



STC.UNM
THE INNOVATION DOOR TO
THE UNIVERSITY OF NEW MEXICO

Financial Statements

June 30, 2013 and 2012

(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, 2013

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
Dr. Robert G. Frank	Mr. J.E. (Gene) Gallegos
Ms. Maria Griego-Raby	Mr. David W. Harris
Ms. Elizabeth Kuuttila	Dr. Richard S. Larson
Dr. Gregg L. Mayer	Ms. Cindy McGill
Dr. John McGraw	Mr. Fred Mondragon
Dr. Pope Moseley	Mr. Robert H. Nath
Dr. Mansoor Sheik-Bahae	Dr. Paul B. Roth
Dr. John H. Stichman	Mr. Pedro F. Suarez
Mr. Gary Tonjes	Mr. Chuck I. Wellborn
Dr. Albert R.C. Westwood	



KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of STC.UNM, a component unit of the University of New Mexico, which comprise the balance sheet as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the STC.UNM as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013 on our consideration of STC.UNM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering STC.UNM's internal control over financial reporting and compliance.

KPMG LLP

Albuquerque, New Mexico
October 11, 2013

STC.UNM
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis (unaudited)
June 30, 2013 and 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, 2013, 2012, and 2011.

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 Position provide information about the operating revenues and expenses and nonoperating revenues and expenses of the Corporation. The Statements of Cash Flows provide information about the sources and uses of cash by the Corporation.

Condensed Financial Information

	June 30		
	2013	2012	2011
Current assets	\$ 1,581,582	1,503,691	1,359,767
Capital assets, net	49,868	72,735	71,733
Current liabilities	1,210,075	1,191,635	976,046
Total operating revenues	3,775,587	4,473,575	4,939,218
Total operating expenses	3,801,875	4,572,924	5,222,397
Total nonoperating revenue and expenses	73,447	24,723	12,983
Change in net position	47,159	(74,626)	(270,196)
Net position, end of year	436,100	388,941	463,567

Financial Position

The Corporation's current assets increased by \$77,891 as of June 30, 2013 to \$1,581,582 compared to \$1,503,691 as of June 30, 2012; and 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. 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, as well as increase in market value of investments. Capital asset purchases during fiscal years 2013, 2012, and 2011 were \$10,844, \$32,875, and \$64,351, respectively, for software, leasehold improvements, computer equipment, and furniture. Current liabilities increased by \$18,440 as of June 30, 2013 to \$1,210,075 compared to \$1,191,635 as of June 30, 2012; and current liabilities increased by \$215,589 as of June 30, 2012 to \$1,191,635, compared to \$976,046 as of June 30, 2011. 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, 2013, 2012, and 2011, the Corporation acquired \$10,844, \$32,875, and \$64,351, respectively, in capital assets and had depreciation expense of \$33,711, \$31,873, and \$29,460, respectively.

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June 30, 2013 and 2012

Comparison of Fiscal 2013 to Fiscal 2012 Results of Operations

Total operating revenue for fiscal year 2013 of \$3,775,587 decreased from \$4,473,575 for fiscal year 2012, a net decrease of \$697,988. The net change is due to: decrease in license income of \$833,340 from prior year, but increase in patent cost reimbursement income by \$100,208 compared to prior year. Fiscal year 2012 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 \$771,049 for fiscal year 2013 compared to fiscal year 2012. The net decrease is primarily due to decrease in licensing and royalty sharing distribution expense as a result of lower license income in fiscal year 2013.

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 in fiscal year 2012.

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
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Balance Sheets

June 30, 2013 and 2012

Assets	2013	2012
Current assets:		
Cash and cash equivalents	\$ 710,679	686,704
Investments	540,179	489,792
Accounts receivable, net	326,224	322,695
Other assets	4,500	4,500
Total current assets	1,581,582	1,503,691
Capital assets:		
Furniture and equipment	267,269	256,425
Accumulated depreciation	(217,401)	(183,690)
Total capital assets, net	49,868	72,735
Investment in stock	14,725	4,150
Total other assets	14,725	4,150
Total assets	\$ 1,646,175	1,580,576
Liabilities and Net Position		
Current liabilities:		
Accounts payable	\$ 169,688	315,063
Deferred revenue	500	1,550
Due to University of New Mexico	258,614	261,122
Accrued royalty sharing	654,481	457,796
Accrued expenses	126,792	156,104
Total current liabilities	1,210,075	1,191,635
Net position:		
Unrestricted (deficit)	(113,768)	(183,794)
Unrestricted – STC Quasi-Endowment	500,000	500,000
Invested in capital assets	49,868	72,735
Total net position	436,100	388,941
Total liabilities and net position	\$ 1,646,175	1,580,576

