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STC.UNM

THE INNOVATION DOOR TO THE UNIVERSITY OF NEW MEXICO

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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

June 30, 2012

Officers

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

Committee Chairs

Ms. Sandra Begay-Campbell	Chair, Executive Committee and Nominating Committee
Dr. John H. Stichman	Chair, Finance and Compensation Committee
Mr. Douglas M. Brown	Chair, Endowment Fund Committee

Board Members

Dr. Chaouki T. Abdallah	Ms. Sandra Begay-Campbell
Mr. Douglas M. Brown	Ms. Terri Cole
Dr. James D. Cramer	Dr. Robert H. Fisher
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Ms. Maria Griego-Raby	Mr. David W. Harris
Ms. Elizabeth Kuuttila	Dr. Richard S. Larson
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Dr. John H. Stichman	Mr. Pedro F. Suarez
Mr. Gary Tonjes	Mr. Chuck I. Wellborn
Dr. Albert R.C. Westwood	

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Independent Auditors' Report

The 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 (Corporation), a component unit of the University of New Mexico (UNM), as of and for the years ended June 30, 2012 and 2011, 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 audit.

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, 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 respective financial position of the Corporation as of June 30, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2012 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 audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 and 4 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.

KPMG LLP

Albuquerque, New Mexico
October 15, 2012

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, 2012, 2011, and 2010.

Overview of the Financial Statements

The Balance Sheet of the Corporation provides both long-term and short-term information about the Corporation's overall financial status. The Statements of Revenues, Expenses, and Changes in Net Assets 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		
		2012	**2011**	**2010**
Current assets	$	1,503,691	1,359,767	1,297,432
Capital assets, net		72,735	71,733	36,842
Current liabilities		1,191,635	976,046	608,484
Total operating revenues		4,473,575	4,939,218	5,662,573
Total operating expenses		4,572,924	5,222,397	5,288,915
Total nonoperating revenue and expenses		24,723	12,983	7,307
Change in net assets		(74,626)	(270,196)	380,965
Net assets, end of year		388,941	463,567	733,763

Financial Position

The Corporation's current assets increased by $143,924 as of June 30, 2012 to $1,503,691, compared to $1,359,767 as of June 30, 2011; and current assets increased by $62,335 as of June 30, 2011 to $1,359,767, compared to $1,297,432 as of June 30, 2010. 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 2012, 2011, and 2010 were $32,875, $64,351, and $13,811, respectively, for software, leasehold improvements, computer equipment, and furniture. Current liabilities increased by $215,589 as of June 30, 2012 to $1,191,635, compared to $976,046 as of June 30, 2011; and current liabilities increased by $367,562 as of June 30, 2011 to $976,046, compared to $608,484 as of June 30, 2010. The changes from year to year are primarily attributable to a balance due to the University of New Mexico (UNM) and timing of the payment by the Corporation as of year-end as well as royalty sharing payable liabilities.

Capital Assets

During the years ended June 30, 2012, 2011, and 2010, the Corporation acquired $32,875, $64,351, and $13,811, respectively, in capital assets and had depreciation expense of $31,873, $29,460, and $33,709, respectively.

(Continued)

Comparison of Fiscal 2012 to Fiscal 2011 Results of Operations

Total operating revenue for fiscal year 2012 of $4,473,575 decreased from $4,939,218 for fiscal year 2011, a net decrease of $465,643. The net change is due to: decrease in operational funding from UNM of $60,000 from prior year, decrease in license income of $560,577 from prior year, but increase in patent cost reimbursement income by $149,934 compared to prior year. Fiscal year 2011 income included a license agreement that was the result of a large one-time settlement with a third-party company over STC's assertion of patent infringement.

Total operating expenses decreased by $649,473 for fiscal year 2012 compared to fiscal year 2011. The net decrease is due to: decrease in patent cost expenses and general and administrative expenses as a result of several cost-cutting measures instituted during fiscal year 2012, and decrease in licensing and royalty sharing distribution expense as a result of lower license income resulted in fiscal year 2012.

Comparison of Fiscal 2011 to Fiscal 2010 Results of Operations

Total operating revenue for fiscal year 2011 of $4,939,218 decreased from $5,662,573 for fiscal year 2010, a net decrease of $723,355. The net change is primarily due to decrease in license income of $681,930 from prior year. Fiscal year 2010 income included a license agreement that was the result of a large one-time settlement with a third-party company over STC's assertion of patent infringement.

