



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

Financial Statements

June 30, 2014 and 2013

(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, 2014

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 |
| Ms. Maria Griego-Raby | 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. Michael J. Dougher |
| 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 | Mr. Fred Mondragon |
| Dr. Pope L. Moseley | Mr. Robert H. Nath |
| Dr. Paul B. Roth | Dr. Mansoor Sheik-Bahae |
| 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, 2014 and 2013, 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, which collectively comprise the STC.UNM's basic financial statements as listed in the table of contents.

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, 2014 and 2013, 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.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in note 1 to the financial statements, effective July 1, 2013, STC.UNM adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Reporting of Items Previously Recognized as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

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 7, 2014 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 7, 2014

STC.UNM
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis (unaudited)
June 30, 2014 and 2013

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, 2014, 2013, and 2012.

Overview of the Financial Statements

The Balance Sheets of the Corporation provide both long-term and short-term information about the Corporation's overall financial status. The Statements of Revenues, Expenses, and Changes in Net Position provide information about the operating revenues and expenses and nonoperating revenues and expenses of the Corporation. The Statements of Cash Flows provide information about the sources and uses of cash by the Corporation.

Condensed Financial Information

| | June 30 | | |
|---|----------------|-------------|-------------|
| | 2014 | 2013 | 2012 |
| Current assets | \$ 6,407,071 | 1,581,582 | 1,503,691 |
| Capital assets, net | 32,688 | 49,868 | 72,735 |
| Current liabilities | 5,947,104 | 1,210,075 | 1,191,635 |
| Total operating revenues | 3,781,945 | 3,775,587 | 4,473,575 |
| Total operating expenses | 3,816,443 | 3,801,875 | 4,572,924 |
| Total nonoperating revenue and expenses | 105,848 | 73,447 | 24,723 |
| Change in net position | 71,350 | 47,159 | (74,626) |
| Net position, end of year | 507,450 | 436,100 | 388,941 |

Financial Position

The Corporation's current assets increased by \$4,825,489 as of June 30, 2014 to \$6,407,071 compared to \$1,581,582 as of June 30, 2013; and 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. The primary reason for the increase is the receipt of \$4,468,087 in restricted cash as of June 30, 2014 directly related to the Innovate ABQ project. The project involves a certain property located at 101 Broadway Boulevard NE, Albuquerque, New Mexico to support the concept of an innovation and research hub near downtown Albuquerque. The purchase price of the property is \$6,650,000 and the purchase will be funded by commitments from private donation, U.S. Department of Commerce Economic Development Agency grant award, City of Albuquerque, and The University of New Mexico. The Corporation held the restricted cash until July 11, 2014 when the entire amount was applied toward the purchase of the property. In addition, during fiscal year 2014 the activity level increased in 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 2014, 2013, and 2012 were \$4,663, \$10,844, and \$32,875, respectively, for software, leasehold improvements, computer equipment, and furniture. Current liabilities increased by \$4,737,029 as of June 30, 2014 to \$5,947,104 compared to \$1,210,075 as of June 30, 2013; and increased by \$18,440 as of June 30, 2013 to \$1,210,075 compared to \$1,191,635 as of June 30, 2012. The change from FY2013 to FY2014 is primarily attributable to \$4,468,087 recorded as advance funding received as of June 30, 2014 directly related to the Innovate ABQ project described above.

STC.UNM
(A Component Unit of the University of New Mexico)
Management's Discussion and Analysis (unaudited)
June 30, 2014 and 2013

Capital Assets

During the years ended June 30, 2014, 2013, and 2012, the Corporation acquired \$4,663, \$10,844, and \$32,875, respectively, in capital assets and had depreciation expense of \$21,843, \$33,711, and \$31,873, respectively.

Comparison of Fiscal 2014 to Fiscal 2013 Results of Operations

Total operating revenue for fiscal year 2014 of \$3,781,945 increased from \$3,775,587 for fiscal year 2013, a net increase of \$6,358.