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 Position
Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Operational funding from UNM	\$ 734,000	734,000
Patent funding from UNM	812,000	812,000
Economic development initiative funding from UNM	40,144	—
Gap funding program assistance from UNM	—	5,000
Patent cost reimbursement	487,427	387,219
Licensing and royalties	1,702,016	2,535,356
	<u>3,775,587</u>	<u>4,473,575</u>
Total operating revenues		
Operating expenses:		
Patent costs incurred	1,278,611	1,146,980
Licensing distributions	1,194,181	1,911,548
Depreciation	33,711	31,873
Provision for doubtful accounts	—	25,000
Technology advancement awards	—	49,984
General and administrative	1,295,372	1,407,539
	<u>3,801,875</u>	<u>4,572,924</u>
Total operating expenses		
Operating loss	<u>(26,288)</u>	<u>(99,349)</u>
Nonoperating revenue and expenses:		
Interest income	12,518	8,170
Rental income	13,990	19,050
Gain (loss) on investments, net	46,939	(2,497)
	<u>73,447</u>	<u>24,723</u>
Total nonoperating revenue and expenses		
Change in net position	47,159	(74,626)
Net position, beginning of year	<u>388,941</u>	<u>463,567</u>
Net position, end of year	<u>\$ 436,100</u>	<u>388,941</u>

See accompanying notes to financial statements.

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Statements of Cash Flows

Years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash payments to suppliers and employees	\$ (1,337,498)	(1,422,658)
Cash received for operational funding revenue from UNM	734,000	734,000
Cash received for patent funding revenue from UNM	812,000	812,000
Cash received for economic development initiatives funding revenue from UNM	20,144	—
Cash received for gap funding program assistance from UNM	—	5,000
Cash payments for patent costs incurred	(1,408,944)	(1,151,321)
Cash received for patent cost reimbursements	503,241	267,094
Cash received from licensees	1,682,874	2,431,500
Cash payments for licensing distribution expense	(993,359)	(1,679,662)
Cash payments for technology advancement awards	—	(49,984)
Net cash provided by (used in) operating activities	<u>12,458</u>	<u>(54,031)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(10,844)</u>	<u>(32,875)</u>
Cash flows from investing activities:		
Investments purchased	(168,772)	(551,611)
Investments proceeds	164,625	63,316
Interest received	12,518	8,170
Rental income received	13,990	19,050
Net cash provided by (used in) investing activities	<u>22,361</u>	<u>(461,075)</u>
Net increase in cash and cash equivalents	23,975	(547,981)
Cash and cash equivalents, beginning of year	<u>686,704</u>	<u>1,234,685</u>
Cash and cash equivalents, end of year	<u>\$ 710,679</u>	<u>686,704</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (26,288)	(99,349)
Adjustments to reconcile to net cash provided by (used in) operating activities:		
Depreciation	33,711	31,873
Stock investment income received in exchange for technology	(9,876)	(31)
Provision for doubtful accounts	—	25,000
Changes in operating assets and liabilities:		
Accounts receivable	(3,529)	(227,113)
Accounts payable	(145,375)	12,657
Due to UNM	(2,508)	(45,614)
Accrued royalty sharing	196,685	275,454
Accrued expenses	(29,312)	(26,408)
Deferred revenue	(1,050)	(500)
Net cash provided by (used in) operating activities	<u>\$ 12,458</u>	<u>(54,031)</u>

See accompanying notes to financial statements.

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Notes to Financial Statements

June 30, 2013 and 2012

(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.

In fiscal year 2013 the STC.UNM adopted GASB No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63), which establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of

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resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the STC.UNM's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Revenues, Expenses and Changes in Net Assets" to "Statement of Revenues, Expenses and Changes in Net Position".

(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 with original maturities less than 90 days 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, 2013 and 2012 were \$- 0 - and \$25,000.

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.

(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.

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(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 \$168,478 and \$189,377 as of June 30, 2013 and 2012, 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 filed its 2011 tax return timely and expects to continue to file its tax returns timely in the future.

(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.

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(m) Net Position

Net position is classified as follows:

Invested in capital assets (net of related debt) is intended to reflect the portion of net position that is associated with nonliquid, capital assets less outstanding capital asset-related debt. The Corporation does not have any debt related to its capital assets.

Restricted net position is the net position that has third-party (statutory or granting agency) limitations on its use.

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

Unrestricted net position represents liquid assets available for use.

(2) Cash, Cash Equivalents, and Investments

	2013	2012
Cash and cash equivalents:		
Cash on deposit at financial institution	\$ 693,227	671,099
Cash equivalents not considered deposits:		
Money market accounts	17,352	15,505
Petty	100	100
Total cash and cash equivalents	\$ 710,679	686,704
Investments:		
Mutual funds:		
Domestic fixed income	\$ 63,572	66,213
International fixed income	22,455	31,374
Domestic equity	194,920	163,936
International equity	127,998	115,505
Real estate	40,888	42,176
Commodity linked	26,951	25,409
Long/short equity	46,507	34,940
Merger arbitrage	16,888	10,239
Total investments	\$ 540,179	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 requires a minimum collateralized balance of 50% of the corporation's deposits in excess of FDIC insurance limits.

