



**SUPPORTING TECHNOLOGY TRANSFER AND  
CATALYZING ECONOMIC DEVELOPMENT AT  
THE UNIVERSITY OF NEW MEXICO**

Financial Statements

June 30, 2015 and 2014

(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, 2015

**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
Mr. Chuck Wellborn	Chair, Co-Investment Fund Committee

**Board Members**

Dr. Chaouki T. Abdallah	Ms. Sandra Begay-Campbell
Dr. Joseph L. Cecchi	Ms. Terri Cole
Dr. James D. Cramer	Dr. Michael J. Dougher
Dr. Robert H. Fisher	Dr. Robert G. Frank
Ms. Maria Griego-Raby	Mr. David W. Harris
Mr. Jamie Koch	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	



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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. Timothy Keller  
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 statements of net position as of June 30, 2015 and 2014, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.



***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, 2015 and 2014, 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 5 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 November 12, 2015 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  
November 12, 2015

**STC.UNM**  
(A Component Unit of the University of New Mexico)  
Management's Discussion and Analysis (unaudited)  
June 30, 2015 and 2014

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, 2015, 2014, and 2013.

**Overview of the Financial Statements**

The statements of net position 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**

	<b>June 30</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Current assets	\$ 2,042,028	6,407,071	1,581,582
Capital assets, net	7,012,926	32,688	49,868
Current liabilities	1,313,955	5,947,104	1,210,075
Total operating revenues	12,623,595	3,781,945	3,775,587
Total operating expenses	4,898,074	3,816,443	3,801,875
Total nonoperating revenue and expenses	(480,918)	105,848	73,447
Change in net position	7,244,603	71,350	47,159
Net position, end of year	7,752,053	507,450	436,100

**Financial Position**

The Corporation's current assets decreased by \$4,365,043 as of June 30, 2015 to \$2,042,028 compared to \$6,407,071 as of June 30, 2014; and 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. The primary reason for the decrease is the application of \$4,468,087 in restricted cash as of June 30, 2014 directly related to the purchase of the Innovate ABQ project real estate. The Corporation held the restricted cash until July 11, 2014 when the entire amount was applied toward the purchase of the property. 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 was \$6,650,000 on July 11, 2014 and the total purchase was 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. In addition, during fiscal year 2015 the activity level decreased in accounts receivable related to two large balances from license agreements from fiscal year end 2014. Capital asset purchases during fiscal years 2015, 2014, and 2013 were \$7,094,480, \$4,663, and \$10,844, respectively, for real estate related to Innovate ABQ, software, leasehold improvements, computer equipment, and furniture. Current liabilities decreased by \$4,633,149 as of June 30, 2015 to \$1,313,955 compared to \$5,947,104 as of June 30, 2014; and increased by \$4,737,029 as of June 30, 2014 to \$5,947,104 compared to \$1,210,075 as of June 30, 2013. The change from FY2014 to FY2015 is primarily attributable to \$4,468,087 recorded as advance funding received as of June 30, 2014, which was directly applied to the purchase of real estate 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, 2015 and 2014

**Capital Assets**

During the years ended June 30, 2015, 2014, and 2013, the Corporation acquired \$7,094,480, \$4,663, and \$10,844, respectively, in capital assets and had depreciation expense of \$114,243, \$21,843, and \$33,711, respectively.

**Comparison of Fiscal 2015 to Fiscal 2014 Results of Operations**

Total operating revenue for fiscal year 2015 of \$12,623,595 increased from \$3,781,945 for fiscal year 2014, a net increase of \$8,841,650. Most of the increase is directly attributable to \$7,798,048 of revenue related to Innovate ABQ project comprising of a grant award in the amount of \$1,498,048 from the U.S. Department of Commerce, Economic Development Administration, \$3,000,000 from a private donation through UNM Foundation, \$2,000,000 funding from the City of Albuquerque, \$800,000 from UNM, and \$500,000 from a settlement agreement related to the real estate. The revenue related to Innovate ABQ are restricted to Innovate ABQ real estate purchase and Innovate ABQ operations. Additionally, license revenue increased by \$970,368 in fiscal year 2015 compared to fiscal year 2014 primarily attributable to one large license agreement deal.

Total operating expenses increased by a net of \$1,081,631 for fiscal year 2015 compared to fiscal year 2014. Patent costs incurred expenses increased by \$117,754 from prior fiscal year directly attributable to higher licensee- driven patent activities. Licensing distributions expenses increased by \$312,037 from prior year due to increase in licensing and royalties revenue earned in fiscal year 2015 compared to fiscal year 2014. General and administrative expenses increased from prior fiscal year primarily due to Innovate ABQ related property management and general expenses incurred of \$594,149.