Total operating expenses increased by a net of \$14,568 for fiscal year 2014 compared to fiscal year 2013. Patent costs incurred expenses increased by \$213,757 from prior fiscal year directly attributable to higher licensee-driven patent activities. Licensing distributions expenses decreased by \$549,422 from prior year due to decrease in licensing and royalties revenues earned in fiscal year 2014 compared to fiscal year 2013. General and administrative expenses increased from prior fiscal year primarily due to attorney legal expenses incurred related to STC being named a co-defendant in a lawsuit filed in Texas in August 2013 but fully dismissed in May 2014 without settlement.

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 a 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.

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, 2014 and 2013

| Assets | 2014 | 2013 |
|-------------------------------------|--------------|-------------|
| | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 797,604 | 710,679 |
| Restricted cash | 4,468,087 | — |
| Investments | 638,071 | 540,179 |
| Accounts receivable, net | 503,309 | 326,224 |
| Other assets | — | 4,500 |
| Total current assets | 6,407,071 | 1,581,582 |
| Capital assets: | | |
| Furniture and equipment | 271,931 | 267,269 |
| Accumulated depreciation | (239,243) | (217,401) |
| Total capital assets, net | 32,688 | 49,868 |
| Investment in stock | 14,795 | 14,725 |
| Total other assets | 14,795 | 14,725 |
| Total assets | \$ 6,454,554 | 1,646,175 |
| Liabilities and Net Position | | |
| Current liabilities: | | |
| Accounts payable | \$ 318,426 | 169,688 |
| Advance funding received | 4,468,087 | — |
| Due to University of New Mexico | 269,468 | 258,614 |
| Accrued royalty sharing | 768,356 | 654,481 |
| Accrued expenses and other | 122,767 | 127,292 |
| Total current liabilities | 5,947,104 | 1,210,075 |
| Net position: | | |
| Unrestricted (deficit) | (25,238) | (113,768) |
| Unrestricted – STC Quasi-Endowment | 500,000 | 500,000 |
| Invested in capital assets | 32,688 | 49,868 |
| Total net position | 507,450 | 436,100 |
| Total liabilities and net position | \$ 6,454,554 | 1,646,175 |

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, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|------------------|
| Operating revenues: | | |
| Operational funding from UNM | \$ 794,000 | 734,000 |
| Patent funding from UNM | 952,000 | 812,000 |
| Economic development initiative funding from UNM | 296,946 | 40,144 |
| Patent cost reimbursement | 646,026 | 487,427 |
| Licensing and royalties | 1,072,923 | 1,702,016 |
| Other | 20,050 | — |
| Total operating revenues | <u>3,781,945</u> | <u>3,775,587</u> |
| Operating expenses: | | |
| Patent costs incurred | 1,492,368 | 1,278,611 |
| Licensing distributions | 644,759 | 1,194,181 |
| Depreciation | 21,843 | 33,711 |
| Economic development initiative | 296,946 | 40,144 |
| General and administrative | 1,360,527 | 1,255,228 |
| Total operating expenses | <u>3,816,443</u> | <u>3,801,875</u> |
| Operating loss | <u>(34,498)</u> | <u>(26,288)</u> |
| Nonoperating revenue and expenses: | | |
| Interest income | 18,188 | 12,518 |
| Rental income | 12,521 | 13,990 |
| Gain on investments, net | 75,139 | 46,939 |
| Total nonoperating revenue and expenses | <u>105,848</u> | <u>73,447</u> |
| Change in net position | 71,350 | 47,159 |
| Net position, beginning of year | <u>436,100</u> | <u>388,941</u> |
| Net position, end of year | <u>\$ 507,450</u> | <u>436,100</u> |