Total operating expenses decreased by $66,518 for fiscal year 2011 compared to fiscal year 2010. The net decrease is primarily the result of decrease in licensing and royalty sharing distribution expense as a result of lower license income resulted in fiscal year 2011.

Economic Conditions

The uncertainty of the general economic condition impacts university technology transfer offices such as STC. 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 801 University Boulevard SE, Suite 101, Albuquerque, NM 87106.

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

Balance Sheets

June 30, 2012 and 2011

Assets		**2012**	**2011**
Current assets:			
Cash and cash equivalents	$	686,704	1,234,685
Investments		489,792	—
Accounts receivable, net		322,695	120,582
Other assets		4,500	4,500
Total current assets		1,503,691	1,359,767
Capital assets:			
Furniture and equipment		256,425	228,066
Accumulated depreciation		(183,690)	(156,333)
Total capital assets, net		72,735	71,733
Investment in stock		4,150	8,113
Total other assets		4,150	8,113
Total assets	$	1,580,576	1,439,613
Liabilities and Net Assets			
Current liabilities:			
Accounts payable	$	315,063	302,406
Deferred revenue		1,550	2,050
Due to University of New Mexico		261,122	306,736
Accrued royalty sharing		457,796	182,342
Accrued expenses		156,104	182,512
Total current liabilities		1,191,635	976,046
Net assets (deficit):			
Unrestricted		(183,794)	(108,166)
Unrestricted – STC Quasi-Endowment		500,000	500,000
Invested in capital assets		72,735	71,733
Total net assets		388,941	463,567
Total liabilities and net assets	$	1,580,576	1,439,613

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended June 30, 2012 and 2011

		2012	2011
Operating revenues:			
Operational funding from UNM	$	734,000	794,000
Patent funding from UNM		812,000	812,000
Gap funding program assistance from UNM		5,000	—
Patent cost reimbursement		387,219	237,285
Licensing and royalties		2,535,356	3,095,933
Total operating revenues		4,473,575	4,939,218
Operating expenses:			
Patent costs incurred		1,146,980	1,327,732
Licensing distributions		1,911,548	2,363,830
Depreciation		31,873	29,460
Provision for doubtful accounts		25,000	—
Technology advancement awards		49,984	50,000
General and administrative		1,407,539	1,451,375
Total operating expenses		4,572,924	5,222,397
Operating loss		(99,349)	(283,179)
Nonoperating revenue and expenses:			
Interest income		8,170	—
Rental income		19,050	12,983
Loss on investments, net		(2,497)	—
Total nonoperating revenue and expenses		24,723	12,983
Change in net assets		(74,626)	(270,196)
Net assets, beginning of year		463,567	733,763
Net assets, end of year	$	388,941	463,567

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended June 30, 2012 and 2011

		2012	2011
Cash flows from operating activities:			
Cash payments to suppliers and employees	$	(1,422,658)	(1,499,805)
Cash received for operational funding revenue from UNM		734,000	794,000
Cash received for patent funding revenue from UNM		812,000	812,000
Cash received for gap funding program assistance from UNM		5,000	—
Cash payments for patent costs incurred		(1,151,321)	(1,195,054)
Cash received for patent cost reimbursements		267,094	230,207
Cash received from licensees		2,431,500	3,057,860
Cash payments for licensing distribution expense		(1,679,662)	(2,086,117)
Cash payments for technology advancement awards		(49,984)	(50,000)
Net cash provided by (used in) operating activities		(54,031)	63,091
Cash flows from capital and related financing activities:			
Acquisition of capital assets		(32,875)	(64,351)
Cash flows from investing activities:			
Purchase of investments, net		(488,295)	—
Interest received		8,170	—
Rental income received		19,050	12,983
Net cash provided by (used in) investing activities		(461,075)	12,983
Net increase in cash and cash equivalents		(547,981)	11,723
Cash and cash equivalents, beginning of year		1,234,685	1,222,962
Cash and cash equivalents, end of year	$	686,704	1,234,685
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$	(99,349)	(283,179)
Adjustments to reconcile to net cash provided by (used in) operating activities:			
Depreciation		31,873	29,460
Stock investment income received in exchange for technology		(31)	(141)
Provision for doubtful accounts		25,000	—
Changes in operating assets and liabilities:			
Accounts receivable		(227,113)	(46,112)
Other assets		—	(4,500)
Accounts payable		12,657	133,854
Due to UNM		(45,614)	299,038
Accrued royalty sharing		275,454	(33,081)
Accrued expenses		(26,408)	(32,748)
Deferred revenue		(500)	500
Net cash provided by (used in) operating activities	$	(54,031)	63,091