**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 revenue 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 codefendant in a lawsuit filed in Texas in August 2013 but fully dismissed in May 2014 without settlement.

**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.

**STC.UNM**  
(A Component Unit of the University of New Mexico)  
Management's Discussion and Analysis (unaudited)  
June 30, 2015 and 2014

If you have any questions about this report or need additional financial information, contact STC.UNM at 801 University Boulevard SE, Suite 101, Albuquerque, New Mexico 87106.



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

Statements of Net Position

June 30, 2015 and 2014

<b>Assets</b>	<b>2015</b>	<b>2014</b>
Current assets:		
Cash and cash equivalents	\$ 1,131,066	797,604
Restricted cash	133,907	4,468,087
Investments	637,162	638,071
Accounts receivable, net	139,893	503,309
Total current assets	2,042,028	6,407,071
Capital assets:		
Furniture and equipment	275,408	271,931
Land	3,957,684	—
Buildings	3,133,320	—
Accumulated depreciation	(353,486)	(239,243)
Total capital assets, net	7,012,926	32,688
Investment in stock	11,054	14,795
Total other assets	11,054	14,795
Total assets	\$ 9,066,008	6,454,554
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable	\$ 236,749	318,426
Advance funding received	—	4,468,087
Due to University of New Mexico	352,507	269,468
Accrued royalty sharing	597,161	768,356
Accrued expenses and other	127,538	122,767
Total current liabilities	1,313,955	5,947,104
Net position:		
Unrestricted	739,127	474,762
Invested in capital assets	7,012,926	32,688
Total net position	7,752,053	507,450
Total liabilities and net position	\$ 9,066,008	6,454,554

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, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Operating revenues:		
Operational funding from UNM	\$ 794,000	794,000
Patent funding from UNM	952,000	952,000
Economic development initiative funding from UNM	288,000	296,946
Elevator pitch competition funding from UNM	12,500	—
Innovate ABQ funding from UNM	800,000	—
Contributions revenue for Innovate ABQ project	5,500,000	—
Grant award	1,498,048	—
Patent cost reimbursement	686,256	646,026
Licensing and royalties	2,043,291	1,072,923
Other	49,500	20,050
	<b>12,623,595</b>	<b>3,781,945</b>
Operating expenses:		
Patent costs incurred	1,610,122	1,492,368
Licensing distributions	962,538	644,759
Depreciation	114,243	21,843
Economic development initiative	288,000	296,946
General and administrative	1,329,022	1,360,527
Innovate ABQ expenses	594,149	—
	<b>4,898,074</b>	<b>3,816,443</b>
Operating income (loss)	<b>7,725,521</b>	<b>(34,498)</b>
Nonoperating revenues and expenses:		
Interest income	14,212	18,188
Rental income	90,245	12,521
(Loss) gain on investments, net	(547,293)	75,139
Interest expense	(38,082)	—
	<b>(480,918)</b>	<b>105,848</b>
Change in net position	<b>7,244,603</b>	<b>71,350</b>
Net position, beginning of year	<b>507,450</b>	<b>436,100</b>
Net position, end of year	<b>\$ 7,752,053</b>	<b>507,450</b>

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, 2015 and 2014

	<b>2015</b>	<b>2014</b>
Cash flows from operating activities:		
Payments to suppliers and employees	\$ (2,191,487)	(1,640,718)
Receipts received for Innovate ABQ	3,300,000	4,468,087
Receipts for operational funding revenue from UNM	794,000	794,000
Receipts for patent funding revenue from UNM	952,000	952,000
Receipts for co-investment funding from UNM	574,000	—
Payment to start up companies for co-investment funding	(574,000)	—
Receipts for economic development initiatives funding revenue from UNM	288,000	316,946
Receipts for elevator pitch competition funding from UNM	12,500	—
Receipts from sponsorships and other	49,500	20,050
Payment for patent costs incurred	(1,711,018)	(1,359,383)
Receipts for patent cost reimbursements	774,707	626,457
Receipts from licensees	1,167,073	895,659
Payment for licensing distribution expense	(1,050,446)	(521,379)
	<b>2,384,829</b>	<b>4,551,719</b>
Cash flows from capital and related financing activities:		
Receipt of note payable	2,000,000	—
Payment on note payable	(2,000,000)	—
Interest payment on note payable	(38,082)	—
Acquisition of capital assets	(7,094,480)	(4,663)
	<b>(7,132,562)</b>	<b>(4,663)</b>
Cash flows from investing activities:		
Investments purchased	(142,888)	(402,090)
Investments proceeds	136,004	379,337
Interest received	14,211	18,188
Proceeds from sale of investment securities from licensee	649,543	—
Rental income received	90,145	12,521
	<b>747,015</b>	<b>7,956</b>
Net cash (used) provided by investing activities	<b>747,015</b>	<b>7,956</b>
Net (decrease) increase in cash and cash equivalents	<b>(4,000,718)</b>	<b>4,555,012</b>
Cash and cash equivalents, beginning of year	<b>5,265,691</b>	<b>710,679</b>
Cash and cash equivalents, end of year	<b>\$ 1,264,973</b>	<b>5,265,691</b>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 7,725,521	(34,498)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	114,243	21,843
Stock investment income received in exchange for technology	(64)	(70)
Stock investment received from licensee	(1,185,138)	—
Changes in operating assets and liabilities:		
Accounts receivable	363,416	(177,085)
Other assets	—	4,500
Accounts payable	(81,677)	148,738
Due to UNM	83,039	10,854
Accrued royalty sharing	(171,195)	113,875
Accrued expenses and other	4,771	(4,525)
Advance funding received	(4,468,087)	4,468,087
Net cash provided by operating activities	<b>\$ 2,384,829</b>	<b>4,551,719</b>