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, 2014 and 2013

| | 2014 | 2013 |
|--|----------------|-------------|
| Cash flows from operating activities: | | |
| Cash payments to suppliers and employees | \$ (1,640,718) | (1,337,498) |
| Cash (restricted) received for Innovate ABQ | 4,468,087 | — |
| Cash received for operational funding revenue from UNM | 794,000 | 734,000 |
| Cash received for patent funding revenue from UNM | 952,000 | 812,000 |
| Cash received for economic development initiatives funding revenue from UNM | 316,946 | 20,144 |
| Cash received from sponsorships and other | 20,050 | — |
| Cash payments for patent costs incurred | (1,359,383) | (1,408,944) |
| Cash received for patent cost reimbursements | 626,457 | 503,241 |
| Cash received from licensees | 895,659 | 1,682,874 |
| Cash payments for licensing distribution expense | (521,379) | (993,359) |
| Net cash provided by operating activities | 4,551,719 | 12,458 |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (4,663) | (10,844) |
| Cash flows from investing activities: | | |
| Investments purchased | (402,090) | (168,772) |
| Investments proceeds | 379,337 | 164,625 |
| Interest received | 18,188 | 12,518 |
| Rental income received | 12,521 | 13,990 |
| Net cash provided by investing activities | 7,956 | 22,361 |
| Net increase in cash and cash equivalents | 4,555,012 | 23,975 |
| Cash and cash equivalents, beginning of year | 710,679 | 686,704 |
| Cash and cash equivalents, end of year | \$ 5,265,691 | 710,679 |
| Reconciliation of operating loss to net cash provided by operating activities: | | |
| Operating loss | \$ (34,498) | (26,288) |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation | 21,843 | 33,711 |
| Stock investment income received in exchange for technology | (70) | (9,876) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (177,085) | (3,529) |
| Other assets | 4,500 | — |
| Accounts payable | 148,738 | (145,375) |
| Due to UNM | 10,854 | (2,508) |
| Accrued royalty sharing | 113,875 | 196,685 |
| Accrued expenses and other | (4,525) | (30,362) |
| Advance funding received | 4,468,087 | — |
| Net cash provided by operating activities | \$ 4,551,719 | 12,458 |

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2014 and 2013

(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, 2013 the STC.UNM has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses) or inflows of resources (revenues). The financial reporting impact resulting from the implementation of GASB 65 in the STC.UNM financial statements was the reclassifying "Deferred revenue" to "Accrued expenses and other" for all years presented.

(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.

STC.UNM
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Notes to Financial Statements

June 30, 2014 and 2013

(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.

As of June 30, 2014 the Corporation has \$4,468,087 in restricted cash which is earmarked for the Innovate ABQ project. The project involves a certain property to support the Innovate ABQ concept of an innovation and research hub near downtown Albuquerque, New Mexico. Funds to purchase the site were either committed or secured from private donation, U.S. Department of Commerce Economic Development Agency grant award, City of Albuquerque commitment, and funding from the University of New Mexico. The Corporation had recorded an advance funding received balance of \$4,468,087 as of June 30, 2014 representing the offset to restricted cash balance.

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, 2014 and 2013 was \$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.

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Notes to Financial Statements

June 30, 2014 and 2013

(i) Revenue Recognition

Upfront, nonrefundable licensing fees are recognized when earned. These fees are ordinarily earned when a license agreement is signed and the Corporation has no further obligations with respect to the license. Minimum annual royalty 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 \$345,540 and \$168,478 as of June 30, 2014 and 2013, 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.

(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 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 (STC Quasi-Endowment) 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.

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Notes to Financial Statements

June 30, 2014 and 2013

(2) Cash, Cash Equivalents, and Investments

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|----------------|
| Cash and cash equivalents: | | |
| Cash on deposit at financial institution | \$ 5,259,305 | 693,227 |
| Cash equivalents not considered deposits: | | |
| Money market accounts | 6,286 | 17,352 |
| Petty | 100 | 100 |
| Total cash and cash equivalents | <u>\$ 5,265,691</u> | <u>710,679</u> |
| Investments: | | |
| Mutual funds: | | |
| Domestic fixed income | \$ 82,817 | 63,572 |
| International fixed income | 36,090 | 22,455 |
| Domestic equity | 215,428 | 194,920 |
| International equity | 144,182 | 127,998 |
| Real estate | 60,094 | 40,888 |
| Commodity linked | 20,090 | 26,951 |
| Long/short equity | 66,696 | 46,507 |
| Merger arbitrage | 12,674 | 16,888 |
| Total investments | <u>\$ 638,071</u> | <u>540,179</u> |

(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, as a New Mexico Research Park Act nonprofit corporation, is not subject to the State of New Mexico Public Money Act.