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) 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 Corporation was incorporated under the State of New Mexico's University Research Park and Economic Development Act. The governing board consists of at least 20 members, including certain officers and faculty of UNM, the president of the Corporation, and at least 10 members of the community. The Corporation has no component units.

(b) 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.

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 that relate directly to facilitating commercialization of UNM faculty, staff and student inventions. All other revenue and expenses are considered nonoperating.

(c) Accounting Standards

Effective July 1, 2010, the Corporation adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Contained in Pre-November 30, 1989 and AICPA Pronouncements* (GASB No. 62), which supersedes GASB No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. The GASB No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The adoption of GASB No. 62 had no impact on the Corporation's propriety fund accounting policies, as the Corporation had previously elected in accordance with GASB No. 20 to not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, and applicable FASB pronouncements issued on or before November 30, 1989 have now been incorporated into GASB pronouncements.

(d) 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.

(e) 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%.

For purposes of the statements of cash flows, the Corporation considers all cash on hand and in banks and all highly liquid securities to be cash equivalents.

(f) 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. The allowance for doubtful accounts as of June 30, 2012 and 2011 were $25,000 and $0.

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.

(g) 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.

(h) 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.

(i) 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 $189,377 and $85,598 as of June 30, 2012 and 2011, respectively.

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

(j) 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. Furthermore, the Corporation previously received a discretionary ruling from the IRS under Revenue Procedure 95-48, excluding it from the requirement to file certain information returns. Changes made by the Pension Protection Act of 2006 removed the IRS's discretionary authority to waive these filing requirements. On December 21, 2011, the Corporation received a notice from the IRS indicating that beginning with the 2011 tax year, the Corporation must file an annual information return (Form 990) by the 15th day of the 5th month after the close of the accounting period. The Corporation expects to comply with the November 15th deadline.

(k) 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.

(l) 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.

(m) 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 that are associated with nonliquid, capital asset less outstanding capital asset-related debt. The Corporation 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.

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(2) Cash, Cash Equivalents, and Investments

		2012	2011
Cash and cash equivalents:			
Cash on deposit at financial institution	$	671,099	1,234,585
Cash equivalents not considered deposits:			
Money market accounts		15,505	—
Petty		100	100
Total cash and cash equivalents	$	686,704	1,234,685
Investments:			
Fixed income:			
Domestic mutual funds	$	66,213	—
International mutual funds		31,374	—
Total fixed income		97,587	—
Equities:			
Domestic mutual funds		163,936	—
International mutual funds		115,505	—
Total equities		279,441	—
Complementary strategies funds (hedge fund and private equity)		45,179	—
Real assets funds (real estate and commodities)		67,585	—
Total investments	$	489,792	—

(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’s investment policy does not specifically address custodial credit risk.

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

		2012	2011
Insured	$	706,332	1,308,294
Uninsured and collateralized with securities held by the financial institution’s trust department, but not in the Corporation’s name		—	—
Uninsured and uncollateralized		—	—
Total bank balance	$	706,332	1,308,294

(Continued)

The following schedule details the Corporation's deposit accounts and collateral pledged at June 30, 2012:

Bank name/ account	Account type		Financial statement balance	Outstanding checks		Bank balance
Bank of the West:						
Operating	Checking	$	671,099	35,233		706,332
Less FDIC insurance						706,332
Amount to be collateralized					$	—
Minimum to be collateralized at 50%					$	—

(b) Investment Policy

The Corporation has its funds in the "Balanced-Appreciation" investment objective options under the Wells Fargo Strategic Asset Allocation Mixes. Wells Fargo 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 to emphasis on potential capital appreciation with some consideration for current income. 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 be described as "moderate." The performance of the portfolio will be monitored, measured, and reported by Wells Fargo to the Corporation.