See accompanying notes to financial statements.

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

Notes to Financial Statements

June 30, 2015 and 2014

**(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 Government Accounting Standards Board 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**  
(A Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2015 and 2014

**(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, 2015, the Corporation has \$133,907 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 secured from private donation, U.S. Department of Commerce Economic Development Agency grant award, City of Albuquerque funding, and funding from the University of New Mexico.

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, 2015 and 2014 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, except for depreciation of buildings, which have useful life of 30 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.

**STC.UNM**  
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Notes to Financial Statements

June 30, 2015 and 2014

**(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 \$105,307 and \$345,540 as of June 30, 2015 and 2014, 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.

Unrestricted net position represents liquid assets available for use.

**STC.UNM**  
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Notes to Financial Statements

June 30, 2015 and 2014

**(2) Cash, Cash Equivalents, and Investments**

	<b>2015</b>	<b>2014</b>
Cash and cash equivalents:		
Cash on deposit at financial institution	\$ 1,257,765	5,259,305
Cash equivalents not considered deposits:		
Money market accounts	7,108	6,286
Petty	100	100
Total cash and cash equivalents	\$ 1,264,973	5,265,691
Investments:		
Mutual funds:		
Domestic fixed income	\$ 81,482	82,817
International fixed income	29,038	36,090
Domestic equity	253,305	215,428
International equity	139,479	144,182
Real estate	70,002	60,094
Commodity linked	—	20,090
Long/short equity	51,753	66,696
Merger arbitrage	12,103	12,674
Total investments	\$ 637,162	638,071

**(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:

	<b>2015</b>	<b>2014</b>
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	—	—
Uninsured and uncollateralized	1,236,465	5,295,230
Total bank balance	\$ 1,486,465	5,545,230

**STC.UNM**  
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Notes to Financial Statements

June 30, 2015 and 2014

The following schedule details the Corporation's deposit accounts at June 30, 2015:

<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	\$ 1,121,425	223,783	1,345,208
Innovate	Checking	133,907	7,350	141,257
Less FDIC insurance				(250,000)
Total				<u>\$ 1,236,465</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**  
(A Component Unit of the University of New Mexico)

Notes to Financial Statements

June 30, 2015 and 2014

The Corporation had the following investments and maturities at June 30, 2015 and 2014.

Investment type	June 30, 2015						
	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	\$ 81,482	—	34,407	40,758	6,317	—	
International bond mutual funds	29,038	—	—	17,865	—	11,173	
	<u>\$ 110,520</u>	<u>—</u>	<u>34,407</u>	<u>58,623</u>	<u>6,317</u>	<u>11,173</u>	

  

Investment type	June 30, 2014						
	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>	

The following tables provide information on the credit ratings associated with the Corporation's investments in debt securities at June 30, 2015 and 2014.