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

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|----------------|
| 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 | — | 519,397 |
| Uninsured and uncollateralized | 5,295,230 | — |
| Total bank balance | <u>\$ 5,545,230</u> | <u>769,397</u> |

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

Notes to Financial Statements

June 30, 2014 and 2013

The following schedule details the Corporation's deposit accounts at June 30, 2014:

| <u>Bank name/ account</u> | <u>Account type</u> | <u>Financial statement balance</u> | <u>Outstanding checks</u> | <u>Bank balance</u> |
|-------------------------------|-------------------------|--|-------------------------------|-------------------------|
| Bank of the west: | | | | |
| Operating | Checking | \$ 791,218 | 285,925 | 1,077,143 |
| Innovate | Checking | 4,468,087 | — | 4,468,087 |
| Less FDIC insurance | | | | (250,000) |
| Total | | | \$ | <u>5,295,230</u> |

(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.

(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.

STC.UNM
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Notes to Financial Statements

June 30, 2014 and 2013

The Corporation had the following investments and maturities at June 30, 2014 and 2013.

| | | June 30, 2014 | | | | |
|---------------------------------|-------------------|---|---------------|---------------|---------------|---------------|
| 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 | \$ 82,817 | — | 51,536 | 20,492 | 10,789 | — |
| International bond mutual funds | 36,090 | — | — | 26,459 | — | 9,631 |
| | <u>\$ 118,907</u> | <u>—</u> | <u>51,536</u> | <u>46,951</u> | <u>10,789</u> | <u>9,631</u> |

| | | 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> |

The following tables provide information on the credit ratings associated with the Corporation's investments in debt securities at June 30, 2014 and 2013.

| | | June 30, 2014 | | | | | | | | |
|---------------------------------|-------------------|---------------|--------------|---------------|---------------|---------------|---------------|----------------------------|--------------|---------------|
| Investment type | Fair value | AAA | AA | A | BBB | BB | B | U.S. government guaranteed | NR | Not available |
| Fixed income: | | | | | | | | | | |
| Domestic bond mutual funds | \$ 82,817 | 15,470 | 3,440 | 5,011 | 10,017 | 9,470 | 11,739 | 2,203 | 4,762 | 20,705 |
| International bond mutual funds | 36,090 | 1,402 | 1,173 | 6,927 | 13,903 | 2,873 | 1,301 | 993 | 2,463 | 5,055 |
| | <u>\$ 118,907</u> | <u>16,872</u> | <u>4,613</u> | <u>11,938</u> | <u>23,920</u> | <u>12,343</u> | <u>13,040</u> | <u>3,196</u> | <u>7,225</u> | <u>25,760</u> |

| | | 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> |

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

Notes to Financial Statements

June 30, 2014 and 2013

(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 2014 and 2013, 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 \$89,604.12 and \$77,279 in 2014 and 2013, respectively. Employee contributions were \$73,844 and \$64,679 in 2014 and 2013, 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 \$42,918 and \$68,079 in 2014 and 2013, 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 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.

(8) Subsequent Event

Effective July 11, 2014, the Corporation purchased and closed on the property located at 101 Broadway Boulevard NE in Albuquerque, New Mexico in the amount of \$6,650,000 to support of the Innovate ABQ concept of an innovation and research hub near downtown Albuquerque. Funds to purchase the site were either committed or secured from private donation, U.S. Department of Commerce Economic Development Agency grant award, City of Albuquerque commitment, and funding from the University of New Mexico. The Corporation had recorded an advance funding received balance of \$4,468,087 as of June 30, 2014, which was held in restricted cash until July 11, 2014 when the entire amount was applied toward the purchase of the property.



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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, 2014, 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 7, 2014.

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 7, 2014

STC.UNM
(A Component Unit of the University of New Mexico)
Schedule of Findings and Responses
Year ended June 30, 2014

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, 2014

An exit conference was conducted on October 7, 2014, 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 (via telephone) |
| John Stitchman | Chair of Finance & Compensation Committee, Secretary/Treasurer, Board of Directors, STC |
| David Harris | Executive Vice President for Administration, Chief Operating Officer & Chief Financial Officer, University of New Mexico; Member of Finance & Compensation Committee, Board of Directors, STC |
| Gregg Mayer | Member of Finance & Compensation Committee, Board of Directors, STC (via telephone) |
| 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 |
| Mike Hoskins | Manager (via telephone) |