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Notes to Financial Statements

June 30, 2013 and 2012

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

	2013	2012
Insured	\$ 250,000	706,332
Uninsured and collateralized with securities held by the financial institution's trust department, but not in the Corporation's name	519,397	—
Uninsured and uncollateralized	—	—
Total bank balance	\$ 769,397	706,332

The following schedule details the Corporation's deposit accounts and collateral pledged at June 30, 2013:

Bank name/ account	Account type	Financial statement balance	Outstanding checks	Bank balance
Bank of the West:				
Operating	Checking	\$ 693,227	76,170	\$ 769,397
Less FDIC insurance				250,000
Amount to be collateralized				519,397
Minimum to be collateralized at 50%				259,699
Collateral:				
FNMA, matures 9/1/2042, Cusip 3138MAKS6				945,243
Amount of excess collateral				\$ 685,544

(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 an 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.

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

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

The Corporation had the following investments and maturities at June 30, 2013 and June 30, 2012.

		June 30, 2013				
Investment type	Fair value	Weighted average investment maturities (in years)				Not available
		Less than 1	1 – 5	6 – 10	More than 10	
Fixed income:						
Domestic bond mutual funds	\$ 63,572	—	—	63,572	—	—
International bond mutual funds	22,455	—	—	—	—	22,455
	<u>\$ 86,027</u>	<u>—</u>	<u>—</u>	<u>63,572</u>	<u>—</u>	<u>22,455</u>
		June 30, 2012				
Investment type	Fair value	Weighted average investment maturities (in years)				Not available
		Less than 1	1 – 5	6 – 10	More than 10	
Fixed income:						
Domestic bond mutual funds	\$ 66,213	—	4,637	61,576	—	—
International bond mutual funds	31,374	—	—	—	—	31,374
	<u>\$ 97,587</u>	<u>—</u>	<u>4,637</u>	<u>61,576</u>	<u>—</u>	<u>31,374</u>

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Notes to Financial Statements

June 30, 2013 and 2012

The following table provides information on the credit ratings associated with the Corporation's investments in debt securities at June 30, 2013 and June 30, 2012.

		June 30, 2013								
Investment type	Fair value	AAA	AA	A	BBB	BB	B	U.S. government guaranteed	NR	Not available
Fixed income:										
Domestic bond mutual funds	\$ 63,572	13,169	646	4,923	9,063	7,961	10,496	267	17,047	—
International bond mutual funds	22,455	—	—	—	—	—	—	—	—	22,455
	<u>\$ 86,027</u>	<u>13,169</u>	<u>646</u>	<u>4,923</u>	<u>9,063</u>	<u>7,961</u>	<u>10,496</u>	<u>267</u>	<u>17,047</u>	<u>22,455</u>
		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
	<u>\$ 97,587</u>	<u>10,315</u>	<u>737</u>	<u>4,540</u>	<u>8,182</u>	<u>7,311</u>	<u>9,919</u>	<u>539</u>	<u>24,670</u>	<u>31,374</u>

(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**

		2013			
		Beginning balance	Increases	Decreases	Ending balance
Capital assets being depreciated:					
Furniture and equipment	\$	256,425	10,844	—	267,269
Accumulated depreciation		(183,690)	(33,711)	—	(217,401)
Capital assets, net	\$	<u>72,735</u>	<u>(22,867)</u>	—	<u>49,868</u>

STC.UNM

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Notes to Financial Statements

June 30, 2013 and 2012

	2012			
	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
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

(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, 2014. Future minimum payments required under the occupancy agreement are as follows:

Year ended June 30, 2014 \$ 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.

(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 2013 and 2012, 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 \$77,279 and \$84,542 in 2013 and 2012, respectively. Employee contributions were \$64,679 and \$66,599 in 2013 and 2012, 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 \$68,079 and \$101,414 in 2013 and 2012, respectively.

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June 30, 2013 and 2012

(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 position 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 position balances may be made at the discretion of the STC Finance Committee. The STC Board-designated endowment is accounted for under Net Position.



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Albuquerque, NM 87110-8179

**Independent Auditors' 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the STC.UNM, which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 11, 2013.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

Albuquerque, New Mexico
October 11, 2013

STC.UNM
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Year ended June 30, 2013

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

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Exit Conference

Year ended June 30, 2013

An exit conference was conducted on October 3, 2013, 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
Michael Dougher	Vice President for Research, 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
Helen Mann	Senior Manager