Investment type	June 30, 2015										
	Fair value								U.S. government guaranteed		Not available
		AAA	AA	A	BBB	BB	B	NR			
Fixed income:											
Domestic bond mutual funds	\$ 81,482	23,409	2,812	5,329	9,262	15,336	17,529	4,279	3,525	—	
International bond mutual funds	29,038	3,251	1,468	5,983	10,410	4,383	1,338	1,141	1,064	—	
	<u>\$ 110,520</u>	<u>26,660</u>	<u>4,280</u>	<u>11,312</u>	<u>19,672</u>	<u>19,719</u>	<u>18,867</u>	<u>5,420</u>	<u>4,589</u>	<u>—</u>	

  

Investment type	June 30, 2014										
	Fair value								U.S. government guaranteed		Not available
		AAA	AA	A	BBB	BB	B	NR			
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>	

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Notes to Financial Statements

June 30, 2015 and 2014

(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**

		2015			
		Beginning balance	Increases	Decreases	Ending balance
Land	\$	—	3,957,684	—	3,957,684
Capital assets being depreciated:					
Furniture and equipment		271,931	3,477	—	275,408
Buildings		—	3,133,320	—	3,133,320
Accumulated depreciation		(239,243)	(114,243)	—	(353,486)
Capital assets, net	\$	32,688	6,980,238	—	7,012,926

		2014			
		Beginning balance	Increases	Decreases	Ending balance
Capital assets being depreciated:					
Furniture and equipment	\$	267,268	4,663	—	271,931
Accumulated depreciation		(217,400)	(21,843)	—	(239,243)
Capital assets, net	\$	49,868	(17,180)	—	32,688

(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 30, 2015 to further extend the term of the lease until June 30, 2016. Future minimum payments required under the occupancy agreement are as follows:

Year ended June 30, 2016 \$ 60,092

Rent expense in the years ended 2015 and 2014 was \$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

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June 30, 2015 and 2014

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 2015 and 2014, respectively, the Corporation matches the employee's contributions below 7.975% commensurately; employee's contributions which equal or exceed 7.9575% are matched up to 12.4% of the employee's base salary. There is no waiting period for vesting. The Corporation contributions were \$94,752 and \$89,604 in 2015 and 2014, respectively. Employee contributions were \$75,440 and \$73,844 in 2015 and 2014, 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 \$35,210 and \$42,918 in 2015 and 2014, 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 of \$500,000 is accounted for and included under Unrestricted Net Position.

**(8) Co-Investment Fund**

Based on a working relationship with the UNM Foundation, during fiscal year 2014, the Corporation approved the STC.UNM Policy on Investment from Co-Investment Fund. The UNM Foundation revised its Consolidated Investment Fund Policy to set aside \$1,000,000 for their investment in private start-up companies (the Companies), which were started based on technology transferred and licensed from the Corporation. Under the Policy, any positive returns realized and received by the Co-Investment Fund in the future shall be shared ten percent by the Corporation and ninety percent by the UNM Foundation. During fiscal year 2015, the Corporation approved six proposals from start-up companies and provided for co-investments totaling \$574,000 based on direct pass-through funding from the UNM Foundation to STC in the amount of \$574,000 per terms of the policy.

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**(9) Oncothyreon Inc. Stock**

During fiscal year 2015, in connection with the merger of Alpine Biosciences, a STC licensee, with Oncothyreon Inc., the Corporation received a certain number of shares of Oncothyreon Inc., whose stock is publicly traded. The Oncothyreon stock issuance to the Corporation was recorded as license revenue in the amount of \$1,185,138 based on closing market price of the stock on the date the shares were received. The receipt of the Oncothyreon shares is the first time the Corporation had received publicly-traded stock in connection with one of its licensing transactions. Following the required lock-up period and the restricted legend being lifted, and per terms of the Corporation's Equity Liquidation Policy Statement for Publicly-Traded Stock, the Corporation sold all of its holdings in Oncothyreon stock. The stock sale settled in March, 2015 and the Corporation incurred a realized loss on sale of stock of \$535,595, which is accounted for under Loss (gain) on investments, net.

**(10) Innovate ABQ**

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.

**(11) Subsequent Event**

In August 2015, the U.S. Department of Commerce Economic Development Administration approved for Innovate ABQ, Inc. to become the substitute recipient under the previously awarded grant to STC.UNM. In fiscal year 2016, the Corporation plans to transfer the real estate located at 101 Broadway Boulevard NE in Albuquerque, New Mexico and the remaining restricted cash balance to Innovate ABQ Inc., a separate nonprofit corporation created by the Regents of the University of New Mexico.

**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. Timothy Keller  
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 statement of net position as of June 30, 2015, 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 November 12, 2015.

**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  
November 12, 2015

**STC.UNM**  
(A Component Unit of the University of New Mexico)  
Schedule of Findings and Responses  
Year ended June 30, 2015

**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, 2015

An exit conference was conducted on October 8, 2015, in which the contents of this report were discussed with the following:

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

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
Michael Dougher	Vice President for Research, University of New Mexico; Member of Finance and Compensation Committee, Board of Directors, STC
Elizabeth Kuuttilla	President & CEO, STC; Member of Board of Directors, STC

**KPMG**

Suzette Longfellow	Managing Director
Jessa Huybrechts	Manager