**STC.UNM**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended June 30, 2010 and June 30, 2009**

	2010	2009
Cash Flows From Operating Activities:		
Cash payments to suppliers and employees	\$ (1,369,519)	(1,334,952)
Cash received for operational funding revenue from UNM	954,000	1,034,000
Cash received for patent funding revenue from UNM	732,200	732,200
Cash payments for patent costs incurred	(1,103,972)	(1,124,435)
Cash received for patent cost reimbursements	210,538	369,954
Cash payments to UNM for patent cost reimbursements received	(10,610)	(115,779)
Cash received from licensees	4,094,638	642,519
Cash payments for licensing distribution expense	(2,826,586)	(440,420)
<b>Net cash provided by (used in) operating activities</b>	<b>680,689</b>	<b>(236,913)</b>
Cash Flows From Capital and Related Financing Activities:		
Acquisition of capital assets	(13,811)	(6,128)
Cash Flows From Investing Activities:		
Interest received	942	4,958
Rental income received	6,365	13,025
<b>Net cash provided by investing activities</b>	<b>7,307</b>	<b>17,983</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>674,185</b>	<b>(225,058)</b>
Cash and cash equivalents, beginning of year	548,777	773,835
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,222,962</b>	<b>548,777</b>
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	\$ 373,658	(220,024)
Adjustments to reconcile to net cash provided by operating activities		
Depreciation	33,709	33,938
Stock investment income received in exchange for technology	—	(4,120)
Changes in operating assets and liabilities		
Accounts receivable	329,666	(47,335)
Accounts payable	(34,807)	(38,494)
Due to UNM	(83,292)	(48,351)
Accrued royalty sharing	(68,837)	59,130
Accrued expenses	130,330	28,055
Deferred revenue	262	288
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 680,689</b>	<b>(236,913)</b>

*See Notes to Financial Statements.*

**STC.UNM**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2010 AND 2009**

**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 at least 20 members, including certain officers and faculty of UNM, the president of the Corporation, and 10 members of the community. The Corporation has no component units.

*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, 2010 and 2009**

**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, 2010 and June 30, 2009.

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 \$47,877 and \$364,652 as of June 30, 2010 and 2009, respectively.

**STC.UNM**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**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.

Designated net assets are unrestricted subject to Corporation-imposed limits by action of the Board of Directors. Designated net assets are earmarked for future programs and for investment.

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, 2010 and 2009

**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:

	2010	2009
Insured	\$ 250,000	250,000
Uninsured and collateralized with securities held by the financial institution’s trust department, but not in the Corporation’s name	1,527,881	637,250
Uninsured and uncollateralized	-	-
Total bank balance	<u>\$ 1,777,881</u>	<u>887,250</u>

The following schedule details the Corporation’s deposit accounts and collateral pledged at June 30, 2010:

Bank Name/ Account	Account Type	Financial Statement Balance	Outstanding Checks	Bank Balance
Bank of America				
Operating	Checking	\$ 3,483	-	3,483
Payroll	Checking	-	-	-
Bank of the West				
Operating	Checking	1,216,581	555,019	1,771,600
Merchant	Checking	2,798	-	2,798
		<u>1,222,862</u>	555,019	1,777,881
Petty Cash		100		
		<u>\$ 1,222,962</u>		
Less FDIC insurance				250,000
Amount to be collateralized				<u>1,527,881</u>
Minimum to be collateralized at 50%				<u>763,941</u>
Collateral				
FHLMC, matures 3/1/38, Cusip 3128QTBW3				687,200
FNMA, matures 8/1/38, Cusip 31412SVZ5				455,497
GNMA, matures 11/15/27, Cusip 36208LBW6				174,813
GNMA, matures 8/20/35, Cusip 38375A4Z4				430,651
				<u>1,748,161</u>
Amount of excess collateral				<u>\$ 984,220</u>

**STC.UNM**  
**(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2010 and 2009**

**NOTE 3. CAPITAL ASSETS**

	<u>2010</u>			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Furniture and equipment	\$ 189,755	13,811	-	203,566
Accumulated depreciation	<u>(133,015)</u>	<u>(33,709)</u>	-	<u>(166,724)</u>
Capital assets, net	<u>\$ 56,740</u>	<u>(19,898)</u>	-	<u>36,842</u>

	<u>2009</u>			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Furniture and equipment	\$ 183,627	6,128	-	189,755
Accumulated depreciation	<u>(99,077)</u>	<u>(33,938)</u>	-	<u>(133,015)</u>
Capital assets, net	<u>\$ 84,550</u>	<u>27,810</u>	-	<u>56,740</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 was amended on April 9, 2010 to extend the term of the lease until June 30, 2011. Future minimum payments required under the occupancy agreement are as follows:

Year ended June 30, 2011	\$80,092
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*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.

**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 12.4% and 11.65% of the

**STC.UNM  
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2010 and 2009**

**NOTE 5. DEFINED CONTRIBUTION PLAN (CONTINUED)**

employee's base salary in 2010 and 2009, respectively. There is no waiting period for vesting. The Corporation contributions were \$84,835 and \$76,576 in 2010 and 2009, respectively. Employee contributions were \$67,841 and \$74,272 in 2010 and 2009, 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 \$151,116 and \$32,202 in 2010 and 2009, 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 2009, three awards totaling \$98,494 were granted to UNM researchers. Beginning in fiscal year 2010, the STEP Endowment will no longer be available for funding the Technology-to-Market Gap Fund grants.

**NOTE 8. STC QUASI-ENDOWMENT**

During fiscal year 2010, the Board of Directors of STC approved an internal STC endowment policy for management of large one-time license-fee related payments received by STC. The STC share of such large one-time payments in excess of \$500,000 will be allocated as follows: 80% to an endowment, the interest from which could be used to fund STC operations; and 20% to the STC Gap Fund at UNM, Inventor Recognition Awards Program and other strategic initiatives of STC, as determined by the Board's Executive Committee. The STC Board-designated endowment will be accounted for under Net Assets.



**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 financial statements of STC.UNM, a component unit of The University of New Mexico, (Corporation) as of and for the year ended June 30, 2010, and have issued our report thereon dated October 11, 2010. 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 the Corporation'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 the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mass Adams LLP*

Albuquerque, New Mexico  
October 11, 2010

**STC.UNM  
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2010**

**Prior Year**

None

**Current Year**

None

**STC.UNM  
(A COMPONENT UNIT OF THE UNIVERSITY OF NEW MEXICO)  
EXIT CONFERENCE  
YEAR ENDED JUNE 30, 2010**

An exit conference was conducted on October 11, 2010 in which the contents of this report were discussed with the following:

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

Joseph Cecchi	Chair, Board of Directors, STC
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	CFO, STC

**Moss Adams LLP**

Larry Carmony	Partner
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