(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 does not specifically address interest rate or credit risk, such as limiting investment maturities as a means of managing the exposure to fair values losses arising from increasing interest rate.

The Corporation had the following investments and maturities at June 30, 2012. There were no investments as of June 30, 2011.

	June 30, 2012					
		Weighted average investment maturities (in years)				
Investment type	**Fair value**	**Less than 1**	**1 – 5**	**6 – 10**	**More than 10**	**Not available**
Fixed income:						
Domestic bond mutual funds	$ 66,213	—	4,637	61,576	—	—
International bond mutual funds	31,374	—	—	—	—	31,374
	$ 97,587	—	4,637	61,576	—	31,374

The following table provides information on the credit ratings associated with the Corporation's investments in debt securities at June 30, 2012. There were no investments as of June 30, 2011.

	June 30, 2012									
Investment type	**Fair value**	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**U.S. government guaranteed**	**NR**	**Not available**
Fixed income:										
Domestic bond mutual funds	$ 66,213	10,315	737	4,540	8,182	7,311	9,919	539	24,670	—
International bond mutual funds	31,374	—	—	—	—	—	—	—	—	31,374
	$ 97,587	10,315	737	4,540	8,182	7,311	9,919	539	24,670	31,374

(d) Foreign Currency Risk

The foreign currency 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.

(3) Capital Assets

		2012			
		Beginning balance	**Increases**	**Decreases**	**Ending balance**
Capital assets being depreciated:					
Furniture and equipment	$	228,066	32,875	(4,516)	256,425
Accumulated depreciation		(156,333)	(31,873)	4,516	(183,690)
Capital assets, net	$	71,733	1,002	—	72,735

		2011			
		Beginning balance	**Increases**	**Decreases**	**Ending balance**
Capital assets being depreciated:					
Furniture and equipment	$	203,566	64,351	(39,851)	228,066
Accumulated depreciation		(166,724)	(29,460)	39,851	(156,333)
Capital assets, net	$	36,842	34,891	—	71,733

(4) Commitments and Contingencies

(a) 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 June 20, 2012 to further extend the term of the lease until June 30, 2013. Future minimum payments required under the occupancy agreement are as follows:

Year ended June 30, 2013	$	60,092

(b) 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 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.

(Continued)

(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 IRS. In 2012 and 2011, respectively, the Corporation matches the employee's contributions below 7.975%; employee's contributions over 7.975% are matched up to 12.400% of employee's base salary. There is no waiting period for vesting. The Corporation contributions were $84,542 and $80,403 in 2012 and 2011, respectively. Employee contributions were $66,599 and $63,937 in 2012 and 2011, respectively.

(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 $101,414 and $123,815 in 2012 and 2011, respectively.

(7) STC Quasi-Endowment

During fiscal year 2010, the Board of Directors of the Corporation (STC) approved an internal STC endowment policy for management of large one-time license-fee related payments received by STC. During fiscal year 2011, the endowment policy was revised so that if STC's net assets balance exceeds $500,000 then the excess balance may be allocated as follows: 80% to the STC Quasi-Endowment, the interest from which could be used to fund STC operations; and 20% to the STC Strategic Initiatives Fund to be used for the inventor recognition awards program, the gap fund program, and other strategic initiatives of STC, as determined by the Board of Director's Executive Committee. Reallocation of balances between the Quasi-Endowment, Strategic Initiatives Fund and other net assets balances may be made at the discretion of the STC Finance Committee. The STC Board-designated endowment is accounted for under Net Assets.

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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*

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

We have audited the financial statements of STC.UNM (Corporation), a component unit of the University of New Mexico, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 2012. 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

Management of the Corporation is responsible for establishing and maintaining effective 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 over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

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, the University of New Mexico, and the New Mexico State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Albuquerque, New Mexico
October 15, 2012

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

Schedule of Findings and Responses

Year ended June 30, 2012

Findings – Financial Statement Audit

Prior Year

None

Current Year

None

Other Findings as Required by New Mexico State Statute, Section 12-6-5, NMSA 1978

Prior Year

None

Current Year

None

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

Exit Conference

Year ended June 30, 2012

An exit conference was conducted on October 10, 2012, 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, Board of Directors, STC
John Stitchman	Chair of Finance and Compensation Committee, Secretary/Treasurer, 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

KPMG

John Kennedy	Partner
Jaime Clark	Senior Manager